

**MANAGING PRIVATIZATION FOR ECONOMIC  
BENEFITS OF NIGERIA:  
(SELECTED STUDIES FROM THE SOUTH EAST ZONE)**

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ENUGU CAMPUS**

**JUNE, 2010**

**TITLE PAGE**

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**BEING A PROEJCT REPORT SUBMITTED IN PARTIAL  
FULFILLMENT OF THE AWARD OF MASTER OF  
BUSINESS ADMINISTRATION (MBA)  
IN MANAGEMENT**

**DEPARTMENT OF MANAMGENT  
FACULTY OF BUSINESS ADMINISTRATION  
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**MARCH, 2010**

**CERTIFICATION**

I, UDEOZO CHIBUZOR OSWALD, a Post graduate student of the Department of Management with Registration Number PG/MBA/08/47865, has satisfactorily completed the requirements of the course work and the research work for the award of Master Degree in Business Administration.

The work embodied in the report is original and has not been duplicated in part or full for any other degree of this or any other University.

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## **DEDICATION**

With special dedication of this research work to Almighty God, the same yesterday, today and forever who have made it possible for me to complete my programme.

## ACKNOWLEDGEMENT

Words are not enough to express my gratitude to all the people who have played various roles that lead to the successful completion of this work. Many have contributed in varying degree and kind.

My special thanks to my supervisor, Chief J.A. Eze whose challenges and inspiration before and during the several months this study was undertaken sustained me. No doubt, his suggestions and guidance shaped my direction of thinking wonderfully but I am responsible for all short comings in fact and logic expressed here.

My special friend and mother Mrs. Ifeoma Udeozo, who than I can express here. Infact her life is a testimony and a constant source of inspiration daily to me, who despite all odds sacrificed a lot to see that I make it in life.

Also to all those who believe in the possible. My special gratitude also goes to Miss Ndidiamaka Nwankwo help in typing of this research paper and the associated correspondences which made this thesis possible.

Finally, I thank Almighty God for giving me good sense of direction, inspiration and good health during the research.

TO GOD BE THE GLORY.

## ABSTRACT

Organizations must keep pace with modern world of enterprises and industry. In the second world, state corporations still account for more than half of the industrial output and in far advanced third world, societies are being shaped by market economies. This involves privatizing what was once nationalized industries and removing major obstacle to trade. Privatization when well conceived is the process whereby state-owned enterprises are sold to entrepreneurs who will compete without any official protection. For it to benefit society, there must be true nationalism, honesty of purpose, initiative and sense of responsibility to the society. Therefore, enterprises and suggest ways through which privatization of these enterprise can be carried out. The procedures adopted in carrying out the research are mainly historical and analytical. The sources of the data collected are both primary and secondary. The hypothesis of this study will be tested on the basis of the data collected and these tests will be conducted through the use of Chi-Square ( $\chi^2$ ) tests. The project state why public enterprises are inefficient, the need to privatize them and the implication of privatizing them, as can be interred from chapters I-iv. The Federal Government is embarking on the privatization of state owned enterprises as a way of putting the Nigeria economy on the path of sustainable development. The objective is to realign our economy with the global trend by restructuring the public sector in a manner that will effect a revitalized, efficient and service oriented sector. So far, privatization in Nigerian can be said to be a curse than a blessing. It has neither generated innovative entrepreneurial spirit among the few who bought the public enterprises with an unearned income nor in anyway increased the general productivity of Nigeria. Therefore, some recommendations to ensure the successful privatization and efficiency of these enterprises were advanced and the researcher concluded accordingly.

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## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 BACKGROUND OF THE STUDY**

It is common knowledge that the economic depression of the late 1980s with its severe consequences led to a situation where governments, that usually had no business in running enterprises, dabbled into business. Consequently governments all over the world especially those in developing countries embarked on the establishment of public enterprises. This trend arguably lends credence to the Keynesian, the underdevelopment and the dependency theories.

When Nigeria attained political independence in 1960, she had weak industrial base, near absence of basic infrastructures, an agricultural sector producing mainly primary products for export and gross inadequate capital and technological base. To say the least, the economy was very weak. Based on the three theories (the Keynesian, the underdevelopment and the dependency) and with the objective in mind to stimulate and accelerate national income development, coupled with the danger of leaving vital sector of the national economy to the whim and caprices of the private sector who often than not are under the direct and remote control of foreign large scale industrial concerns, made the creation of public enterprises in Nigeria became a variable option.

In an attempt to pursue these objectives and prompt the economy, the government over the years has involved itself in the direct productive and other sundry activities that really ought to be left in the hands of the private sector. The government floated all sort of companies ranging from banking and insurance, oil producing and marketing, Hotel and Tourism, Mother Assembly Plants, paper and steel mills, Roads, Rail, sea and air transports, sugar, cement and fertilizer plants to mention just a few.

Today, the world is changing and with it our ideas about the role of the state in economic and social development. Therefore, the need for privatization varies from country to country and certainly from the developed economies to the developing ones. The motives for privatization boils down to either economic or political or both. In Nigeria, the federal government had introduced a twin policy of privatization and commercialization into its economy. Since the introduction of this policy, there had been hues and cry over the desirability, inevitability and workability. Not to worry, one of the basic thrust of government in implementing the various economic reforms was to empower the national economy for the challenges of globalization. The major plan of the federal government agenda to reform and structure her battered economy towards greater productivity and efficiency is through the privatization and commercialization programme.

In this programme, government owned enterprises were slated for privatization and commercialization. The main thrust of the programme is the transfer of ownership in public enterprises from the government to the private sector. According to the vice president Atiku Abubakar and chairman on privatization:

the decision to dispose government of its share in some companies was not merely to get rid of them, but to diffuse their ownership throughout the country and to ensure that the vacuum created by the withdrawal of the Federal Government was filled by selected long term investors, who are expected to provide leadership and add values to the companies.

Note must be taken of the fact that under the provisions in the enabling public enterprises (privatization and commercialization) Act of 1999, some enterprise slated for commercialization have already upgraded to full privatization based on the changing circumstances. It is therefore obvious from the foregoing that a major objective of privatization and commercialization was to reduce the financial exposure of government in these enterprises and hence reduce the burden on the Federal Budget. This is best approached by identifying the factors that can be manipulated. The first of such factors is the enterprises performance.

This research therefore focused on this topical issue by studying the cause of the poor performance of public enterprises in Nigeria, the reasons for

privatization policy and process of privatization, the implication (positive and negative) and long-run and short-run effects also studied. The problems envisaged were also studied.

## 1.2 STATEMENT OF THE PROBLEM

There is a thin line between the public and the private sectors in Nigeria. This is to the disadvantage of the private sector. Uzoaga and Okafor (1975) has this to say, "the increasing bureaucratization of economic life has made it difficult to perceive only but a thin line that separate the real private from the operational public sector in Nigeria". The Udoji report 1975 paragraph 28 emphasized this increasing bureaucratization of economic life when he observed that:

Today the public services of Nigeria are involved in affairs that were beyond the imagination of our civil servants 15 years ago. We are now selling insurance and minting coins, we are sailing ships and refining all í í í í í . We are banking and building.

The danger of leaving vital sector of the national economy to the whim and caprices of the private sector who often than not are under the direct remote control of foreign large scale industries concerns, made the creation of public enterprises in Nigeria became a variable option. In the years past when the economy was buoyant, government did not bordered about the performance of these enterprises in terms of returns on

investment. But with the economic recession and embarrassing dwindling revenue, the government accused the public enterprise of draining the resources of the nation. Consequently, many commissions of enquires and study group were set up to look into the problems of government parastatals. Based on the recommendations to the government, the Babangida's government gave them a knock in his 1986 budget speech when he said that:

“Parastatals have generally come to constitute an unnecessary high burden on government resources. As from 1986, the volume of non-statutory transfers to all economic and quasi-economic parastatals would constitute no more than 50% of their present levels”<sup>4</sup>

The fundamental questions we would concerned ourselves with are:

- Why are these public enterprises performing so poorly?
- Will privatization which is seen as a panacea run into problems of implementation?
- Will privatization compound our economic problems because of extreme high cost of goods and services?
- Is the problem really that of privatization rather than how to make these public enterprises efficient?



### **1.3 OBJECTIVE OF THE STUDY**

Privatization is first and foremost a political process although carried out as an economic exercise. In its purest form, privatization is the transfer of total equality ownership and control of public enterprises to private sector by the sale of on going concerns or of the assets following liquidation. It is an asset divestiture process {IFC, 1995}. Privatization according to the government is a carefully planned and systematically implemented programme of government withdrawal from the control of business enterprises which can be more effectively and efficiently run by private operation.

This study will try to achieve the following objectives:

1. Find out the causes of poor performance of the public sector enterprises.
2. Look into the nature of private sector's investment and assess their readiness to carryout the transferred responsibility.
3. discover the positive and negative implications of privatization of public enterprise; and
4. Suggest possible ways of implementing the policy.

#### **1.4 HYPOTHESIS FORMULATION**

It is against the background of the problem identified and the objectives of this study that the following propositions were made:

- (1) H<sub>0</sub>: The public enterprise are efficiently managed  
       H<sub>1</sub>: The public enterprises are not efficiently managed
- (2) H<sub>0</sub>: Privatization will not compound our economic problems in the short-run because of cost of goods and services.  
       H<sub>1</sub>: Privatization will compound our economic problems in the short-run because of high cost of goods and services.
- (3) H<sub>0</sub>: Privatization will not bring about increased efficiency in the enterprise privatized.  
       H<sub>1</sub>: Privatization will bring about increased efficiency in the enterprise privatized.

#### **1.5 LIMITATIONS OF THE STUDY**

This study witnessed some limitations from a lot of factors. These factors put a check to a hundred percent comprehensiveness of this research. Some of these constrains includes: finance was a militating factor against this study to enable the researcher carryout a comprehensive research. Difficulty in obtaining information ó The researcher encounter a lot of difficulty in obtaining information through interviews and questionnaires due to the attitude problems of some of the staff of the enterprises to be

privatized. Some claimed time constraints to turn in the questionnaire, while majority of others were reluctant in offering information for fear of disclosing their view to the public, which they feel may cost them their jobs. This is rather surprising in spite of the assurance that their views will be treated with confidentiality. Government personnel especially those employed in the ministries to be privatized were the greatest culprits. Most were unable or rather refused to render information on the efficiency and profitability of government enterprises.

However, the information gathered from interview and questionnaires were supplemented by the gathered from secondary source: time was also a check on the comprehensiveness of this research as limited time was also needed for other obligations as a student cum worker. All these factors mentioned above made it difficult to bring this work to its present stage.

## **1.6 SIGNIFICANCE OF THE STUDY**

As the study aims at managing privatization for economic benefits of Nigeria, it is the hope of this researcher that the result of my work would contribute in no small measure to the existing knowledge for a more purposeful management philosophy. It must also be borne in mind that learning institutions are established to find solutions to economic and other social cum political problems. As part of contributions of higher

learning institutions to the nations, researches are conducted to find solutions to these problems.

At the end of this study, this research must be in a position to state the course of the inefficiency of public enterprise in Nigeria. Why most of these enterprises should be privatized and how they should be privatized so as not to compound our economic problems. The effect of the state-owned enterprises now privatized, many argued is nothing to write home about. According to Imaga (2002:2), so far, privatization Nigeria has been a curse instead of a blessing to the society. It has neither generated innovative entrepreneurial spirit among the few who bought the public enterprises with an unearned income nor in anyway increase the general productivity of Nigeria.

### **1.7 SCOPE OF STUDY**

The samples for this study were drawn from four (4) cities in four (4) of the five (5) states the research covers. These cities are Abakailiki, Awka, Enugu, and Owerri. These cities were chosen because of their accessibility to the researcher considering the limited time for the study and the financial constraint of the researcher.

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## CHAPTER TWO

### LITERATURE REVIEW

There had been series of articles, seminars, debates and symposia, on the vexed issue of privatization of public enterprise in Nigeria. It is pertinent to note that privatization of public enterprises was recommended by Onosode commission on parastatals in 1981. Following the recommendation, there are widespread comments, since the introduction of this policy, there has been hue and cry over the desirability, inevitability and workability.

Allaying the fears of Nigerians, G.A Akamiokhor (1986) stated that "privatization is not a new concept in Nigeria even as government has used some variants of it in the past. Also government parastatals have for long been subject of studies and policy reviews, they have been variously classified and reclassified for purpose of reform and some variants of the privatization, thereby have been applied to improve their operational efficiency" he further averred that privatization is not necessarily a panacea for profitability, but privatization exposes government enterprises to the market discipline where only the fit survives and relieves the government of financial burden of accommodating loss-making enterprises indefinitely. But he failed to realize the fact that

privatization does not involve only loss-making enterprises, it can be carried out on a profit making government enterprise.

Privatization according to government is a carefully planned and systematically implemented programme of government withdrawal from the control of business enterprises which can be more effectively and efficiently run by private operation. Privatization is thus part of structural adjustment.

It involves redefining the role of the state by disengaging the state from those activities which can best be done by the private sector with the overall objective of achieving economic efficiency. Giving a definition, Odife 1999:51 saw the word privatization as being derived from 'private' as opposed to 'public' sector.

It is taking from 'to make private' referring to transferring of ownership, management and or control of business enterprises from the public sector to the private sector. Privatization is first and foremost a political process although carried out as an economic exercise. In its purest form. Privatization is the transfer of total equity ownership and control of public enterprises to private sector by the sale of on going concerns of the assets following liquidation. It is an asset divestiture process (IFC, 1995). Adeyemo (1986) talked of fallacies concealed in privatization. He pointed

out that one of such fallacies is that probability is synonymous with financial and/or other efficiency. Profitability is only one dimension of efficiency, it does not involve equity in distribution of income.

Moreover, the decision to private is a subjective one. This depends upon the advantages of state ownership as compared with private ownership. But the subject of public versus private production of goods and services are bound with ideological overtones. The evidence concerning the relative efficiency of the public or private sector varies according to country. The period and the particular criteria used also vary. In Britain, for example, according to Mr. Pryke, the public sector has a clear lead over the private sector in terms of output and productivity growth up to 1968, while after this period the experience is reversed. With the deterioration of the economic situation and the acceleration of inflation, the state enterprises became the recipients of open-ended subsidies (mainly to hold down prices). This can be compared to the present situational case against the public industries in Nigeria.

Adam Smith in his book *the wealth of nations* published 1776 said that *Great nations are never impoverished by private, though they sometimes are by public prodigality and misconduct. The whole or almost the whole public revenue is in most countries employed in maintaining unproductive hands.* J.K Galbraith (1958:54) believed that *the inherent*



tendency will always be for public services, to fall behind private production. The analysis by Maureen Mackintosh strikes an interesting balance. It recognized the usefulness of the market as a policy instrument and the inevitability of depending on market as institutions. However, it also recognized that the imperatives of public policy particularly in a depressed economy, require that other allocative mechanisms be used to assert priorities, which would in practice be sacrificed as a result of excessive dependence on market solutions.

Mr. Moore in his book "Privatization and Employment" published 1991 gives the advantages of privatization in British economy saying that "privatization is a complex process and the increased turnover of privatized companies was leading to higher profits and more investment, which should create more jobs. The attitude of employees and management were changing, involving employees in the ownership of companies". Summarizingly, he said that privatization seemed to provide the best basis for secured long term wealth and employment creation.

George Shultz, the U.S. secretary of state emphasizing on the benefit of privatization said that "privatization is not just a device to cut down the size of government, rather, it is a policy to improve the delivery of services people are now getting". Both the British and American benefit

derived from privatization is laudable but the economic environment differs in the case of Nigeria.

Moreover, we are not at the same level of development with the countries mentioned above, but the American Bar Association in February 1986, called for a halt in the rush towards privatization of prisons and jails until the complex constitutional statutory and contractual issues are developed and resolved. W. Lissner of Columbia University said that it is difficult to see how a private company can provide custodial training and instructional services cheaper than the state, unless it does so by exploiting the prison guards

Baumel in his book *Public Enterprises in Mixed Economy* published 1980 said that "it may be appropriate for public enterprise to maximize profits, but that these profits were not be evaluated simply in dollar terms and that public enterprises should therefore not be criticized if they made financial losses as long as they help to meet important social objectives"

The Nigeria 1986 Budget proposals stated that "in respect of existing public holdings in commercially oriented enterprises, government has decided to divest its holdings in agricultural production, Hotel, food beverages, breweries, distilleries, distribution, electrical and electronic appliances and all non-strategic industries. It will also consider reducing

its holding in banks, insurance companies and other financial enterprises without losing control. The privatization process will however, give special encouragement and preference to groups and institutions, like trade unions, universities, pension funds, voluntary associations, patriotic unions, youth organizations, women societies, local government and state investment companies. However, this failed to realize that this form of privatization is practicable only where substantial private liquidity is available, also it is not a practical method of reducing budgetary losses. The major public sector establishments that drain our economy are not listed for privatization, in addition, this is a partial privatization. Some government agencies are given special preference, for example local government and state investment companies. The fact that the government will not lose control, also makes it to be partial privatization.

The Nigerian 1998 budget proposal corrected the above shortcomings of the 1986 budget proposal on privatization by correcting the modalities for the privatization. It also included the names of those public sector establishments that drain our economy in the list of the public establishments to be privatized. Such public industries like N.E.P.A, NITEL, Nigeria Railway corporations etc. M.E Akor (1998) writing on the negative implication of privatization in Nigeria said that "the propositions for total or partial privatization of public corporations on the

ground of inefficiency are not valid theoretically, empirically and ethically because they are not compensated for implementing socio-economic objectives, allowed to determine their own competitive prices. He also contended that with the fragile economic base and low productivity of the indigenous private sector in Nigeria, that privatization will be an open invitation for the increased foreign domination of Nigeria economy. He therefore concluded that privatization will diminish the sense of national cohesion because the public industries are integrative national symbols. But the public industries in actual sense as far as Nigeria is concerned serve as a battle field for ethnic and tribal struggles. The actions of both the top management and subordinates have tribal undertones.

Uma Eleazu (1986:40) in his own view maintained that divesting just because government now finds the burden too much does not seem to address the basic issue of the proper role of the government in a mixed economy such as ours. I quite agree with Eleazu that government is supposed to increase its participation in the economy during bad economic situation as the case in American economy.

Lt. Col Abubakar Umar (1986:3) argued that since the economy was mixed in which the private individuals controlled the means of creating wealth, privatization would be to the government disadvantage. He went

on to say that in a developing nation there is the need for government to protect the majority who are poor from the exploitation of the rich who are few. In any case, massive privatization should by all means be avoided because this will have the negative effect of throwing consumers into the hands of greedy powerful individual whose main concern is maximization of profit at all costs. I do not quite agree with Umar. This is because of the fact that the government will be relieved from the financial burden imposed by these public enterprises. Ideologically, Prof. O. Nnoli (1997:10) supported the above assertion, when he pointed out that privatization effectively rules out the socialist option that it is the design of the petty bourgeois in Nigeria to use public property for private accumulation of wealth through the privatization of even profitable insurance, banking and brewing business not minding the contribution of the petty bourgeois to the failings of the public enterprises. But be it as it may, privatization does not mean changing to new economic system. Also, it does not mean transferring a sick public industry to private hand. Moreover, some fears that run parallel in all the comments by people of all walks of life have so far been identified by Akamiokhor (1986:20) when he said that given the inequalities and disequilibrium in the economic system, privatization will lead to concentrations of wealth in the hands of few, lead to unemployment; that government might lose control of the commanding height of the economy; and lastly given the

inadequate accounting records of the parastatals that they may not qualify for quotation in the stock market. This may inhibit the successful implementation of the policy if care is not taken while devising means of implementing the policy.

Contrary to these criticisms against privatization of public industries in Nigeria, Ibie (1986:67), writing on the place of privatization in restructuring the Nigeria economy said that "the fear of Economic Domination, the paroxysm of post-independence nationalism, lack of private capital and entrepreneurship and the need for balanced development and such high faulting expressions as the promotion of an egalitarian society" have led to public sector to take on more than it could manage efficiently. He went on to say that "all businesses established on these parameters should now be considered for divestiture or management contract to the private sector". But privatization will only solve the problem of public industry. It cannot redress the myopic policies of the government.

## **2.1 NATURE OF PUBLIC INDUSTRIES**

### **2.1.1 What is Public Enterprise**

Public enterprises are state participation in production activities. State participation in production activity includes: public owned enterprises controlled by the federal government, state owned corporations, and

federal or state owned joint stock companies. They are created to operate certain lines of business with a view to operate them more efficiently (than government department) on a profit basis.

The propriety of such intervention arises from the compulsion of the objective situation from the specific social economic structure and from the level of development of production forces Baumol, (1980:30). The government believed that public enterprises can be used to stimulate and accelerate national economic policies under the conditions of capital scarcity and structure defects in private enterprise. There are industries that must be organized as public industries. This applies particularly to their public utilities, such as electricity, railway, telephones, water etc. also are industries that do not pass the test of private profitability, which the private enterprise may be unwilling or unable to undertake.

Lastly, a public industry has a board of directors appointed by government as owner of the enterprise. The board controls the corporation especially on policy matters and is in itself responsible to a controlling government ministry. The government then accounts.

## **2.2 AIMS OF SETTING UP PUBLIC ENTERPRISES IN NIGERIA**

The primary aim of setting up public industries as contained in the second National Development Plan of 1970-1974 is to stimulate and accelerate National Economic development. This was based under the conditions of capital scarcity and structural defects in private business organizations. There are also basic considerations arising from the dangers of leaving vital sectors of national economy to the whimsicality of the private sector. This is often under the direct and remote control of foreign large-scale industrial organizations. Moreover, public enterprises are crucial in Nigeria's quest for the national economic independence and self-reliance. The second National development plan summarizes the objectives of public industries in Nigeria. But it will be more meaningful if we classify the above objectives into socio-economic, political and strategic objectives.

### **2.2.1 Socio-Economic Objectives**

The socio-economic objectives of setting up public industries are to: promote employment, protect the consumers in the society and improve the distribution of income in the economy. The protection of consumers-it is the duty of the government to provide socially desirable services (Aderinto, 1986). The price mechanism either would not produce at all or



would only do so at greater cost or with smaller social benefit. An example is those goods and services classified as public goods where by the government protects the consumers against the market neglect of those goods and services by providing them. Also consumers are protected from monopolistic exploitation. This is evident in the provision of public utilities by these public enterprises. In other words consumers are protected from excess prices that result from the provision of these goods and services by private enterprises. Moreover, some public enterprises are set up to protect and create employment for the citizens. This happens when government takes over some industries from private enterprises because they run into bankruptcy.

Lastly, the distribution of income will be improved when public enterprises provides employment opportunities and protect the consumers from monopolistic exploitation (Akamiokhor,1986:15). This stems from the fact that protection of the consumers from monopolistic exploitation will reduce monopoly until in the distribution of national income.

### **2.2.2 Political Objectives**

Public industries are set up as an instrument to maintain full political and economic independence of the nation. The public enterprises are created to take over foreign-owned establishment through the instrument of nationalization. The motive is to control domestically the òCommanding

Heightsof the economic activities (Nnoli, 1997:35). This will reduce our dependence on private foreign capital. Furthermore, public industries are used to promote regional development through industrial location policies of the government.

### **2.2.3 Strategic Objectives**

Public industries are set up to propel the private sector into growth and development. They are the life blood of the private sector industries. In other words they are depended upon to provide social over-head capital. This will help to eliminate the problem of inadequate infrastructural facilities in the economy. In addition public enterprises are expected to develop heavy industries that will accelerate development through technological progress (Ibie 1986). Lastly, no security ground certain industries like manufacturing of Armaments, iron and steel, oil refineries and telecommunications are organized as public industries.

## **2.3 CAUSES OF THE POOR PERFORMANCE OF THE PUBLIC INDUSTRIES IN NIGERIA**

In discussing the factors that cause the poor performance of the public industries in Nigeria, the factors can be grouped into four namely:

Economic, Socio-political, Operational/Technical and administrative factors Eleazu, (1986:25).

This is for the purpose of convenience and clarity. We have made effort to identify factors which operate generally among the public industries. Also the categories cannot be separated from one another. This is because many factors are interrelated cutting across into one another in practice. Lastly, the same factors do not apply with the same intensity in all corporations.

### **2.3.1 Economic Factors**

The economic factors that cause the poor performance of the public industries in Nigeria include: staffing and staff establishment, financial management, problem of capital, competition and world economic forces Eleazu, (1986:26).

#### **i. STAFFING AND STAFF ESTABLISHMENT**

There are causes of over-staffing and understaffing in the public industries. These industries lose money through heavy labor costs or through operating under capacity. In the case of over-staffing there are many workers who should have been hired on day-to-day basis but are given tenure. This poses a perpetual burden on the funds of these industries. Moreover the organizational structure of these industries are not consistent with their basic functions and responsibility. There are gaps in responsibility, frictions, duplication, insufficient co-ordination and communication are common. The wage-rates and fringe benefits are

not determined by economic realities. This is because the wage órate are sometimes fixed even before the industries begin to operate.

## **ii. FINANCIAL MANAGEMENT**

The capital earmarked for investments in public industries does not yield the expected return. This can be attributable to the state of planlessness that prevail in the country. The known investment criteria for development such as cost-benefit ratio and net present value (NPV) to determine the internal rate of return (IRR) are not taken into consideration.

Moreover, most of the public industries are nationalized industries which were formerly in the hands of foreign expatriate. But when they were taken over by Nigerians who posses little or no managerial ability, this eventually results to cases of mismanagement and misappropriation of funds. There are cases of over-pricing of contracts and kickbacks for the management.

Lastly, the purchasing of outdated equipments like M.V. Truma of NNPC. (Nigeria National Petroleum Corporation), fraudulent practices of the staff of the public industries reflect poor financial management in these industries.

### **iii. THE PROBLEM OF CAPITAL**

Public industries do suffer from problem of insufficient capital. A good indication of this was during the Obasanjo regime in the late seventies; when three national railways were commissioned. They were to look into the problems of Nigerian Railway Corporation, especially why they are not making profit. They came out with the fact that the Nigerian railway corporation was grossly under funded by the government. Furthermore, the wet-leasing of aircraft by the Nigeria Airways suggests that they have insufficient fund to acquire and maintain aircraft of their own. Moreover, most of the public industries were set up by project-tied loans from the western industrialized countries (Eleazu, 1986:30). Not only that their equity capital are sometimes borrowed internally, this suggest that even if the industries are efficient their leverage ration,(an indicator of the relationship between long-term debt and capital employed) will not be encouraging. Lastly, public industries owned by the state government suffer more from insufficient capital than those owned by the federal government.

### **COMPETITION**

Public industries are seriously disadvantaged to compete with their counterparts in domestic and foreign markets. The fact that some of them are organized as monopolies does not insulate them form indirect

competitions. The competition between rail transport and road transport (heavy road haulage trailers) is a good example of indirect competition. This results in reduction of the revenue received by rail transport. In addition, the personnel management system of the public industries place them at a position that makes them not to compete effectively with private industries in attracting or getting the best hands as staff . This can be attributed to their social objectives which sound humanitarian, for example creating employment opportunities. Lastly, the economy is being over regulated, this result in these public industries playing the part of obedient servants by adhering strictly to these regulation, matter of how bad it may be for example the case of minimum and maximum price and wage legislation (Akor,1998).

#### **v) WORLD ECONOMIC FORCES**

The public industries in Nigeria are not insulated from economic force prevailing outside the country. World inflation, monetary fluctuations and also price of low materials required for operation, fluctuate. Moreover changes in foreign exchange rates affect price of capital equipment and raw materials.

#### **2.3.2 Socio-Political Factors**

The socio-political factors that affect the performance of public industries in Nigeria include the following: political intention and control, ethnicity

are determined on political considerations. The optimum bribery and corruption, attitudes to work, industrial relations and trade unionism.

- i. **Political Intervention and Control:** The economic activities and profitability of these public industries are determined and profitability of the public industry are affected by the way they offer employment to the ruling party loyalist. In addition, chairmen, board members and top management staff of these industries are selected on political grounds, (spoil system). Other areas of political interference include: the award of contracts determined by propensity to kick back; determination of further investments, determination of borrowing powers.
- ii. **Ethnicity:** There are multiplicity of ethnic groups in Nigeria with own selfish interests. Employments and appointments of staff in public industries are in terms of ethnic labels rather than on the qualifications and abilities. Employees always engage in petty squabbles among themselves which center on tribalism. Moreover the effect of ethnicity on public industries include the protection of incompetent and unqualified employees, inability to determine the strategic and detail operational objective and policies, insecurity and undermining of good labor relations and industrial peace.

- iii. **Bribery and Corruption:** Bribery features prominently in employment and staff management decision. This is when initial employment and future promotions have to be bought. It also features in the award of contracts in administration of funds and in investment decision. There have been in recent times many judiciary tribunals for the trial of public servants. Consequently many of the public servants were dismissed and some imprisoned. As long as public industries are governed by board members and personnel who are prone to bribery and corruption; it will be difficult to attain optimum results financially and operationally.
- iv. **Attitude to Work:** There is no personal commitment to work. The workers in the public enterprises are after their payments and not what they can achieve for the organization. The modes of reward in these industries (pay) are not based on performance but on seniority. This non-challant attitude to work is evident in the common saying among workers that "government work is nobody's work". This implies that the workers in the public industries are not properly motivated; there is no psychic reward as regards job enrichment by their employers.
- v. **Industrial Relation and Trade Unionism:** The web of rules in Nigeria industrial relation system is one sided and constitutes a serious set back to these industries. There is lack of collective



bargaining in the public industries. Moreover the Nigerian labor force is young which makes the workers to be militant. Hence a reasonable amount of time or manpower is being wasted in frequent strike and lock-out actions in these industries. The pronounced emphasis by the trade union is on consumptionist objective rather than on productionist objectives. In other words they are after what they can get from the organization.

Lastly, the various unions do not take the trouble to assess the efficiency and productivity of workers as a basis for demanding high pay and better working conditions.

### **2.3.3 Operational Technical Factors**

The operational and technical factors that lead to the poor performance of public industries include: quality of equipment and methods, and professional expertise experience.

#### **(i) QUALITY OF EQUIPMENT AND METHODS**

The majority of the equipment procured by many of the public industries are obsolete. The adoptability of the equipment to our environment is doubtful. Moreover some of the public industries are turn-key industries. It takes some years before our people can effectively manage or maintain the plant. This involves a high cost of administration because

of the fat salaries paid to foreign experts handling it. Furthermore the management principles adopted by these industries are obsolete and unproductive. It does not tow the line of private sector industries.

**(ii) PROFESSIONAL EXPERTISE AND EXPERIENCE:**

Lack of technical expertise that can handle the imported machineries indicates an area of waste in the public industries; Experience has shown that many a time these foreign experts prove to be irresponsible in financial administration. They fail to appreciate the social and political realities that surround and affect their business organizations (Akor 1998:45).

Moreover, the workers in these public industries do develop a mental set that is static. This they do guide jealously and they avoid innovations. The newly employed worker is expected to follow the existing procedure. Owing to the above a twenty years experience is a year experience multiplied by twenty.

**2.3.4 Administrative Factors**

The administration factor include: qualifications, and interference by the ministries.

- i. **Qualifications:** As a result of the spoil system of personnel management that dominates the public industries, majority of the board member do not possess relevant qualification in the industries they are. Their qualifications bring them into conflict with management who usually insist on operating on normal business procedure. This procedure may be strange to the board members. As a result they do not know what to do. This is unfortunate as the board is the policy making body of the companies.
- ii. **Interference by Ministries:** Each of the public industries has a controlling ministry that it accounts to. The ministry appoints the board members and top management personnel, who refer most of their business policy and decisions to this ministry for approval. At times sound business policies are either turned down or acted when the need might have passed. This makes it impossible for these industries to act swiftly according to the business trend (Akamiokhor, 1986). In conclusion, these are by no means the only factors that the poor performance of the public industries, but they are at least the most relevant ones. They also cover all aspects of the public industries problems.

## **2.4 REASONS FOR THE PRIVATIZATION POLICY**

Some probable reasons for the policy are that the government has accepted its inability to manage these industries effectively and profitably. Government lacks the financial support to these industries. Also government considers Nigeria citizens ripe enough rich and well versed in the are of entrepreneurship (Eleazu 1986).

But there are many reasons behind privatization policy. These reasons are discussed under the following heading:-

- Instrument for fulfilling one of the I.M.F. conditionalities.
- Reducing the financial burden on government
- Non performance of the public industries
- Efficiency and maximization of profit
- Bring about better rewarding system, organization and management
- Reducing government regulation of the economy
- Ideology reasons
- Liberty

## **INSTRUMENT FOR FULFILLING ONE OF THE INTERNATIONAL MONETARY FUND (IMF) CONDITIONALITIES**

One of the conditions given to Nigeria by international monetary fund in the eighties was reduction in government expenditures. This serves as one of the prescriptions for our sick imbalance. Nigeria in the first instance through public debate refused such prescription.

But their creditor while the Paris Club represents guaranteed creditor these creditors insisted that Nigeria must accept the international monetary fund prescription as prerequisite for rescheduling our huge foreign debt. Owing to all these developments, Nigeria adopted privatization as its expenditure reducing policy as part of the structural adjustment policies. This was upheld by these international creditors who even started rescheduling our debt even when the privatization policy as one of the expenditure policies have not yet been implemented (Akamiokhor, 1986:50). The questions are:-

### **WILL IT REVIVE OUR ECONOMY?**

The answer to the second question is Yes to some extent but care should be taken because we are already in recession and any expenditure reducing policy might worsen the situation, though it might improve the external balance.

## **REDUCING THE FINANCIAL BURDEN ON THE GOVERNMENT**

The public industries have been draining our economy financially it is hoped that their privatization will reduce the budgetary allocations to these public industries.

Moreover, the 1986 report of the first Bank of Nigeria indicates that Federal Government statistics released in 1985 disclosing the level of standard investments and other subventions to the parasites, reveal what can only be described as a staggering inefficiency.

Loss during a six year period over ₦23 billion (October, 1985) and is broken down into ₦11.4 billion of equity investment, ₦10.1 billion in loans and additional ₦1.3 billion in guaranteed Naira loan. On the equity investment of ₦11.4 billion the government received dividends of ₦993,701,134 (averaging about ₦159 million per year).

In the case of ₦10.4 billion in loans ₦67,959,735 has been received as repayments and ₦26,124,463 interest payments. The above report suggests that these public industries equity capital are mainly borrowed capital. But looking at the privatization policy announced in the 1998 budget proposal of the federal government one can easily see that though NITEL, NEPA and some other public industries are included in the list of public industries to be privatized the main public corporations that are

really inefficient are not included. Take for example the Nigeria Railway Corporation Nigeria Airway etc. In effect, the reduction in budgetary allocation to the public sector may not be achieved.

### **YIELDING OF REVENUE TO THE GOVERNMENT**

The government expects revenue from the privatization of the public industries. This will realized through the sale of shares that will be offered to the public. Moreover the government in the 1988 budget decided to divest its holding in commercial banks and insurance companies. This was up to the tune of ₦30 million which was a lot of money then.

This serve as a source of revenue in the 1988 budget. This to some extent can be achieved but everything depends on the balance sheets of these companies to be privatized. This will show us their total assets and total liabilities. If the total liberties is greater than the total assets the monies realized will used to settle their liabilities. Moreover, from the public indications that the public industries are inefficient and not profitable as suggested by the propping up exercise by the government in form of loans and subsidies we doubt whether privatization will yield revenue to the government. (Okhamer, 1986:34).

## **NON PERFORMANCE OF THE PUBLIC INDUSTRIES IN NIGERIA**

The bad performance of the public industries in Nigerian economy is the poor performance has been attributed to socio-political economic administrative and operational technical factors. This non-performance of the public industries is clearer when we took at their pectoral performance, for instance in agricultural sector, Nigeria faces a deliberating food crisis. The River Basin authorities established all over the country have not succeeded in solving the problems either.

The grain board has been abolished in manufacturing sector there are shortages of commodities and lack of competition with foreign made goods due to poor quality. Take for example the Nigerian diary companies. In banking sector, long hours are wasted to cash or deposit money, large scale frauds and industrial actions are frequent. Moreover, the same picture is obtainable in other sectors. Nevertheless, the government should be able to inject effective management therapy to revitalize the ailing industries.

This M.E. Akor (1998:56) pointed out that òprivatization on the grounds of efficiency is not valid theoretically, empirically and ethically. Rather their inefficiency demands their reorganization and commercialization and not privatization.



## **EFFICIENCY AND MAXIMIZATION OF PROFIT**

The argument here is that privatization of public industries will make these industries efficient and profit making. This is borne out of the fact that the objective of private entrepreneurs is profit maximization. They achieve this motive through prudent management of resources. Moreover, employment decisions and pricing policies in these private enterprises are based on the prevailing economic realities, rather than on political grounds. Nevertheless this does not prove that they are more efficient. Moreover, measures of efficiency in public enterprises do not necessarily have to coincide with the requirement of private business. This is because both types of business often originate from different consideration. Lastly the private enterprises do not cover their social cost of production. They only cover their private cost and cover their inefficiency in higher prices they charge for their product (Akamiokhor, 1986:47).

## **CREATING EMPLOYMENT OPPORTUNITIES**

Privatization will lead to the expansion of the economy which will create employment opportunities. This arises from the fact that the money generated from the privatization and money used to support these industries before will not be used in creating employment opportunities. But the government has not privatized industries will start making profit which they will plough back to expand their business. This in effect will

create more employment opportunities that will absorb both those retrenched initially and those that are unemployed. For instance looking at British privatization experience, John more (1991) said that since 1979 British government has privatized twelve major companies and that this had the effect of transferring 400,00 jobs to the private sector doubling the number of shareholders, enabled a greater percentage of employees to acquire shares in companies for which they work and that the government had benefited from over 6,000million pounds of receipts which has helped to keep government borrowing lower than it would otherwise have been.ö But in the first instance the economic environment of Nigeria is not the same with that of British. Moreover our economy is experiencing internal and external imbalance simultaneously in because it is a form of expenditure reducing policy of the government. I could have been beneficial if we are in inflation deficit form of internal and external imbalance.

### **BRING ABOUT BETTER REWARDING ORGANIZATION AND MANAGEMENT**

The pattern of organization in government owned industries as such it creates conflict and lack of commitment. This is partly due to decision making mechanism and the rewarding system. The decision making mechanism is such that the top management and Board of Directors take

decisions without involving the subordinates. Moreover communication and consultation system are very weak. The subordinates are not properly briefed after decision making. Coming to the rewarding system it was based on seniority rather than on the performance of individual workers. So in effect the government hoped that these cases will be a by gone when these industries are organized in private sector pattern. However, it depends on the motivations of the workers, if the private sector industries can better motivate their workers than the public industries than this can hold sway. In the Nigeria industrial relation system, the principles of collective bargaining that help to ensure industrial peace only exists in the private sector. So this peaceful atmosphere through their mechanism of collective bargaining can help motivate the workers (Eleazu, 1986:55).

### **REDUCING GOVERNMENT REGULATION OF THE ECONOMY**

One of the problem of Nigerian economy pointed out by the team of experts from international monetary fund and World Bank that studied the Nigeria Economy is that the economy is over regulated (Akor,1998) privatization in principle will bring about less regulation in the economy. This is because of demand and supply. Which is the basis of the private sector industries. The reason why the economy is so much regulated may be because the public sector is greater than the private sector. But with the privatization of most of the public sector industries the size of the

public sector will be reduced, hence reduction in government regulated establishment. But the Nigerian privatization policy as specified in the 1986 budget proposals, contained a clause that read thus "that government will divest its interests without losing control". This then suggests that the privatized industries will still be controlled by the government.

### **IDEOLOGY REASON**

Privatization of public industries in Nigeria means reducing the public ownership of economy towards increased private initiative in business activities. This implies moving the economy towards capitalist systems than in the socialist systems. This is evident in the case of making the richer and the poor, poorer which is one of the evils of capitalism. But though these arguments are theoretically right, but in practice it is not the aim of the government. That was the reason why they gave special preference to certain interest groups, like the workers union, the state Investment agencies is taking care to make sure that it does concentrate in the hands of few industrial barons.

## **LIBERTY**

Privatization of public industries will bring about increased private initiative in these privatized industries. There will be competition in these privatized establishments. It is truism that competitive market promote liberty in the sense of choice which will be enhanced by injecting market-type elements into the areas of government policy. But the freedom conferred by the market may be rather unevenly distributed, those with high income. Moreover we understand that markets do not encourage co-operative behaviour, therefore forms of government intervention are required. This arises from the fact that privatized establishment. More especially this time that people adhere to state loyalty to nation (Nnoli 1997).

### **2.5 PROCESS OF PRIVATIZATION IN NIGERIA**

The privatization policy indicated that there will be partial and full privatization. This follows the normal course of problem solving. The policy have been formulated and this policy provide the framework by which the government will base their decisions. It remains the full development of strategic plans and polices and the development of detailed operational plans. As mentioned before the government has come out with a policy in the 1986 budget proposals.

They are presently at the stage of developing detailed operational plans. This includes the procedure which involves the classification and selection of the industries and companies to be privatized. It also involves preparing the balance sheet of the establishment selected. This will show their various assets and liabilities including their present worth. After this the security and exchange commission (SEC) which is one of the main organs for implementing the privatization policy, will determine the prices for the various shares.

Then this is followed by setting up of the organs for implantation. Already the security and exchange commission is the commission empowered by Decree No. 71 to handle all such matters that involve shares and stock. The organ naturally must include the Nigerian stock exchange (NSE), the issuing house and the commercial Banks (Akamiokhor, 1986:45), the Allotment committee and the monitoring committee. The allotment committee of the security and Exchange commission by their composition include all major organs that are necessary for implementation of the policy. Moreover, Article securities of public with or without stock exchange quotations.

The monitoring committee should be mad up of the organized private sector, Nigerian Labor Congress and the Government. Their functions is

to monitor the whole process of privatization to ensure that all interests are represented (Akamiokhor, 1986:67).

Also to take very active part in the privatization process is the privatization committee recently constituted by the civilian president of Nigerian, Chief Olusegun Obasanjo. This committee will work óin-hand with the security and exchange commission to ensure that the

## **2.6 THE IMPLICATION OF PRIVATIZATION OF PUBLIC INDUSTRIES IN NIGERIA.**

There are many possible implications that would arise from the privatization of public industries in Nigeria. For purpose of clarity these are classified under two into broad categories positive and negative implications. They are again sub-divided into economic and socio-political which are further re-classified into short-run and long-run implications.

### **2.6.1 Economic Implication**

The Nigerian economy as we know is a prototype of the British mixed economy. In this type of economic system both the public and private sector play active roles in allocation of resources for productive uses to satisfy the societal needs. The tendency is for the public sector to have a clear lead over the private sector in terms of output and productivity.

But with the systematic and well programmed transfer of ownership and control of public industries to the towards increased private participation than public control of business activities. This will tend toward the French kind of mixed the system called the indicate planning where the private enterprise dominates the business activities. This of course will have a long-run effect on the economy.

### **SELF-SUSTAINING CULTURE**

Self-sustaining culture will be infused into privatized industries. This is because they will be exposed to market discipline where only the fit survives. More especially when the government subsidies and loan are not for the coming. This will have a long-run implication on the activities of the privatized industries.

### **REDUCING THE STAFF STRENGTH OF THE PRIVATIZED ESTABLISHMENTS**

It is a known fact that public industries are over staffed, thus it can be pointed out that if these public industries are privatized the excess hands will be throw out of job. But a situation where too many are producing too little results is both politically and economically undesirable. This will only have short-run effect. In the long run the plunging back of the profits in other areas will increase productivity and consequently employment will also be increased.



## **ATTRACTION OF FOREIGN INVESTOR**

This is because the private investment comprise indigenous private investment and foreign private investment. The foreign investment usually takes the form of the import of capital plus technology into the country. This technological elements in the private foreign investment take the form of the technological elements in the private foreign investment take the form of the business design plant and equipment that is technically productive and personnel with greater technical know how and experience. The indigenous private investment in Nigeria is very weak, small-scaled, commercial in orientations, fragmented and regional in out look. The implication is that the private foreign investment will help us to fill the foreign exchange gap needed in our development, especially in the area of importing capital goods that are necessary for our development. This again is a long run implication.

## **GOODS AND SERVICES WILL REFLECT REAL VALUES**

With the privatization of public industries the pricing policy of these establishments will automatically change. What ever will be offered for public consumption will bear the real cost in terms of its price tag. This is as a result of withdrawal of subsidies they do enjoy before. Moreover the private entrepreneur will like to add its own profit in the pricing of the goods or service. So the implication will be an increased in

the price of the goods services rendered before by the privatized industries and this is another long run implication.

### **2.6.2 Socio-Political Implication**

Shift in emphasis from consumptionist to protectionist objectives: There will be a shift in emphasis from the distribution of the so much celebrated ñnational cakeö to the baking (production) of the national cake. In other words the emphasis is on increased productivity through efficient management of productive resources. The idea of revenue allocations to these public industries will be discarded. The implication is that is will change the economic orientation the people. Before people are only after what can consume no matter where it comes from whether it will be profitable to the nation or not. But now the privatization of public industries will reduce total government expenditure. This will be in the short run, that is the implication.

### **MOTIVATION OF THE WORK-FORCE**

The average Nigeria has a flair for private achievement and government property is usually regarded as no man's affair. There is therefore a plausible reason to believe that if these industries are transferred to private hands that it will motivate the workers to try to exploit all disposable resources. It will also remove the bureaucratic tendency and

more efficient management team will replace a bunch of political misfits and consequently profit.

### **WORK ETHICS AND DISCIPLINES**

It is generally assumed that workers in the private sector are more disciplined more conscientious and more dedicated to their work. Conversely the public employees including those in the parastatals are loose, indisciplined and less committed to their work. If this characterization is true, then reducing the size of the public sector through privatization will inevitably reduce the size of the indisciplined work force. Also by transferring the employees en masse from the present parastatals to privatized firms would of necessity change them for better.

### **COMPENSATORY GROUND WILL CEASE TO EXIST**

Also the use of board of parastatals as refuge and sanctuaries for defeated politicians will cease to exist. Lack of sophisticated managerial control which the government cannot offer because of the politics involved in appointment to top management positions will cease. This spoil system of personnel administration will be replaced by a merit system of personnel management. This is a long-run implication.

## NEGATIVE IMPLICATIONS

### 2.6.3 Economic

- i. The first major implication of privatization of industries in Nigeria is that in the short run the internal imbalance which the country is already in will worsen. The Nigeria economy is in a position of both external and internal imbalance of deficit recession respectively. Privatization will reduce government expenditure in order words an expenditure reducing policy is improper. The proper thing for Nigerian condition is expenditure increasing policies like expansionary monetary and fiscal policies to restore the internal imbalance.
- ii. **Lead to Unemployment:** Privatization of public industries will have a short run implication of increasing the unemployment rate. This is because it will lead to a situation where workers I these privatized public industries will be reduced in order to ensure efficiency. This is because for privatization to achieve its objective of efficiency the privatized enterprise need to be restructured and re-organized to match the mode of private business in Nigeria. This involves laying off the redundant and bad eggs among the workers and restructuring of the workers salary ion accordance with the companies ability to pay.

- iii. **Commanding Height of the Economy:** The government on privatizing the public industries may cease to be the highest employer labour in the country. This is because majority of the business activities will now be directed by private enterprise. This will have a long run implication on the economy.
  
- iv. **Regimentation of the Equity Share-Holding of the Privatized Industries:** The lumpiness of the investment capital in these public industries are such that privatization will amount to fragmentation of the equity share. This will have a long run effect on the ownership and management structure of these privatized industries. This will happen if divested holding are spread through out the country as we did with shares in private companies during indigenization exercise. We are going to have a situation where as many people would own a little fragment of an establishment equity. In this situation control and management will be in the hand hired mangers who will run the enterprise for their own benefit.

#### **2.6.4 Socio-Political Implications**

- i. **Lead to Concentration of Wealth in the Hands of Few:** Privatization will lead to concentration of wealth in the hands of few individuals in the country. The distribution of income in Nigeria skewed in favour of few individuals described industries

barons in the society. Moreover the government is the highest employer of the Nigerian labour force. And there had been cases of non-payment of salaries and under-funding in government establishment, notwithstanding the new minimum wage rate in the country.

All these suggest that majority of the people will have insufficient fund at their disposal to buy shares in the privatized industries. Even if they have the money, other socio-economic forces will come into play. Nevertheless, illiteracy rate is still high in the country. The Nigerian public have little knowledge of what stocks and shares are. And insignificant number of Nigerians do transact business with banks. According to Onosode "The market (for shares) was not for the least informed, the least educated and the least rich".

- ii. **Diminishing of the Sense of National Cohesion:** The privatization of the public industries will diminish the sense of national cohesion. Now statism is replacing ethnicity because of the creation of more states. It only the public owned establishments that can employ any person. But when these industries will be privatized it will bring about discrimination in employment and so on. This will have a long run implication.

## **2.7 PROBLEMS ENVISAGED**

The first problem envisaged is that some of the companies to be privatized may not be qualified for quotation in the stock exchange market. This is as a result of the fact that they are not limited liability companies.

Secondly is the fear that the equity share of these public industries will be fragmented which may bring about problems of management and control. Thirdly is the fear that some of the public industries solvency ratio and leverage ratio are not favourable.

Solvency ratio shows whether a firm has too little or do much debt, if unfavorable it than means that the firm has too much debt. While the leverage ratio shows the proportion of asserts that is financed by debt. All these imply that the industries may not be attractive to investors.

Another problem envisaged is a situation where the shares sold will concentrate in the hand of few people.

Furthermore, another problem is that of public enlightenment, that is educating the people on what the issue of privatization is all about. Also the problem of how to allot the shares and how these can get to the people.

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## **CHAPTER THREE**

### **RESEARCH DESIGN AND METHODOLOGY**

#### **3.1 RESEARCH DESIGN**

In this thesis, the researcher adopted library investigative and survey research methods. The researcher therefore checked a lot of resources and collected relevant materials as depicted in chapter one. However the library research method was used to compliment the survey and investigative research which are relevant for obtaining practical data. Nigerian telecommunications Limited (NITEL) and National Electric power Authority (NEPA) Abakaliki, Enugu Awka and Owerri which are some of the public enterprise about privatized were visited. Later, questionnaires were drafted and distributed among various categories of staff in both companies in the four towns and interview was conducted to the senior officers of the companies.

#### **3.2 SOURCES OF DATA COLLECTION**

A combination of primary and secondary method of data collection was used for study. The survey method was used to gather data for the research. This method was chosen because all the respondents are educated and presumably have knowledge of the subject under study.

### **3.3.1 Primary Sources**

Primary sources of data were in this research. The questionnaires were simplified so that the respondents can give direct and simple answers. Oral interview and observation were also used as supplement.

### **3.3.2 The Secondary Sources**

The secondary sources of data include books, journals, magazines, newspapers, seminar papers, unpublished works, government publications etc.

## **QUESTIONNAIRES**

The questionnaires were four hundred (400) in number and they were a combination of both the opened (unstructured) and the close-ended (structured questions, (see Appendix 1). This was done allow each respondent room to express his or her views generally on the particular subject in questions.

## **INTERVIEW QUESTION**

Oral interviews were carried out on some senior officers of the enterprises and some economists were asked some questions in form of interview by the researcher. Some of these questions were:

- In your opinion, are public enterprise like NITEL and NEPA performing efficiently in Nigeria?

- Do you think privatization of these enterprises will improve their efficiency?
- Do you think privatization might compound our economic problems because of rise prices of goods and services?
- In your opinion, what will be the fate of members of staff of these enterprises to be privatized?

Both the questionnaires and interviews were self-administered. The aim was to expose the respondents to uniform treatment to ensure that their responses are comparable to have an understanding of the topic of this study.

### **3.4 METHOD OF DATA REPRESENTATION**

The data collected from the questionnaires will be presented in the following ways:

- The tabular presentation
- Bar chart
- Pie chart

### **3.5 METHOD OF DATA ANALYSIS**

The hypothesis of this study will be tested on the basis of the data collected and these tests will be conducted through the use of CHI-SQAURE ( $x^2$ ) TESTS. In designing the questionnaire, conscious efforts

were made to structure the question into dichotomized multiple choice in some questions which gives the respondents the opportunity of answering or choosing from a range of answer. Spaces were also left in the form of open-ended question for respondents to express their views on privatization programme, which they might not have been able to express in the close-ended question. The researcher distributed four hundred (400) questionnaires but only two hundred and eighty-eighty (288) were returned. So we can say that researcher sampled 288 respondents ranging from members of staff of some public enterprises to be privatized with a percentage of 59.03 percent. Economist with a percentage of 23.26 percent and other members of the public with a percentage of 17.71 percent.

The emphasis on the analysis was placed on those questions which have direct bearing or relevance on the formulative objectives of the study. This was so as to achieve the objective of the research, consequently, the questionnaires that serve as a follow-up to this was in the same regard and served to know the desirability or privatization of public enterprises, the best way to go about it and the possible implications of the privatization program

## CHAPTER FOUR

### DATA PRESENTATION AND ANALYSIS

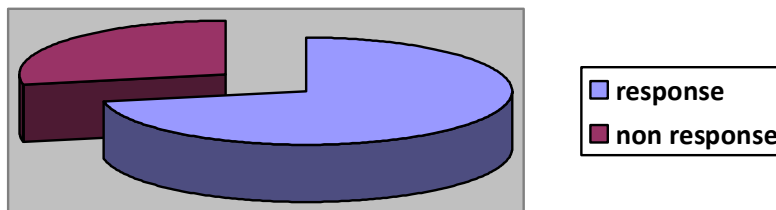
#### 4.1 PRESENTATION OF DATA AND ANALYSIS DESIGN

This chapter centre on the result of the study. A total of 400 questionnaires were sent out in the course of this research, and only 288 out of the total respondents returned their already completed questionnaires. This represents 72% of responses or population. This is illustrate using table 4.1 and the pie chart in figure 4.1.

**Table 4.1**

	<b>Number</b>	<b>Percentage (%)</b>	<b>Degree</b>
Response	288	72	259.2(259)
Non response	112	28	100.8 (101)
<b>Total</b>	<b>400</b>	<b>100</b>	<b>360</b>

The data is also represented in the pie chart as in figure 4.1 below:



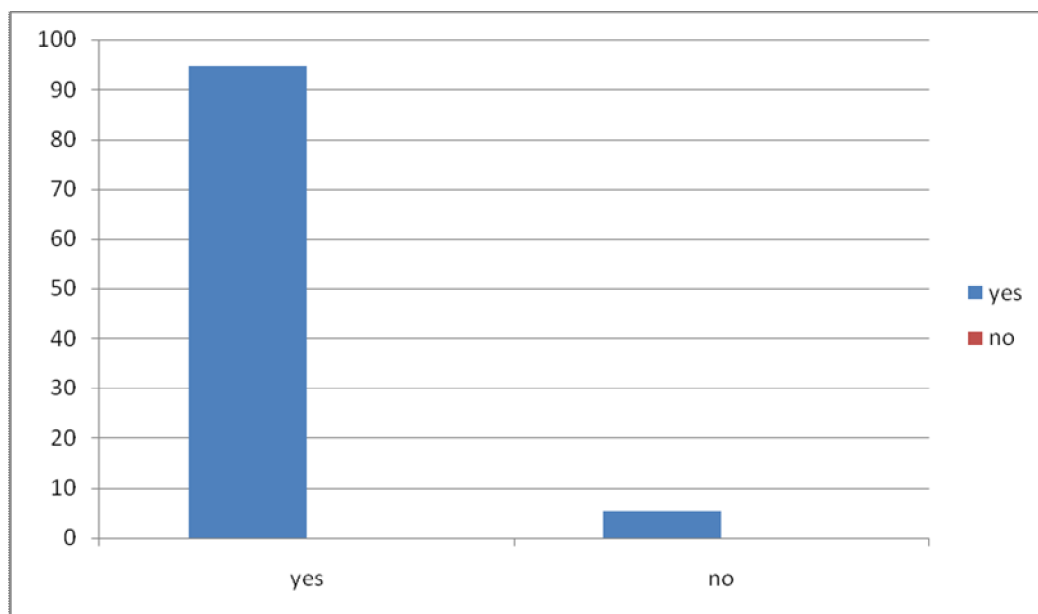
**Fig. 4.1:**

**Question 1: *Are you aware of the privatization programme currently going on in Nigeria?***

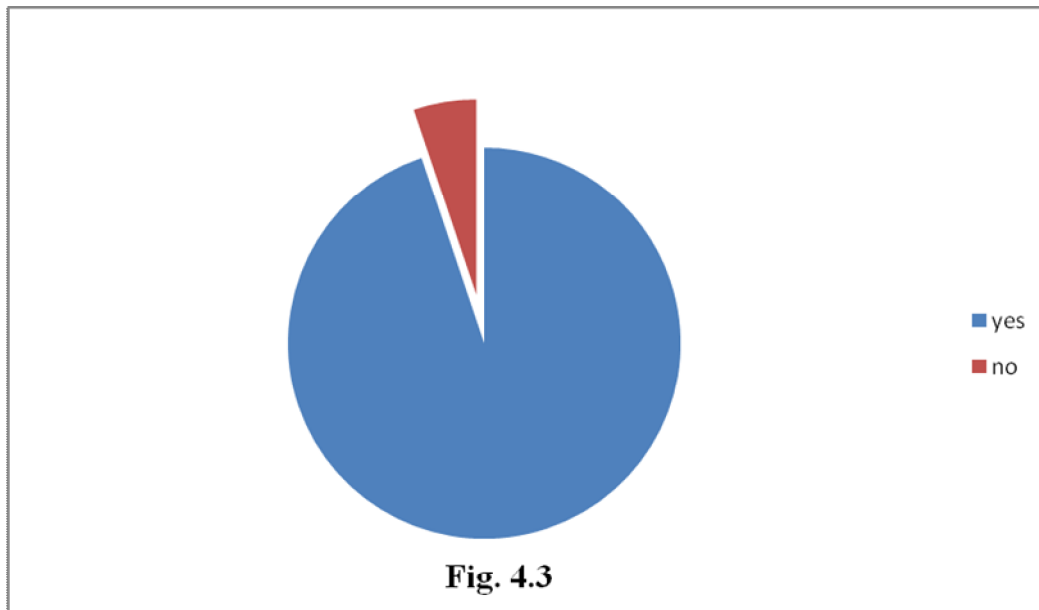
**Table 4.2:**

	<b>Number</b>	<b>Percentage (%)</b>	<b>Degree</b>
Yes	273	94.8	341.3(341)
No	15	5.2	18.7(19)
<b>Total</b>	<b>288</b>	<b>100</b>	<b>360</b>

The above data is represented in bar chart in figure 4.2 below:



The data is also presented in the pie chart as in figure 4.3 below:



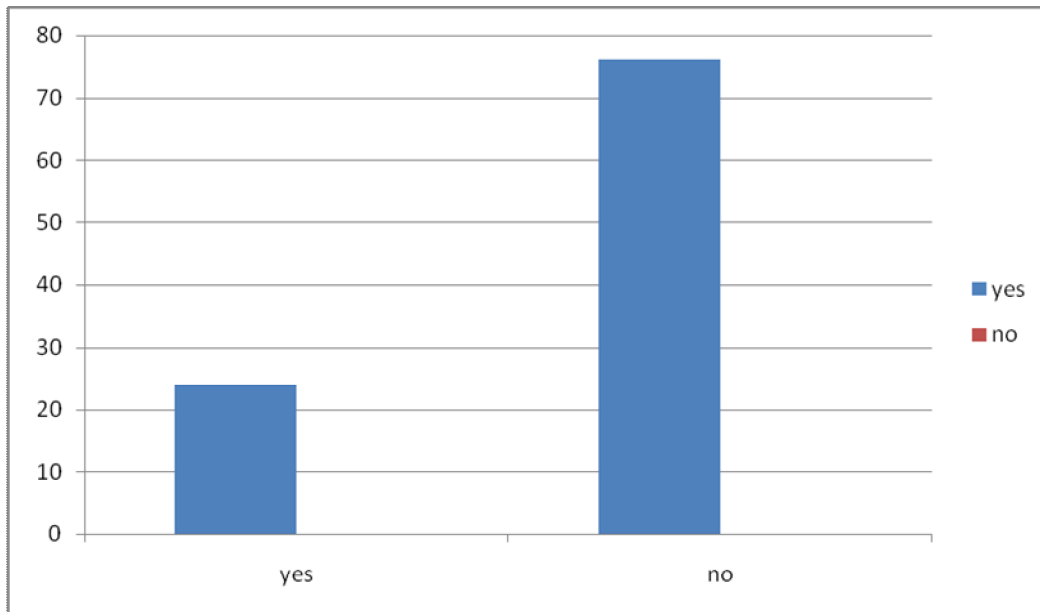
**Question 2:** *Do you think that public enterprises in Nigeria are efficiently managed?*

**Table 4.3**

	<b>Number</b>	<b>Percentage (%)</b>	<b>Degree</b>
Yes	69	93.96	89.25 (86)
No	219	76.04	273.75(274)
<b>Total</b>	<b>288</b>	<b>100</b>	<b>360</b>

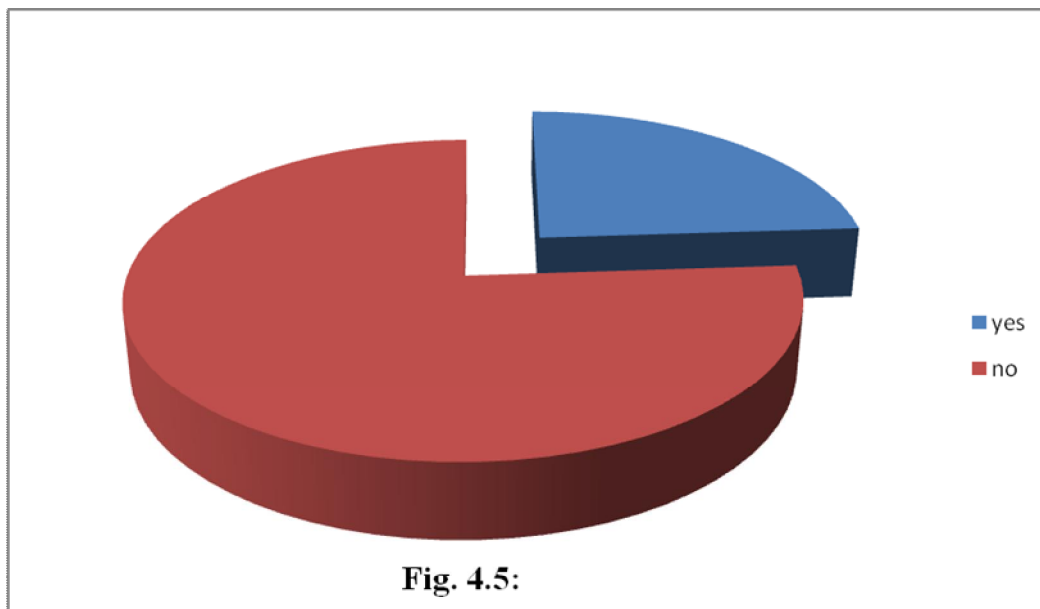
The above data is represented in bar chart as show in figure 4.4 below:





**Fig 4.4**

The data is presented in a pie chart shown in fig 4.5 below

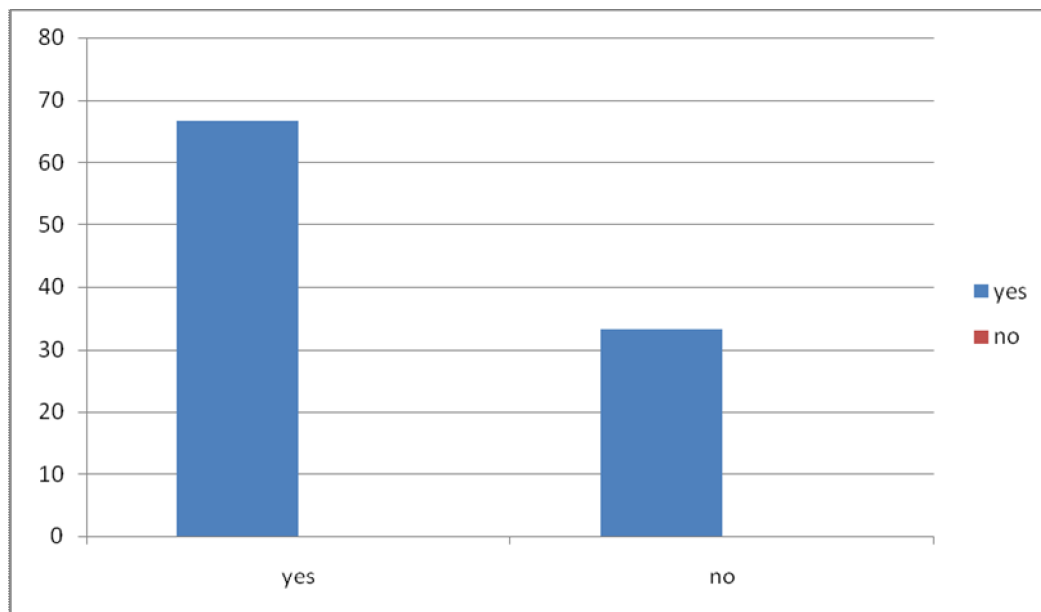


**Question 3: Do you think that privatization will increase efficiency in enterprises privatized?**

**Table 4.4**

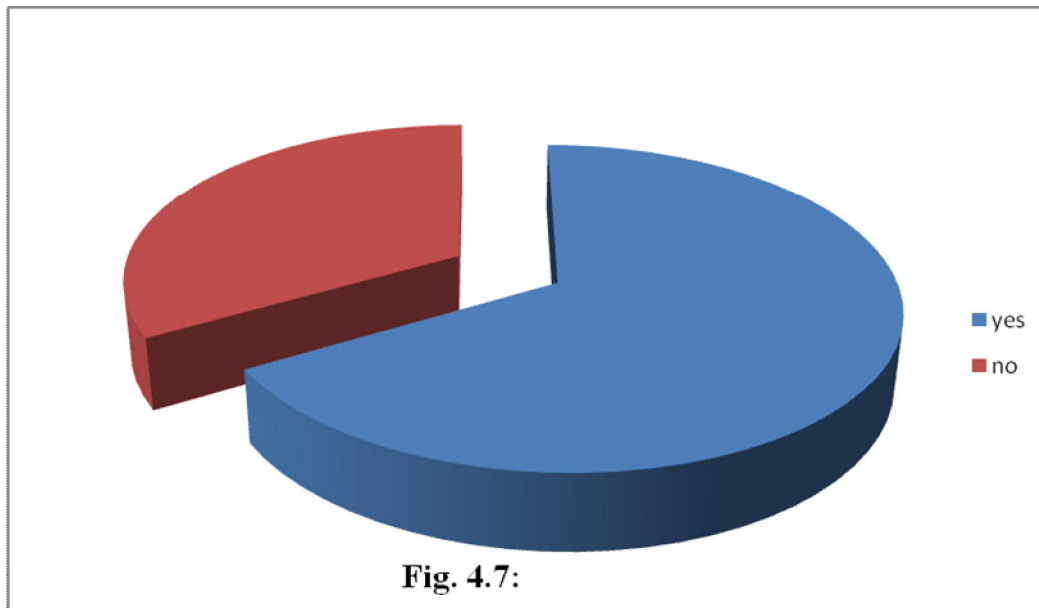
	<b>Number</b>	<b>Percentage (%)</b>	<b>Degree</b>
Yes	192	66.7	240
No	96	33.3	120
<b>Total</b>	<b>288</b>	<b>100</b>	<b>360</b>

The above data is represented in bar chart as show in figure 4.4 below:



**Fig 4.6**

The data is presented in a pie chart shown in fig 4.5 below

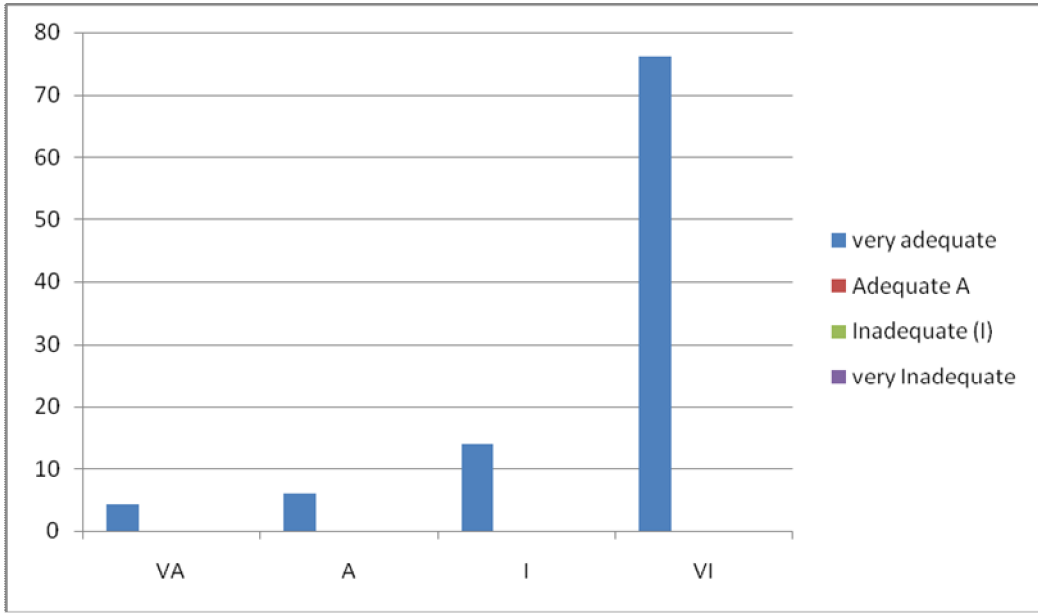


*Question 4: What do you think about the profit showing of the public enterprises in Nigeria?*

**Table 4.5:**

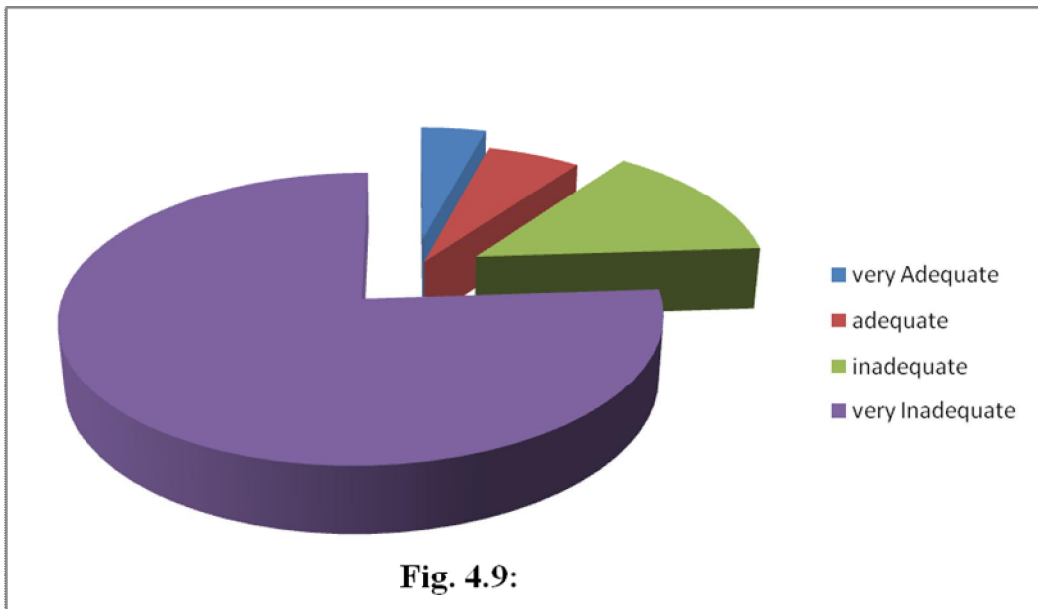
	<b>Number</b>	<b>Percentage (%)</b>	<b>Degree</b>
Very adequate (VA)	12	4.17	15
Adequate (A)	17	5.90	21.25 (21)
Inadequate (I)	40	13.89	50
Very inadequate	219	76.04	273.75 (274)
<b>Total</b>	<b>288</b>	<b>100</b>	<b>360</b>

The above data is represented in bar chart as show in figure 4.4 below:



**Fig 4.8**

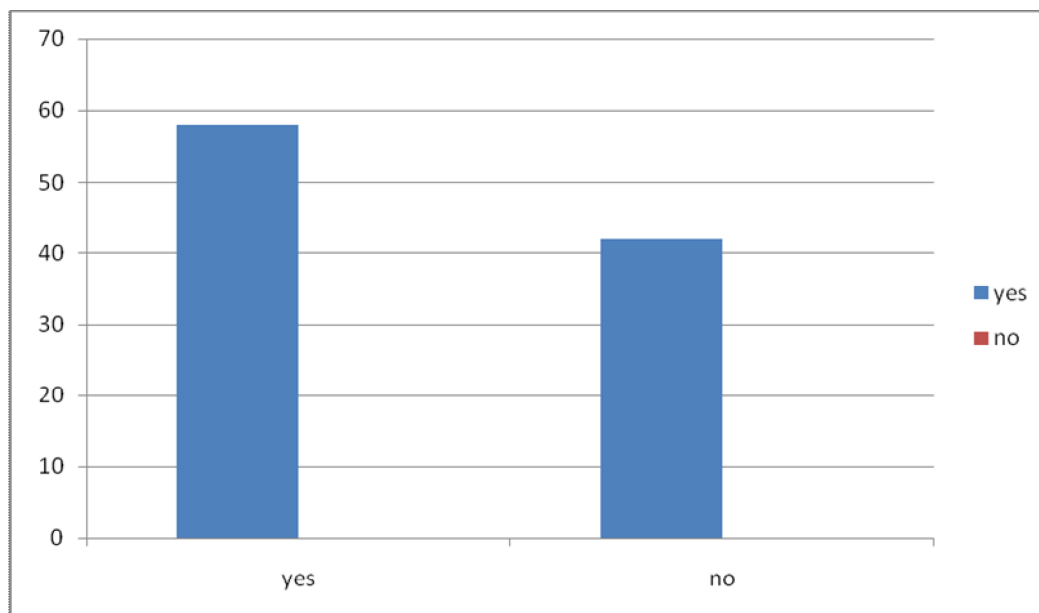
The data is presented in a pie chart shown in fig 4.5 below



**Question 5: Do you think that privatization will compound our economic problems in the short run because of high costs of goods and services?**

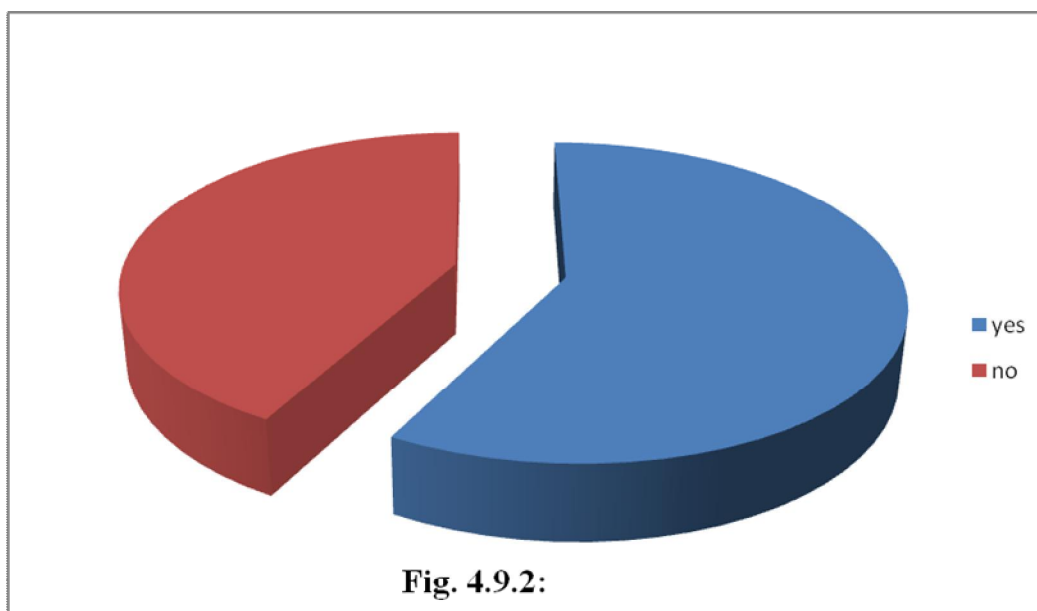
	Number	Percentage (%)	Degree
Yes	167	57,99	208.75 (309)
No	121	42.01	151.25 (151)
<b>Total</b>	<b>288</b>	<b>100</b>	<b>360</b>

The above data is represented in bar chart as show in figure 4.9.1 below:



**Fig 4.9.1**

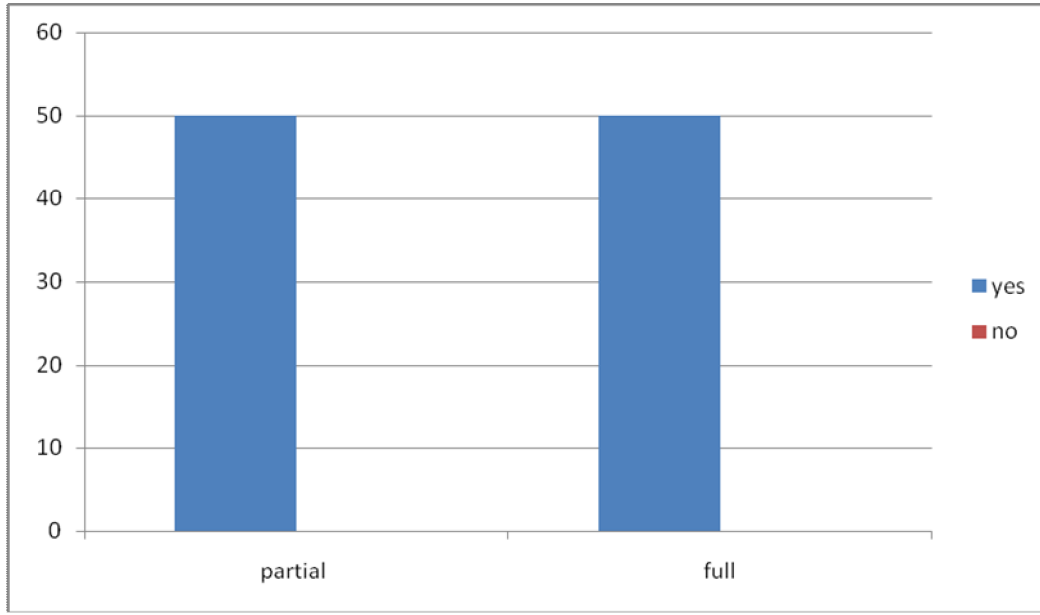
The data is presented in a pie chart shown in fig 4.9.1 below



*Question 6: Do you advise for a partial privatization or a full privatization?*

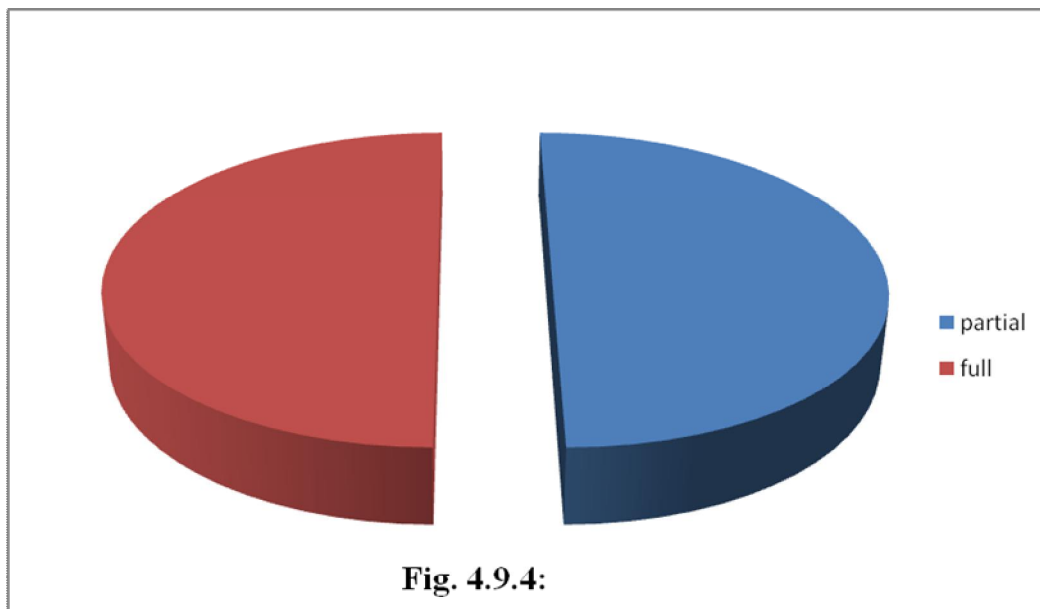
	<b>Number</b>	<b>Percentage (%)</b>	<b>Degree</b>
Partial	144	50	180
Full	144	50	180
<b>Total</b>	<b>288</b>	<b>100</b>	<b>360</b>

The above data is represented in bar chart as show in figure 4.9.1 below:



**Fig 4.9.3**

The data is presented in a pie chart shown in fig 4.9.4 below

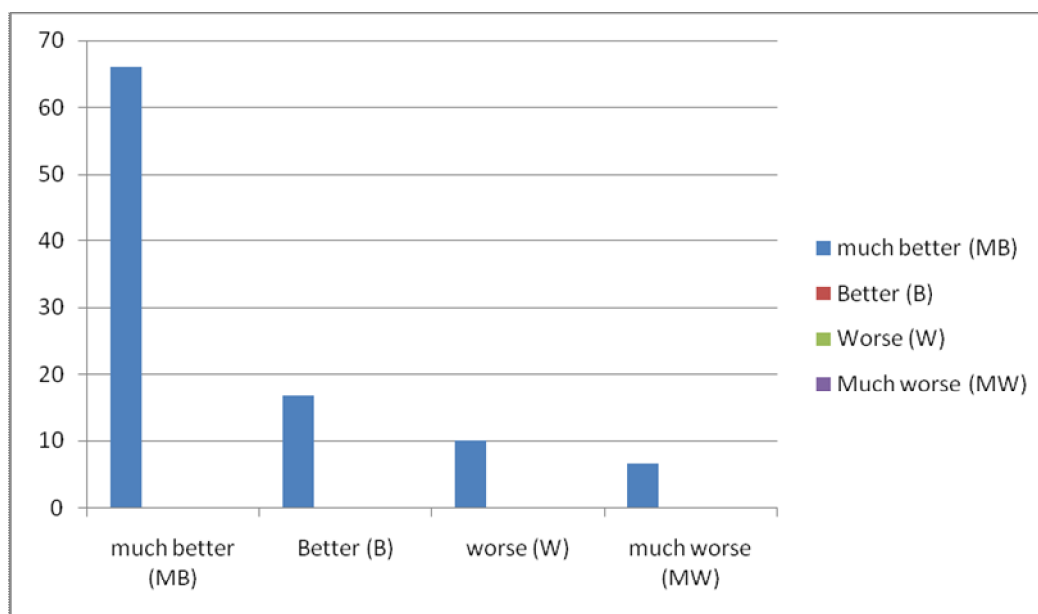


**Fig. 4.9.4:**

**Question 7: What do you expect from Nigerian economy 5 years after privatization of public enterprises?**

	Number	Percentage (%)	Degree
Much better (MB)	192	66.00	240
Better (B)	48	16.67	60
Worse (W)	29	10.06	36.25(36)
Much worse (MW)	19	6.60	23.75(24)
<b>Total</b>	<b>288</b>	<b>100</b>	<b>360</b>

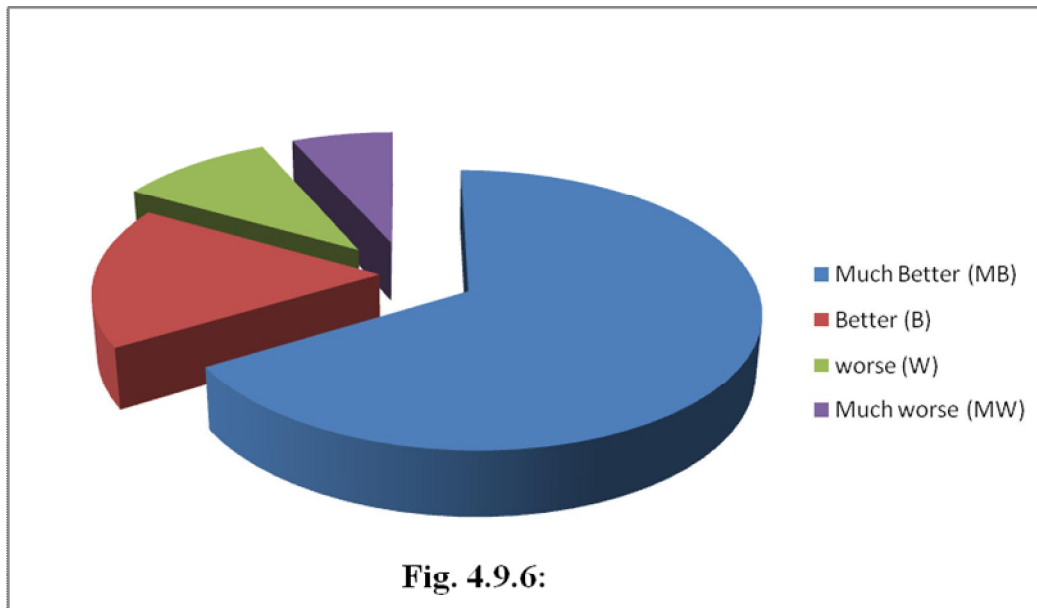
The above data is represented in bar chart as show in figure 4.9.1 below:



**Fig 4.9.5**

The data is presented in a pie chart shown in fig 4.9.5 below





## 4.2 TEST OF HYPOTHESIS

In this section, the hypothesis associated with the study will be tested. This will have done through the use of Chi-Square statistics ( $\chi^2$ - test statistics).

## 4.3 TEST OF HYPOTHESIS I

A Testing if the public enterprises in Nigeria are efficiently managed.

### STATEMENT OF HYPOTHESIS

$H_0$ : The public enterprises in Nigeria are efficiently managed.

$H_1$ : The public enterprises in Nigeria are not efficiently managed.

### TEST TECHNIQUES

$$X^2 = 3 \frac{(oi-ei)^2}{ei}$$

Where  $\chi^2$  = chi-square

$O_i$  = observed frequency

$e_i$  = expected frequency

Level of significance = 0.05

Degree of freedom = (r-1) (c-1)  
 = (2-1) (2-1)  
 = 1 x 1  
 = 1 df

### Decision Rule

If the calculated value of the  $\chi^2$  exceeds the critical value, then we reject  $H_0$ , otherwise, we accept  $H_0$

**Table 4.9:**

Response	$O_i$	$e_i$	$O_i - e_i$	$(O_i - e_i)^2$	$\frac{(O_i - e_i)^2}{e_i}$
Yes	69	144	-75	5625	39.0625
No	219	144	75	5625	39.0625
<b>Total</b>	<b>288</b>				<b>78.125</b>

The calculated value of  $\chi^2 = 78.125$

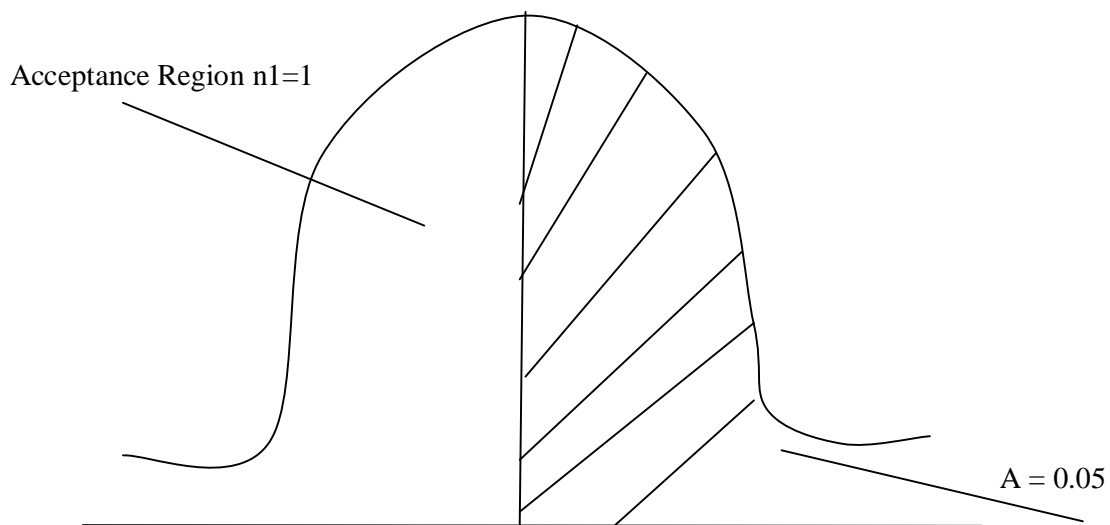
The critical value of  $X = 3.841$

Source: Refer to the Appendix 2 for the critical value.

### Decision

Reject  $H_0$  because critical values is less than the calculated value ( $3.841 < 78.125$ ). Therefore, reject  $H_0$  and accept  $H_1$ , which states that the public enterprises in Nigeria area not efficiently managed.

Figure 4.9.7 showing the Rejection and Acceptance region of chi-square ( $\chi^2$ ).



**Fig. 4.9.7**

### 4.4 Test of Hypothesis II

Testing if privatization will compound our economic problems in the short run because of high cost of goods and services.

#### 4.4 TEST OF HYPOTHESIS II

B) Testing if privatization will compound our economic problems in the short run because of high cost of goods and services.

### STATEMENT OF HYPOTHESIS

$H_0$ : Privatization will not compound our economic problems in the short run because of high cost goods and services.

$H_1$ : Privatization will compound our economic problem in the short run because of high cost of goods and services.

**Table 4.9.1**

Response	$o_i$	$e_i$	$o_i - e_i$	$(o_i - e_i)^2$	$\frac{(o_i - e_i)^2}{e_i}$
Yes	167	144	23	529	3.674
No	121	144	-23	529	3.674
<b>Total</b>	<b>288</b>				<b>7.348</b>

The calculated value of  $\chi^2 = 7.348$

The critical value of  $X^2 = 3.841$

#### Decision Rule

Reject  $H_0$  because critical value is less than the calculated value (3.841).

Therefore, reject  $H_0$  and accept  $H_1$ , which states that privatization will compound our economic problems in the short run because of high cost of goods and services.

### 4.5 TEST OF HYPOTHESIS III

C Testing if privatization will bring about increased efficiency in the enterprises privatized.

### STATEMENT OF HYPOTHESIS

**HO:** Privatization will not bring about increased efficiency in the enterprises privatized.

**HI:** Privatization will bring about increased efficiency in the enterprises privatized.

**Table 4.9.2**

<b>Response</b>	<b><math>o_i</math></b>	<b><math>e_i</math></b>	<b><math>o_i - e_i</math></b>	<b><math>(o_i - e_i)^2</math></b>	<b><math>\frac{(o_i - e_i)^2}{e_i}</math></b>
Yes	192	144	48	2304	16
No	96	144	-48	2304	16
<b>Total</b>	<b>288</b>				<b>32</b>

The calculated value of Chi-Square = 32

The critical value of Chi-Square = 3.841

### Decision Rule

Reject  $H_0$  because critical value is less than the calculated value (3.841 < 32). Therefore, reject  $H_0$  and accept  $H_1$  which states that privatization will bring about increased efficiency in the enterprises privatized

**CHAPTER FIVE**  
**SUMMARY OF FINDINGS, CONCLUSION AND**  
**RECOMMENDATIONS**

**5.1 SUMMARY OF FINDINGS AND CONCLUSION**

There are no gains saying that the publics are all disillusioned about government establishments. It is obvious that the problem of the public enterprises in Nigeria is a fiscal crisis within the system. These public enterprises have failed woefully to achieve the purposes for which they were established. They have become a burden on the economy. Therefore, their privatization has been taken as an economic option for recovery. These enterprises no doubt contribute to the root cause of our economic predicament today. But a cursory look at the nature of the problems of public enterprises in Nigeria, one is therefore prone to advocate commercialization of some of the public enterprises as against total privatization of all of them. Privatization is a necessary option for economic recovery no doubt, but it is not sufficient. There are other problems like inflation, deficit balance of payment, Unemployment, huge national debt etc, all being as a result of world economic forces. Moreso, the huge investment involved in these public enterprises makes privatization to Nigerian private sector out of hand. This is evident if we take a look at the nature of private investment in Nigeria. The nature of private investment in Nigeria is such that the indigenous private

investment is very weak, small scaled, fragmented, largely commercial in orientation and regional in outlook. Moreover, the bulk of Nigerian capitals are in sole proprietor form of business organization. They find it difficult to organize themselves, into partnership and corporate form of business organization. This arises from the fact that there are general mistrusts and financial dishonesty. Psychologically, the satisfaction they derive from being one's own Managing Director cannot be ruled out. The study by O. Teriba, E.C. Edozien and M.O. Kayode, reveals a predominance expatriate share holding. There was a greater concentration of shares among the expatriates as opposed to the fragmentation among Nigerians. The implication is that if privatization will be carried out under this situation, the likelihood will be that Nigerian economy will be dominated by foreigners and their agents. Nonetheless, privatization is a very good policy. Apart from the bad situation mentioned above and some fears expressed by the public like concentration of shares in a few hands, unemployment, government losing the controlling height of the economy, etc. privatization if properly carried out will lead to efficient and effective allocation of resources.

The researcher cannot but agree with Iromantu (1999) that privatization is now a fact of life almost everywhere in the world. As at 1974, more than 2000 enterprises were privatized in Africa alone. This number has gone

higher. Privatization brings substantial gains as it allow increase in investment, greater productivity, better marketing, better and cheaper service, developing competitive industry that service the customer well, developing and accessing capital, technology market which permit growth, achieving effective corporate governance and getting the best possible price from sale of assets. It also integrates the local economy into global economy, and for an economy to be competitive, it needs to be an embrace of global standard. We cannot escape globalization and we must be part of it. We must privatize and fast too. Privatization of government owned enterprises is sine qua to health Nigerian economy.

## **5.2 RECOMMENDATION**

Following the findings of this research, the researcher wishes to make some suggestions and recommendation for the attention of our government as regards the modality for successful privatization.

Firstly, it is recommended that the government must ensure that the regulatory framework and environment must be such that encourages maximum competition and performance in the sector as it is currently bedeviled with operational distortions and regulatory inadequacies.

Secondly, government sales option (of 40% to strategic partner, 20% Nigerian public and 40% government) should be implemented



accordingly or even at a reduced equity holding by government. However, it is recommended that government divest, gradually its remaining share at a minimum rate of 5% per year to the Nigerian public. The merit is that the majority shares would be owned by Nigerians, while governments get out of business.

Thirdly, it is recommended that government should leave the management of the enterprise in the hands of the strategic partner. This would enhance efficiency.

Fourthly, it is shortly recommended that a second telecommunications network operator (second carrier) be appointed immediately and be allowed to commence operation. It will also prepare the ground to absorb good staff as may be displaced in a privatized NITEL and to offer real competition.

Fifthly, government should be prepared to address the labour problem which may arise as a result of the privatization. A proactive programme of education of the labour unions as to the benefits of privatization and the protection and safeguards against unmitigated loss of jobs should be embarked upon.

Sixthly, ensure even spread among classes and states of Nigerian acquiring the 20% shares.

Seventhly, government should set up a sincere monitoring committee, which should be made up of the organized private sector, Nigerian labour congress and government represented by appropriate ministries in charge of these parastatals. Their function is to monitor the whole process of privatization, to ensure that all interests are represented.

Finally, before privatizing NEPA and NITEL, which are my research enterprises, it is recommended as follows:

### **NEPA**

- Break up the distribution and marketing into separate units and privatize
- Core investors must have technical competence with world class experience.
- Allow new entrants into power generation to stimulate competition.
- Encourage privatization of existing generating facilities
- Allow independent power plants to sell power to distribution and marketing companies.
- Enhance the ability of independent power generators and distribution and marketing companies to meet contractual obligations.
- Establish a veritable regulatory mechanism for the industry that will be responsible among other things for such issues as pricing,

competitions and coordination among the various operators as well as protecting the interest of consumers.

## **NITEL**

- Break down NITEL into privatisable units by territories, while continuing the current liberalization programme.
- Encourage Nigerians to have shares in NITEL by flouting it on the stock exchange.
- Provide an appropriate regulatory environment (similar to OFFICER in UK)
- Attract foreign investors through international competitive bidding for concessions.
- Introduce a second national carrier to compete with NITEL
- Employ an open and transparent mechanisms for privatization.

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**APPENDIX 1**

Department of management  
Graduate school of business  
Administration  
University of Nigeria  
Enugu campus  
June,2010

Dear Respondent,

**MANAGING PRIVATIZATION FOR ECONOMIC BENEFITS OF  
NIGERIA: SELECTED STUDIES FROM THE SOUTH EAST  
ZONE**

I am a Postgraduate Student of Management Department, University of Nigeria, Enugu campus. I am conducting a research on above mentioned subject. You have been randomly selected for this study.

Kindly answer all questions as honestly as possible, trusting that whatever information contained in your responses will be treated with utmost confidence.

Thanks for your co-operation

-----  
**Udeozo Chibuzor O.**  
*Researcher*





(e) Others [ ]

(f) None [ ]

7. Are you aware of the privatization programme going on in Nigeria?

(a) Yes [ ]

(b) No [ ]

8. Do you think that public enterprises in Nigeria are efficiently managed?

(a) Yes [ ]

(b) No [ ]

9. Do you think that privatization will bring about increased efficiency in the enterprise privatized?

(a) Yes [ ]

(b) No [ ]

10. What do you think about the profit showing of the public enterprises in Nigeria?

(a) Adequate [ ]

(b) Very adequate [ ]

(c) Inadequate [ ]

(d) Very inadequate [ ]

11. Do you think that privatization will compound our economic problems in the short run because of the high costs of goods and services?

(a) Yes [ ]

(b) No [ ]

12. Do you advise for a partial or a full privatization of the enterprises

(a) Partial [ ]

(b) Full [ ]

13. What are your reason for your answer to question 12?

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14. What do you expect of the Nigerian economy five years after privatization of public enterprises?

(a) Much better [ ]

(a) Better [ ]

(c) Worse [ ]

(d) Much worse [ ]

15. Do you have any suggestion to make on going privatization of public enterprises in Nigeria?

(a) Yes [ ]

(b) No [ ]

16. If your response to question 15 is yes, what are the suggestions/recommendations?

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