



## Privatization and the Efficiency of Selected Enterprises in Nigeria

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### ABSTRACT

The privatization of state companies has grown into a global trend with its origin traced to developed countries. This study investigated privatization and the efficiency of some selected enterprises in Nigeria. The study adopted primary data in which questionnaire were given out to elicit responses in order to achieve the research objective. 74 questionnaire were giving to the head of operations of selected privatized hospitality industries in Nigeria. Multiple linear regression was used in analyzing the data gathered from respondents. Findings from the result of this study indicates that privatization is significant and positively related to efficiency of firms. The study concludes that privatization has significantly influenced the efficiencies of privatized enterprises in Nigeria. The study concluded that privatization enhances the efficiency of privatized enterprises in Nigeria. The study recommends that ownership structure should be structured to provide good incentive process that is beneficial to shareholders. The study further recommends that Privatized firms should be encouraged to allow for more management involvement in decision making process, this will go a long by providing cross fertilization of ideas.

**Keywords:** *Privatization; Enterprises; Public sector; Ownership structure; Share offer*

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### INTRODUCTION

Public enterprises are regarded as government investment, a fundamental question of whether or not government should be involved in enterprises is a direct function of the level of efficiency in the hands of either the private or public sector. Privatization in the 1980s started with an extensive and continuous programs which involved the sale of public enterprises in United Kingdom. This program was spread to other countries where it was seen as means of raising revenue to finance infrastructure. Privatization of public enterprises has now become a global practice which has its origin from the developed country spreading to the developing countries where national asset are sold out to make up for the deficit revenue. Public enterprises were established basically to propel developmental plans like other economies (Ojo & Fajemisin, 2010). The World Bank report (1995) has it that over 7000 enterprises have been privatized globally. From this data, developing countries sold over 2000 of state owned enterprises. Foreign donor agencies recommends privatization as part of programs for international aid as part of the conditionality upon any assistance. Nwoye (2016) observed that Nigeria and the majority of African countries agreed to world bank loan institutions' conditionality that divestment into public businesses be one of the requirements for economic help, along with a strong push for economic liberalization. Nigeria is not an exemption from this Breton woods arrangement. Privatization was encouraged in Africa because it was viewed as a national economic reform that would help to curb government inefficiency. The administration of General Ibrahim Babangida came in on a promise to overcome the impasse with the International Monetary Fund. After a nationwide discussion, the government decided to accept the IMF and World Bank-approved structural adjustment program in lieu of an IMF loan (SAP). The structural adjustment program in Nigeria did not begin until 1986, when the International Monetary Fund (IMF) demanded that the former Shagari administration transfer its stake in the management and control of key state businesses as one of the conditions for receiving foreign loans. (Adeyemo & Adeleke, 2008).

Privatization has the sole aim of encouraging share ownership among citizens and develop the Capital Market. Privatization can be seen as a tool that can be used to restructure and rationalize the public sector for efficiency, effectiveness and reduce wastage in unproductive investment in public sector (Misham, 1983). From an economic standpoint, privatization is thought to reduce both government spending and the government's part of the economic asset by using earnings from sales to expose activities to market forces and competition. There could also be a reduction in government borrowing requirements both locally and internationally. One of the need for privatizing businesses is to break up monopolies so that the resulting competition provides better options for consumers, especially if the monopoly are subsidized. Even with a governmental monopoly, there is room for competition which would compel it to either improve or fold.

### Statement of Problem

The Nigerian economy has continued to witness a down turn since the end of oil boom in the early seventies. The federal government of Nigeria approached the IMF and the World Bank sanctioned structural adjustment program (SAP) for loan (Oyediran *et al*, 2017). One of the criteria for the granting of IMF loans to the Nigerian government was to relinquish ownership of public enterprises' management and control Nigeria (Adeyemo & Adeleke, 2008). Public sector often regarded as not capable of running an effective business venture unlike the private sector, this ineffectiveness on the public sector ranges from mismanagement, corruption, lackadaisical attitude and poor accountability among others (Omoleke, 2011). In a way to curb this wastages, various government worldwide embarked on policy programs such as privatization that would change the ownership structure in other to derive maximum efficiency and effectiveness from such public asset. This would help in growth and sustainability of revenue.

### Objectives of the Study

The study's overarching goal is to ascertain the effect of privatization on the efficiency of firms in Nigeria. Specifically, the study sought to:

- i. Examine the effect of ownership structure on the efficiency of firms in Nigeria.
- ii. To determine the extent of management involvement in the efficiency of firms in Nigeria.

### Research Questions

The following research questions were formulated:

- i. To what extent does ownership structure enhances the efficiency of privatized firms in Nigeria.
- ii. To what extent does management involvement enhance the efficiency of privatized firms in Nigeria?

### Research Hypotheses

The study formulated the following research hypotheses:

- i.  $H_{01}$ : Ownership structure has no significant relationship with the efficiency of privatized firms in Nigeria.
- ii.  $H_{02}$ : Management involvement has no significant relationship with the efficiency of privatized firms in Nigeria.

## LITERATURE REVIEW

### Concept of Privatization in Nigeria

Since the end of the oil boom in the early 1970s, the Nigerian economy has been on the decline. Different regimes have taken various corrective measures to address this trend, such as austerity measures and General Ibrahim Babangida's Structures Adjustment Program (SAP). As a result, the implementation of structural adjustment programs has prompted several governments in various nations to embark on significant transfers of publicly held firms to private persons (Alabi, 2015).

The privatization policy paper in Nigeria promise to take steps to avoid the concentration of the investment holding in the hands of individuals or a few areas of the economy. Ayodele (1994) describe Privatization as the process of transferring control and ownership of public owned enterprises to private individuals. Abdullahi (2014) observed that privatization would curtail the misuse of monopoly power of public enterprises, mismanagement, nepotism, corruption. The structural adjustment program introduced in Nigeria led to the massive transfer of public owned companies to private individuals (Alabi, 2015).

Osemene (2010) define privatization as the process of returning state owned enterprises to the private sector through the issuance of shares. Privatization is very essential as a way to ensure positive return of public owned asset and to reduce dependence on the government treasury for financial assistance which often make it difficult for some of this enterprises to have access to the capital market. Privatization can be categorize into complete, partial privatization and selective. Complete privatization involves the full transferring of ownership of public asset to the private sector. While partial privatization involves transferring of a portion or a part of government enterprises to the private sector, the control of any privatized enterprise by the government under this arrangement may depend on the percentage of equity sold. On the other hand, selective privatization involves an arrangement that involves the public sector leasing or selling some selected parts of services while still retaining other services under its control and ownership. Some of the fully privatized companies in Nigeria are : security and minting company, International conference center Abuja, International trade fair complex Lagos, National clearing and forwarding company limited, Durbar hotel Kaduna, Nikon, Sharaton hotel.

## METHODS OF PRIVATIZATION

The following are methods of privatization:

#### *Public offer of shares*

This method involves the invitation of the general public for share subscription offer from the affected enterprises through the Nigeria stock exchange. Interested subscribers would have to approach the floor of the stock exchange market where necessary sales of share offers are transacted.

#### *Private placement of shares*

This method involves enterprises where government holding is small and unable to attract good public offer of share subscription even where the enterprises concerned have met the listing requirements of Nigeria stock exchange. It also involves getting buyers privately without going through the trading floor of stock exchange.

#### *Sales of assets by Public Tender*

This method includes the sale of public asset by biddings through tender. In this method, highest bidders are considered first in that order. It is used where the shares of the enterprises cannot be sold by either public offer or by private placement of shares.

#### *Management buy-out (MBO)*

It is a situation where the management (employees) buys the enterprises. That is, the entire or substantial part of the enterprise is sold to the employees. It is entirely up to them to re -organize and manage it.

#### *The Deferred Public Offer*

The method is used in respect of an enterprise, which is financially viable, but which if privatized by sale of shares, its value will be discouragingly less than the value of the underlying assets. Under this arrangement, the buyer is expected to produce much higher revenues.

### **Aims of Privatization in Nigeria**

- a. To restructure and rationalize the public sector for efficiency, effectiveness and to curtail unproductive investment in the public sector.
- b. To encourage share ownership among citizens and develop the Nigerian capital market.
- c. To reduce the absolute dependence on public treasury for funding by otherwise commercially oriented parastatals.

### **Ownership Structure**

Ownership structure refers to the internal arrangement of a business enterprise that involves the duties and holding right or interest of individuals in the business. It is very important that shareholders be fully armed with relevant ownership structure of the business entity which they legally constitute as shareholders. To determine the ownership structure of firms, top ownership concentration at the top level should be known by understanding what percentage of shares that are held by the highest share holder of the firm. Some firms may prefer disperse ownership of shares while some prefers ownership concentration of shares. This will to a long extent enable owners to be aware of their right of existence in the business entity. Majority of shares in a company are held by few owners. Miyajima and Hoda (2015) observed that concentrated ownership enhances greater roles by shareholders in monitoring the enterprise. Shareholders within the same enterprise may have rights that distinct from each other. For instance, in a case of liability and an incorporated company. Madhani (2016) posit that ownership concentration involves the significant level of internal governance mechanism that owners of firms can control and as well influence the management of the firm to protect their interest. A holder of preferred stock may have different rights from a holder of common stock.

### **Management Involvement**

Management involvement plays strategic role in privatization of public enterprises, this is as a result of skills required for the operationalization of the enterprises as a result of change in ownership from public sector control to a private sector business control. Management involvement has to deal with the managers of privatized enterprises taking full strategic decision to overcome difficult management circumstances. With diligent management skills, public sector businesses can be turn into a successful private driven enterprise. Different management skills are required for both the public sector and the private sector. Management expertise practices requires proficiencies to successfully execute projects in other to achieve organizational goals (Yusufu, Alabi, & Idachaba (2020). Management skills are relevant in the aspect of decision making, this is multi-tasking and often demands high skills and knowledge.

### **Firms Efficiency**

The efficiency of a firm specifies the total amount of resources required by the firm to obtain greater output. This resources can be classified into human and non-human resources. Efficiency of firm can be measured through ratios like profitability, leverage, liquidity, growth etc. This indicators can be used to measure the efficiency of firm which are also connected to firms' key performance indicators.

## EMPIRICAL REVIEW

Abdullahi, Abdullahi & Mohammed (2012) conducted a study on Privatization and Firm Performance: An Empirical Study of Selected Privatized Firms in Nigeria. Secondary data was gotten from privatized company's published annual reports and financial statements. Results obtained from this study indicates an improvement in profitability of the firms in the sample.

Usman and Olorunmolu (2015) investigated how privatization increases firm performance in Nigeria from 1990-2001 in Nigeria. Panel data was obtained from 20 sampled privatized firms in Nigeria. Findings indicates that operational efficiency has significant increase in the mean values of sales efficiency. The study concludes that privatization in Nigeria has improved the financial performance of firms.

## THEORETICAL FRAMEWORK

The neo – liberal theory is best used to underpin this study, this is a contemporary theory used to ascribe to a market oriented reforms and policy such that it would reduce price control, deregulating the capital market and setting up of economic policy that would mitigate austerity problem. The neo liberal theory is a dominant idea that allows government in developed country and economy to have a view in the economy of developing economy. This theory view the ownership structure of public asset as non performing and ineffective and emphasis should be geared towards making them effective and efficient. The neo liberalism theory has a unique feature in a free market economy with adequate allocation of resources. Under the neoliberal theory, public sector intervention is said to be minimal. Human progress can be achieved through a sustained economic growth. The neoliberal theory is in tandem with fiscal austerity, free trade, deregulation and privatization of public enterprises.

## METHODOLOGY

The research design used for this study is survey method which involves the use of structured questionnaire to elicit responses from the sampled population. The population of the study consists of 94 head of operation of selected privatized enterprises in Nigeria. The study used Taro Yamane formular (1967) in determining the sample size. However, a sample size of 76 was derived.

$$n = \frac{N}{1 + (Ne^2)}$$

$$e = (0.05) \text{ or } (0.0025)$$

$$n = 94$$

$$1 + (94 \times 0.0025)$$

$$n = 76$$

## DATA ANALYSIS

Table 1: Model Summary

Model	R	R-square	Adjusted R square	Std. Error of the Estimate
1	.841 <sup>a</sup>	.795	.789	.32685

a) predictors: (constant) ownership structure, management involvement

Source: Field Survey, 2021.

The above table reveals that R = .841, R<sup>2</sup>=.795, adjusted R<sup>2</sup> =.789. The r square value of .795 indicates that the components of the explanatory variable have a combined effect of 79% on the dependent variable.

Table 2: ANOVA <sup>a</sup>

Model	sum of Squares	df	Mean Square	F	Sig
Regression	38.959	3	12.986	92.738	.000 <sup>b</sup>
1 Residual	5.04	36	.140		
Total	44.000	39			

a) Dependent Variable: Firms efficiency

b) Predictors: (constant) ownership structure, management involvement

Source: Field Survey, 2021.

The F statistics value of 92,738 which is significant at 0.000 in the Anova table is less than the alpha level of 0.5%. This indicates that the result is good and the model is fit for achieving the overall objectives.

Table 3: Coefficients <sup>a</sup>

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.555	.145	.414	3.8242	.000
Ownership structure	.578	.159	.359	3.689	.001
management involvement	.618	.289	.475	2.136	.040

a) Dependent Variable: Firms efficiency

Sources: Field Survey, 2021.

The t – statistics value of 3.689 and the corresponding significant of .001 is significant at 5% level of significance indicating that ownership structure has significant effect on the efficiency of privatized firms. The null hypotheses which states that ownership structure has no significant effect on the efficiency of privatized firms is rejected. Furthermore, the second result with t-statistics of 2.136 and the corresponding significant level of 0.040 and significant at 5% indicates that management involvement has significant effect on firms' efficiency. The null hypotheses which states that management involvement has no significant effect on the efficiency of privatized firms is rejected.

## DISCUSSION OF FINDINGS

Findings indicates that privatization has significant effect on the efficiency of firms in Nigeria. This is evident from the regression result in the table indicating significant effect on firm's efficiency. From the result of the regression, ownership structure is significant and positively related with the efficiency of privatized firms in Nigeria. This findings is in tandem with the result of Abdullahi, Abdullahi & Mohammed (2012). Miyajima and Hoda (2015) also have similar view about ownership structure. The findings of this study is also in the right direction with the view of Usman and Olorunmolu (2015). The second result from the regression table also indicates that management involvement is significant and positively related with the efficiency of privatized firms in Nigeria. The result further indicates that an increase in the component of the predictor variable (ownership structure and management involvement) will lead to one unit increase in the efficiency of privatized firms.

## CONCLUSION AND RECOMMENDATIONS

The study came to a conclusion that privatization improves firm's efficiency through and effective ownership structure and management involvement in the running of the organization. This is very essential because it would ensure positive return on investment of privatized enterprises.

Based on the findings , the study recommended that:

- i. The ownership structure of privatized enterprises should be structured to provide good incentive process that is beneficial to shareholders.
- ii. Privatized firms should be encouraged to allow for more management involvement in decision making process.

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