

# **PRIVATIZATION, JOB SECURITY AND PERFORMANCE EFFICIENCY OF PRIVATIZED ENTERPRISES IN NIGERIA: A CRITICAL REASSESSMENT**

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## **ABSTRACT**

Privatization is one singular economics policy that has generated many controversies in Nigeria. While some argued in favour of, others are antagonistic about its introduction in the country. As government is set to full privatized Power Holding Company of Nigeria (PHCN) and complete the second phases of the programme in Nigeria, there is need to reassess the potency of the policy in the past twenty years. This paper therefore investigates the impact of privatization on employment creation, job security and performance efficiency of privatized state owned enterprises (SOEs) in Nigeria. It was evidence that, privatization though with challenges, stimulated employment creation and ensured job security and productivity of privatized enterprises. We recommended that government should rethink in the implement of the second phase of the programme to make it more effective and beneficial to most Nigerians.

**Key words:** Privatization, Job Security, and Performance Efficiency.

## **Introduction**

The transfer of government owned shareholding in public enterprises to private shareholders is one of the revolutionary innovations in economic policies of both developed and developing countries (Igbuzor, 2003; Chambers, 2008). This economic policy (privatization) is a product of neo-liberal economic reforms that becomes popularized and globalize through the World Bank (WB) and the International Monetary Fund (IMF). As an innovative economic policy, privatization started in Chile under the Military Government of General August Pinochet; and was adopted in Britain, between 1986 and 1987 as a central part of economic policy shift (Hanke, 1987).

Privatization in Nigeria started in 1986 as an integral part of structural adjustment programme

(SAP) (FGN, 1986; Ndebbio, 1991). Prior to this period, the Nigerian state has participated actively in enterprises right (Nwoye, 2003); this trend continue until 1988 when privatization programme was officially launched (Anyia, 2000; Igbuzor, 2003). It was envisaged that privatization would improve operational efficiency of inefficient state owned enterprises (SOEs), reduce government expenditure and state role, increase investment and employment as well as ensure job security in Nigeria (Subair & Oke, 2008; Jerome, 2008).

Surprisingly, since the official introduction of privatization in 1988, the policy has been a subject of intensive debate and has remained highly controversial in Nigeria (Nwoye, 2010). The operational inefficiency of some of the privatized companies like National Electric Power Authority (NEPA) now Power Holding Company of Nigeria (PHCN) among other is even more worrisome. The supply and distribution of electricity to consumers is still grossly inadequate (Subari & Oke, 2008). This scenario and others has provoked more debates, some in favour of and others against privatization.

Antagonist to privatization has argued that the economic reform in Nigeria as in other African Countries as a ploy by few elites to sell public enterprise to themselves at the expense of the masses. And that privatization cannot bail African from precarious economic situation. Those in favour of argued that privatization brings operational efficiency, increases productivity, creates employment, ensures job security and widen the distribution of wealth in society (Jerome, 1999, 2005).

More than twenty years of privatization in Nigeria, there is still mixed feelings about the efficacy of the policy especially as government is set to fully privatize Power Holding Company of Nigeria (PHCN) and to complete the second phase of the programme (Iba, 2010). Some have asked for the total stoppage of the programme while others still see privatization as a revolutionary policy, with the potency of addressing the inadequacies of SOEs. Others have argued that government should reassess and rethink in the implementation of the programme. This study is therefore set to reassess privatization programme in Nigeria specifically in the areas of job security, employment creation and performance efficiency of privatized enterprises. The paper attempts to answer pertinent questions such as: Who are the real owners of privatized enterprises? Are the masses really involved in the privatization exercise? Who are the true shareholders of the privatized corporations? What is the money from privatized enterprises used for? Is privatization another form of imperialism? Who is fronting the buyers of the privatized SOEs in Nigeria?

## **Conceptual Elucidation**

### **Privatization**

Refers to the transfer of SOEs including ownership and control/management to the private sector. It is a measure adopted by government to bring in private owners to the control of public enterprises accordingly to reduce government expenditure in SOEs (Igbuzor 2003). It involves the transfer of government owned shares in designed SOEs to private shareholders. Privatization therefore includes an activity that ranges from selling of SOEs to contracting out of public services to private contractors (Cowan, 1987).

### **Job Security**

Refers to job guarantee. It includes a reasonable expectation that employees can keep their jobs over a period of time (Hodson & Sullivan, 2002). It involves minimal job turnover over a time that is safe for both employers and employees.

### **Operational Efficiency**

This refers to the overall performance of privatized enterprises. It entails the degree to which the enterprise accomplished its goals or objectives. It includes the ability to successfully harness necessary resources from the environment to meet organizational goals. It is also the ability to ensure harmonious functioning of the internal structure of the organization and the ability to the establishment to meet the needs of its constituencies (Ushie, Agba, Agba & Best, 2010).

### **State Participation in Enterprises**

Government participation in enterprises in Nigeria dates back to the colonial era. The absence of indigenous and foreign companies with requisite capital to invest on railways, roads, bridges, water, telecommunications, electricity, harbors and port facilities promote colonial government to embark on the provision of these capitals – intensive infrastructural facilities (Igbuzor, 2003). State involvement in enterprises continued significantly even after independence (Nwoye, 2010).

Reasons for government involvement in the creating and running of public enterprise until 1988 when privatization was officially launched includes lack of adequate resources for the private sector to provide certain goods and services, political consideration, to guide against monopoly in the provision of basic facilities and ensure universal access to basic social amenities. Other reasons include the need to protect the consumer from exorbitant prices, and to ensure national security and accelerate development (Aboyade, 1974). The emergence of oil economy in Nigeria soon after the civil war in the 1970s and government drive to invest the associated boom in the provision of social, engineering and economic infrastructure accelerated states involvement in enterprises.

The promulgation of Nigerian Enterprises Promotion Decree 1972 (Nwoye, 2010) and Indigenization Decree of 1973 (Chambers, 2008) further the evolution of public enterprises in Nigeria consequently by 1985 there were over 1500 public enterprises owned by the federal, states and local government in the areas of energy, mining, banking, manufacturing, agriculture, telecommunications, transportation, commerce, insurances among others. It was estimated that between 1975 and 1995, the federal government invested over 200 billion US dollars in State Owned Enterprises (SOEs) across the country (Anyia, 2000; Nwoye, 2010).

The Nigerian economic crisis of the mid 1980s the global economic recession and collapse of oil market place the government in a precarious fiscal monetary posture that could no longer sustain the multiple SOEs in the country. The quest to salvage the internal economic crises led government to seek for foreign loans from IMF and World bank; divest of public enterprises was given by these world financial institutions as a condition for economic assistance. Sequel to this, SAP was adopted with fundamental objective of deregulation and privatization. SOEs were to be fully privatized or partially privatized, fully commercialized or partially commercialized (FGN, 1986; Nwoye, 1997; Ibanga, 2005).

### **Antecedence of Privatization in Nigeria**

Operational inefficiencies, bureaucratic corruption, mismanagement and abuse of monopoly (Ibanga, 2005), has continually made Public Enterprises in Nigeria drain pipes for government budget (Anyia, 2000). It became unavoidably imperative therefore for government to disengage from the control of public enterprises especially in areas where the private sector has comparative advantage (Ullah, 2005); thus paving way for the state to concern itself with the provision of enabling environment for privatized business to blossom.

Privatization as a revolutionary policy in Nigeria came to the front burner with the promulgation of the Privatization and Commercialization Decree of 1988 and the setting up of the Technical Committee on Privatization and Commercialization (TCPC) under the chairmanship of Dr. Hamza Zayyad to privatize 111 SOEs and commercialize 34 others (Igbuzor, 2003). The

programme was also accelerated and footed with the promulgation of Bureau for public Enterprises (BPE) Act of 1993 amended in 1998. To further ensure the smooth running of the programme in Nigeria, in 1999 the Federal Government established the National Council on Privatization under the chairmanship of the former Vice President Atiku Abubakar; the body was charged with the responsibility of making policies on privatization and commercialization and advising government accordingly.

The non performance of SOEs occasioned government decision to privatize and commercialized them. According to Anya (2000), 111 public enterprises were earmarked for full and partial privatization while 35 enterprises were to be commercialized and the exercise was to be carried out in two phases. Mahmoud (2004), observed that before privatization there were 1500 SOEs in Nigeria, out of which 600 were under the Federal Government control, and the rest owned by state and local governments.

The first phase of privatization spanned from July 1988 to June 1993. In this phase the following methods was adopted 36 enterprises were privatized through public offer, 4 were privatized on differed public offer, 8 were privatized through private placement. Another 8 via sale of assets, and 1 enterprise through Management Buy Out (MBO). Eighteen non-water assets of River Basin Development Authorities were to be sold (Anyanwu, 1999; Anya, 2000).

Under the second phase starting from November, 1999; 25 enterprises were earmarked for full privatization. These enterprises include 5 commercial merchant banks, 3 agro – allied companies, 2 hotels, 6 motor vehicles and assembly companies. While those for partial privatization include 2 telecommunication companies, National Electric Power Authority (NEPA) now PHCN, 7 petroleum companies, 2 fertilizer companies, 3 transport and aviation companies, 3 paper companies and 3 sugar companies (FGN, 1999).

### **Constraints of Privatization**

Privatization exercise in Nigeria had suffered a number of constraints. These include policy inconsistencies of government, poor enlightenment programme, income inequality among Nigerians, ailing state of earmarked enterprise for privatization, huge debts of SOEs, corruption and lack of transparency. For instance, since the inception of privatization in 1986, the country has passed through six different administrations with different ideology and development programmes. It worth nothing that between 1989 and 1998, privatization exercise was suspended only to restart in 1999, with a different or new body (National Council on Privatization) to handle the exercise instead of TCPC.

Privatization has also suffered set back because of poor enlightenment campaign. Government has not embarked on enough public enlightenment campaign to educate more the 70 percent of Nigerians in rural areas about privatization. This is responsible for the near absence of rural people participation in the acquisition of shares in privatized SOEs.

The poor enlightenment programme could also be responsible for opposition from the public and labour unions. For instance, the people of Benue State opposed the selling of Benue cement company (BCC) to Dangote Group of Companies; this resulted to violent demonstration in the State. Again the fears of workers welfare and loss of jobs has stimulated Nigeria Labour Congress (NLC) oppose privatization programme in Nigeria.

It is also evidenced that most SOEs examined for privatization owe huge amount of money to banks, staff and even the government. Meaning those who would buy this enterprise has to settle debts before taking over the corporations. For instance, in Cross River State, Calabar Cement Company (CALCEMCO) was owing her former staff millions of Naira, before the closure of the company, this money was paid via a combined efforts by Cross River State Government and United cement Company (UNCHEM) before the company was fully privatized in 2001.

### **Benefits of Privatization**

Privatization of SOEs is expected to attract substantial investment, increased employment and reduce poverty (Iyoha, 2000; Ndebbio, 2000). Similarly Jao (1976) observed that, increase in industrial investment occasioned by privatization is the driving force for increase employment. This is because, according to Ndebbio (2000), labour demand is directly related to industrial investment; that is, in every 10 percent increase in capital investment, in small and medium enterprise (SME), labour demand (new jobs) would increase by 1.97 percent.

Anya (2000) observed that the first phase of privatization relieved government of the huge and growing burden of financing SOEs. The programme created a large number of shareholders and broadens the Nigerian Capital Market from 8.9 billion Naira in 1987 (before privatization) to 65.5 billion naira in 1994 after phase one privatization. It has also significantly increase corporate taxes accruing to the Federation Account (FA). Privatization considerably reduced the scope of political patronage in form of unnecessary enlargement of board appointments to incorporate to supporters. Anya (2000) also observes that 280 directors relinquished their appointments after phase one privatization.

Phase one of the programme also create 800,000 new shareholders and over 3.3 billion Naira of privatization proceeds was realized by the Federal Government of Nigeria (Mahmoud, 2004). In an empirical study by Elias (2001), shows that Okomu Oil, Aba Textiles, Flour Mills and Niycom recorded significant increase in output after privatization staff strength increased from an average of 159 to 163, 989 to 1795 and 1300 to 1468 for Naicom, Flour Mills and Aba Textiles respectively. However Okomu Oil, UNIC Insurance, Roral Exchange and Naycom staff strength fell from 1000 to 993, 701 to 697, 495 to 331 respectively after privatization. In a similar survey of 34 privatized SOEs in Nigeria shows that remarkable improvement in average turnover of 221 percent after privatization (Mahmoud, 2004). Similarly, Boubakri and Cosset (1998) reported that privatization leads to increase in employment.

### **Privatization, Employment and Job Security**

It is quite unthinkable to believe that the same instrument (privatization) that crates employment also causes job insecurity. Evidence in sub-Sahara Africa revealed that privatization has aggravated unemployment and job insecurity not only in Nigeria. It was estimated in 1993 by Technical Committee on Privatization and Commercialization (TCPC) that 280 Directors would relinquish their jobs in the first phase of federal government privatization programme.

It was on record that in 1999, Flour Mills retrenched about 900 workers, while NIJAMCO announced the possibility of closing down after privatization, as a result of operational lost of about 70 million Naira. Insurance sub-sectors such as crusader Insurance PLC, Allco Plc, Bailco PLC, recorded a reduction of 7.25 percent, 0.9 percent and 79.7 percent respectively in employment after privatization. In the banking sector 25.7 percent, 47 percent and 16.8 percent reductions in employment after privatization was witnessed in Union Bank PLC, United Bank for Arica (UBA) PLC and First Bank PLC respectively.

The situation is not different in Cross River State. For instance, Niger Mills Calabar, started operations in 1974; with 60 percent equity share owned by the Federal Government. Between 1981 and 1983, the staff strength of the company was about 590 workers; due to operational inefficiency of the company, many staff was redundant and most lost their jobs following the company's closure in 1988. However after privatization and formal handing over of Niger Mills to the management of Flour Mills of Nigeria, Lagos, the company resumed operations with a staff strength of over 400 workers; that is, creating jobs for close to half a million persons (Agba, 2004).

The privatization of Calcemco by Donald Duke led administration to the management of UNICEM, created new jobs in Cross River State. It should be noted that before the privatization



exercise, Calcemco was closed down for months rendering hundreds of workers jobless, with arrears of salaries not paid. But after privatization, Calcemco, now UNICEM has created and is still creating more jobs for Cross River State indigene, Nigerians and foreigners. The company's output and assets has also increased dramatically.

The situation is similar with that of Akwa Ibom State where operational inefficiency of nine SOEs render thousands of workers jobless. These enterprises include Champion breweries PIC, Uyo; Quality Ceramics Limited Itu, Akwa Palm Industries Limited, Esit Eket; Asbestonist Limited, Oron and International Biscuits Limited, Essien Udom. Others are Plasto-Crown Limited, Uyo; Sunshine Batteries Limited Essien Udom and Qua Steel Products Limited, Eket.

It is worth advancing here that one of the reasons for operational inefficiency of SOEs is over staffing. Hence once an enterprise is privatized, the buyer(s), in order to minimize cost and increase productivity and profit, embarked on staff retrenchment. It is therefore no surprise, why organized labour unions are in serious opposition to government privatization programme in Nigeria, especially when workers are affected without proper plans for their welfare after retrenched.

### **Recommendations**

It is possible to attain substantial increase in production, employment and job security, if privatization is properly planned and carried out. This study therefore, recommends as follows:

1. Government through National Council for Privatization and Bureau for Public Enterprise should carefully and accurately evaluate assets and worth of intended privatized enterprise(s) before privatization.
2. Government should be transparent enough; to allow equity distribution of shares to all geographical zones of Nigeria, and also ensure adequate participation of Nigerians as core-investors. This objective can be achieved through proper and adequate enlightenment programmes. Honesty and sincerity of purpose on the side of government officials charged with the responsibility for privatizing public enterprise.
3. Adequate concern and provisions should be given to workers who could be displaced as a result of privatization exercise; government should absorb them in ministries where manpower is needed, and where there is none, new jobs should be created. Again, government through mutual agreement, with new owners of the privatized enterprise(s) should demand for retention of affected staff of these corporations.
4. Furthermore, government should compel management of privatized corporations to adopt operational techniques that are relatively labour intensive, this would create more jobs and ensure job security; because it is only when job security is guaranteed, that labour and organized trade unions would wholeheartedly support privatization programme in Nigeria.

### **Conclusion**

Privatization as an economic policy in Nigeria has created more jobs and ensures job security than imagined by its critics and antagonists. The gravity of this statement makes sense when we take a retrospective glance at the high rate of SOEs closure and staff redundancy in the 1980s, before the advent of privatization in Nigeria; this closure was occasioned by non performance or operational inefficiency. Workers were redundant, some retrenched and others, outrightly lost their jobs. Insecurity of job was the order of the day. With privatization, most ailing enterprises were revamped while those closed reopened and jobs were created. In a nutshell, when ailing public enterprise closes down, it creates job insecurity than when revived through privatization. It is therefore imperative that government should rethink in the implementation of the second phase of the privatization programme to make it more effective in stimulating employment creation, and ensuring job security and operational efficiency of the privatized enterprises in Nigeria.

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