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# Pre and Post Privatization in Nigeria: The Effects of Households

Ihe,Ndubuisi John

Department of Accountancy, Imo State University, Owerri, Nigeria

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## ABSTRACT

In both developed and undeveloped countries, privatization and in some cases, commercialization have grown in popularity and acceptability. It has also become an important instrument that government can use to promote economic development, improve the production and distribution of goods and services, streamline government structure and reinvigorate industries controlled or managed by the state. The magnitude of persistent failure of public enterprises has been alarming rate due largely to high level of corruption. Even when faithful implementation was supposed to result in efficiency, effective and economic gain to the economy and consumers alike, there continued to be a derail from reality. The study methodology applied here is a survey design and the statistical tool used is Pearson product moment correlation coefficient. The study revealed that privatization promotes economic development. Privatization is a major road map to sustainable economic development and creation of employment opportunities, prices stabilization and competition. Unfortunately, in the Nigerian power sector, for example, the expectations from privatization have not been realized in Nigeria. It has been at the detriment of the households. This study therefore recommends that there should faithful implementation of privatization in Nigeria.

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## Introduction

Privatization of state –owned enterprises (SOEs) has become a key component in the reform package strategy for developing economies. Several developing and transition economies have embarked on extensive privatization programs in the last two and half decades as means of attaining macroeconomic stability, fostering economic growth and managing public sector borrowing arising from corruption, subsidies and subventions to SOES (White and Bhatia, 1998). In line with the trend worldwide, the spate of empirical works on privatization has also increased, albeit with a microeconomic orientation that emphasizes efficiency gains [Jerome (2008), La Porta and Lopez-de Siianes (1997); D'Souza and Megginson (1999); Boubakri and Cosset (1998); Dewenter and Malatesta (2002)]. Yet despite the increase in research, our understanding of the privatization program in Africa is inadequate. Apart from speculative postulations, not much is known about the procedures and result of privatization exercises.

Africa in spite of the impressive level of activism in its implementation (Jerome, 2008), current research is yet to provide useful insights into the peculiar circumstances of Africa, such as the presence of embryonic financial markets and weak regulatory institutions and the manner in which they influence the pace and outcome of privatization efforts. Most objective observers agree, however, that the high expectations of the 1980s about the “magical power” of privatization bailing Africa out of its quagmire remain unrealized (Adam et al. (1992); World Bank (1995); Ariyo and Jerome (1999);

Jerome, (2005).

Nigeria as a developing country witnessed the growing involvement of the state in economic activities in the country. The extension of government into different economic activities was viewed as an important strategy for fostering economic growth and development. This view was reinforced by substantial foreign exchange earnings from the crude oil sells in 1970s, which fuelled Federal Government of Nigeria investment in public enterprises (PEs) (Magaji, 2007). Nigeria's public enterprise sector is one of the largest in sub-Saharan Africa in terms of both scale and scope as reflected in the absolute numbers of enterprises and the contribution to the gross domestic product. Since the colonial era, public enterprises have assumed diverse and strategic development roles in the Nigerian economy. These covered large basic industries (manufacturing, agriculture, services, public utilities and infrastructure). They also include: telecommunication, power, steel, petrochemicals, fertilizer, vehicle assembly, banks, insurance and hotels etc (Jerome, 2008). According to Zayyard (1990), prior to the privatization, there were about 600 PEs at the federal level and about 900 smaller PEs at the state and local levels. Shares of employment, value added and gross fixed capital formation of PEs generally exceeded those of other African countries. The estimated 1,500 enterprises accounted for about 57 percent of aggregate fixed capital investment and about 66 percent of formal sector employment by 1997. It is estimated that successive Nigerian governments invested about 800 billion naira (approximately US\$90 billion equivalent) in the PE sector over two decades , which

remains currently one of the largest in Africa (Jerome, 2008).

**Nigerian Public Enterprises Performance:** The magnitude, scope and persistence of failure of Nigeria's PEs have been extraordinary. These enterprises require continuous massive subsidies but deliver only intermittent and substandard services: industrial enterprises typically operate at 10-35 percent of capacity. The returns on these large investments have generally been poor, and in a number of cases negative, with an especially low rate of return relative to the large amount of resources invested in them. It has been estimated that total investment in the public enterprise sector exceeded US\$35 billion, comprising US\$12.5 billion in equity, US\$10.2 billion in government loans, and another US\$11.5 billion in unspecified and largely unrecorded subventions to various enterprises. These investments provided meagre returns, yielding US\$1.5 billion in dividends and loan repayments from 1980 to 1987 (Federal Government of Nigeria, 1986). Furthermore, about 40 percent of non salary recurrent expenditure and 30 percent of capital expenditure was expended annually on the state-owned enterprises. The reasons for the poor performance of PEs in Nigeria are documented. These include among others, the lack of residual claimant to profits, the presence of multiple and conflicting objectives determined by politicians.

There is also prevalence of incomplete contracts and government subsidies that protect internal inefficiencies and perpetrate soft budget constraints (Jerome, 2004). In Nigeria, political expediency rather than economic viability govern key project parameters such as plant location, capacity planning, implementation timeframe, employment and product pricing. Some of the large-scale projects especially in agriculture and industrial sectors have been on the drawing board for periods ranging from 10 to 35 years. A case in point in the Ajakota steel plant, which remains uncompleted for as long as 30 years. Inefficiencies were also perpetrated due to misuse of monopoly powers, notably in infrastructure, resulting in unreliable delivery and availability of services, including for the poor. Other contributions to this dismal picture have been excessive bureaucratic controls and government interventions; inadequate policy and regulatory frameworks that impede competition, discourage private entry and private investment; weak capacity to implement reform; and gross mismanagement and nepotism. These were compounded by a control and management structure that was extremely complex, opaque and prone to political capture (Jerome, 2008). The result was that Nigeria under-achieved its growth potential as a result of a huge PE sector weighed down by inefficiency and massive corruption. For example, the unreliable power supply from the National Electric Power Authority (NEPA) is estimated to impose an additional cost of around US\$1 billion annually on the economy.

PE deficits have been a major source of fiscal problems and a drag on growth (World Bank, 1995). In the wake of the economic recession that began in 1991 following the collapse of oil prices, the activities of PEs attracted more attention and underwent closer scrutiny, much of it centering on their poor performance and the burden they impose on fiscal policy. The unfortunate returns of finances from these enterprises and against the background of severe macroeconomic imbalance and public sector crisis, precipitated the concern of government towards privatization. In fact, by 1984 the World Bank and International Monetary Fund (IMF) were increasingly advocating for privatization as a policy tool in

Nigeria. The privatization program was subsequently adopted as part of the structural adjustment program embarked on in July 1986. In July 1988 a Decree NO.25 on privatization and commercialization was promulgated. The decree gave legal backing to and formally initiated Nigeria's privatization and commercialization program, thus, marking the first comprehensive approach to divestiture embodying an institutional focus and clearer program. The decree listed 145 enterprises to be affected by the exercise. A total of 111 enterprises were slated for full and partial privatization, while 35 others were to be commercialized. The list was later amended in order to convert five enterprises from partial privatization to full commercialization; the five were Nigerian Industrial Development Bank Limited; Nigerian Bank for Commerce and Industry Limited; Federal Mortgage Bank Limited; Federal Super Phosphate Fertilizer Company Limited; and National Fertilizer Company of Nigeria. According to the decree, the program is expected to restructure and rationalize the public sector in order to lessen the preponderance of unproductive investments; reorient the enterprises towards a new horizon of performance improvement, revitalize their overall efficiency; ensure positive returns on investments in commercialized public enterprises; check absolute dependence of commercially-oriented parastatals on the treasury and encourage their patronage of the capital market; and initiate the process of gradual cessation of public enterprises that can be managed by the private sector. In conformity with the provisions of the decree, an 11-person Technical Committee on Privatization and commercialization (TCPC) was inaugurated on 27 August 1988 with a broad mandate to coordinate the rehabilitation of government enterprises and oversee Nigeria's privatization program. The actual divestiture commenced in the early months of 1989 with the shares of four firms (Flour Mills of Nigeria, African Petroleum, National Oil and Chemical Company, and United Nigeria Insurance Company) being issued in the market. The shares were successfully sold with each issue reportedly oversubscribed. From 1988 to 1993 when the privatization process was suspended, 55 firms had been privatized by the TCPC.

### **Theoretical Framework and Literature Review**

In both developed and developing countries, privatization and in some cases commercialization have grown in popularity and acceptability. It has also become an important instrument that government can use to promote economic development, improve the production and distribution of goods and services, streamline government structure, and reinvigorate industries controlled or managed by the state (Rondinelli and Iacono 1996).

Privatization has become an acceptable paradigm in the political economy of states. It is a strategy for reducing the size of government and transferring assets and service functions from public to private ownership and control. Privatization is based on four core beliefs (Ugoji, 1995):

1. Government is into more things than it should be. It is intruding into private enterprise and lives;
2. Government is unable to provide services effectively or efficiently;
3. Public officials and public agencies are not adequately responsive to the public; and
4. Government consumes too many resources and thereby threatens economic growth.

On the theoretical plane, four distinctive schools of thought have tried to explain variations of policies applicable to privatization. First, there is the free-market ideology of the *Laissez-faire* classical economic theory, which favours the unleashing of the competitive profit motive by emancipating free-market pricing from the interfering hands of state regulation (Samuelson; 1980). It argues that the character of the traders and that of the sovereign are inconsistent, that public administration was negligent and wasteful because public employees have no direct interest in the outcome of their actions. Privatization according to this theory would reap the advantages of the market system and competition, namely effectiveness, productivity, and efficient service. This trend will also strengthen market forces with some degree of deregulation, economic liberalization, relaxation of wage and price controls (Ugorji, 1995).

The second school of thought is the 'public choice approach to policy and political analysis'. This approach tries to explain the behaviour and provide sets of standards about what the government does. The theory assumes that people are rational, utility-maximizing individuals and that economic efficiency becomes the prime criterion for judging the political, social and economic system. Consequently, all the government does is judged in terms of the impact on individual choice and economic efficiency.

Public choice posits that the nature of goods and services determines whether they should be provided through the market system or through the public sector. The point is that private goods should be provided by the market whereas government should provide public goods. In sum, the theory posits that where public goods provide separable private benefits (e.g. education) the recipients of the private benefit should be required to pay for net portion of the cost that represents the private benefit (Ostrum & Ostrum 1991).

Like many other developing countries, Nigerian government has been seen over the years, as having gone beyond the effective and efficient provision of public goods to the provision of private goods. And it has not only failed on both scores, it has also overextended itself in its public sector commitments through the establishment of too many state enterprises and through continued financial support of those enterprises that have continued to lose money. This scenario has created unprecedented high level of public sector deficits financed mostly through heavy external borrowing, high inflation rates and balance of trade deficits. The end product of this tendency is that privatization would enable government to cut public expenditures and reduce its involvement in activities the private sector can undertake (Ugoji, 1995).

Thirdly, populist approach on the other hand argues for allowing citizens more choices in terms of sources of services they purchase. This position is geared towards community enterprises that could be more responsive to the needs of the people they serve. Empowerment is seen as the other half of the equation. As privatization compels government to embrace the efficiency and effectiveness of the market, it must also embrace the community.

The fourth school of thought is the pragmatist, which advocates alternative approaches to enable the government to provide services with the highest possible efficiency. They believe that private sector may operate efficiently in resource allocation and service provision; they held that some functions are essential to the public purpose. Such functions like the provision of public transportation, education and health should

be retained by the government and operated on the basis of the advantages that characterize the market operation. The Nigeria's commercialization policy is in consonance with this school of thought. Arising from the above, empirical evidences point to the global acceptability of privatization policy. Rondinelli & Iacono (1996) viewed that Latin American countries such as Chile and Argentina had transferred large-state controlled telecommunications, railways, power and energy, airline, mining and oil and petroleum industries to private ownership or management during the 1970s & 1980s.

Mexico has also privatized enterprises in industry from agricultural business, airlines, mining, metals, pharmaceuticals, real estate, hotels and automotive parts to fish processing, fertilizers, telecommunications and banking. In Asia, private sector had started to participate in providing urban shelter, social services and physical infrastructure. In the 1980's the Republic of Korea, Indonesia, Thailand, and the Philippines sold or solicited private investment in state-owned manufacturing and public service enterprises. In some Communist countries such as Poland, Hungary, the Czech Republic, and some of the Republics of the former Soviet Union, the government privatized some state-owned enterprises after the collapse of the communist regimes.

The success story of privatization reform were also recorded in western industrial countries such as United Kingdom, France, Italy, Spain, Austria, Sweden, Portugal, Netherlands, Germany, the United States, Japan and Canada. These countries have reformed their state-owned enterprises to achieve administrative and economic objectives. Countries of the developing world are not left out of this crusade of privatization. Quite a number of public sector enterprises are operated without respect to financial costs or returns. Not all such investment is expected to yield immediate financial returns as some of the benefits are social rather than private in character that is, they accrue to society as a whole rather than exclusively to particular or denominated individuals (Okigbo, 1998). Some services yield benefit to the community generally as well as to individual citizens. In the production of most of other private consumer goods and services, it is easy to determine whether the outlays are justified or not. It suggests therefore that the production methods must be efficient and that the price change should at least cover the costs of operations.

#### **Modalities of Privatization**

Kalu (1999), discusses the essential macroeconomic reforms for achieving a good environment for privatization which include the following essential elements:

#### **Structural Adjustment Policies**

These are policies designed to correct the macroeconomic trends which are preventing the economy from moving in the direction that is optimal in relation to the dynamic comparative advantage of the economy. Thus, putting in place appropriate private economic policies in such areas as exchange and interest rates management should result in improved resource allocation, employment, incomes and resource mobilization. This would also involve other economic stabilization measures such as the reduction of balance of payments deficit, debt rescheduling, and proper regulation of money supply, reduction of subsidies and control of speculative money flow as well as overall wage policy.

### Trade and investment reform policies

These includes programs for export promotion, foreign direct investment, exchange rate adjustments and reduction of investment restrictions and trade barriers, as well as the result of multilateral negotiations designed to promote fair trading and anti-trust behaviour.

Security-including the restructuring of the police force: This can be achieved by conducting intensive training courses for young and able police officers and discarding those whose services are no longer needed. Consequently, the ratio of a policeman to 1,000 Nigerians should be significantly increased. Without a secure environment, the investors will be scared to invest.

### Institutional development policies

These include programs to support the creation and strengthening of an effective system of property rights, financial rights, financial institutions, and labour markets, social and legal institutions and adjudicate or resolve conflicts effectively together with channels for marketing and distribution.

### Private sector development programs

These include incentives and support for developing small and medium-sized enterprises, restructuring large companies and attracting investments in domestic industries from multinational corporations. Kalu (1999) concluded that the above five fundamental elements of economic reforms and the institutional capacities must be strengthened to support privatization. It is also of importance to pursue them to the logical conclusion in order for privatization program to succeed.

In summary therefore, effective transition to a market economy which should necessarily underscore privatization must encompass the set of reforms, which embraces measures on freeing prices, trade and entry to markets from state control and intervention. This implies complete liberalization, decentralization and macroeconomic stabilization.

As at the end of 2005, over 40 enterprises have been privatized. While over 30 enterprises have been commercialized. The privatization/ commercialization exercise was not limited to Federal Government. It is important to add that all the 36 State Governments have divested their interests in several companies through sales of shares in some companies or outright sales of others.

The experience with most privatized enterprises tallied with expectation. The privatized enterprises in Nigeria were able to achieve the desired objectives. According to Bala (2004), a few enterprises in the insurance sector recorded negative growth rate, the worst being SUN Insurance. However, the services of majority of commercialized enterprises have deteriorated, for example, National Electric Power Authority (NEPA) now Power Holding Company of Nigeria (PHCN), Nigerian Telecommunications Limited (NITEL) and Nigerian Railways Corporation (NRC) deteriorated in performance after commercialization. Nigerian Postal Services (NIPOST) is the only exemption. Letters now get to anywhere in Nigeria within 3 days as against 14 days before it was commercialized. Furthermore, Bala (2004) found out that the privatization in Nigeria has been able to replace the public monopoly with private monopoly. However, the major impact of the reform has been in the area of increased competition and efficiency. These were evident in the telecommunication, petroleum and banking sectors. The public sector reforms accounted for majority of the foreign

direct investment (FDI) that came to the country between 1999 and 2005.

### Statement of the Problem

It is the inefficiency of government run public enterprises today that calls for the privatization of these enterprises. However, one notes that privatization may not likely be the only solution of getting government-run enterprises on the ideal path of efficiency, deregulation and, market oriented economy. This study therefore, believes that there should be some silent initiatives that if properly harnessed could be the shining light to lead the nation's ship to the desired harbour.

**Research hypothesis:** The study made use of two hypotheses which were tested with the aid of Pearson Moment Correlation Coefficient. These hypotheses are:

**H<sub>01</sub>:** Privatization of public enterprises cannot bring positive impact in promoting economic development.

**H<sub>01</sub>:** Privatization is not a major road map to Nigeria's sustainable economic development.

### Methodology

The study made use of data with a structured questionnaire. In all, 140 questionnaires were issued to respondents. Out of this numbers, 136 questionnaires were collected back. The researchers rejected 6 of the questionnaires because the respondents did not properly fill them. This means that the analysis was based on 130 properly filled questionnaires.

The distribution of the questionnaires cut across different socio-economic strata such as upper class, middle class and lower class in the society. Students of tertiary institutions were also not left out in the distribution. The research also distributed some to workers in media houses, teachers, financial institutions such as banks, insurance houses, traders, etc.

The Likert scale was used in the design of the questionnaire. This affords the respondents the choice of alternatives ranging from Strong Agree (SA); Agree (A); Undecided (U) Disagree (D) to strongly Disagree (SD).

The questionnaire was technically structured to reflect the issue at hand.

### Testing of hypothesis one

The Karl Pearson Product Moment Correlation Coefficient is used to analyze the result of the field data. The Pearson Moment Correlation formula is given as follows:

$$r = \frac{\sum (x - \bar{x})(y - \bar{y})}{\sqrt{\sum (x - \bar{x})^2 \sum (y - \bar{y})^2}}$$

	X	Y	X-X	Y-Y	(X-X)(Y-Y)	(X-X) <sup>2</sup>	(Y-Y) <sup>2</sup>
SA	53	46	27	20	540	729	400
A	49	56	24	30	690	529	900
U	16	13	-19	-13	130	100	169
D	6	9	-20	-17	340	400	289
SD	6	6	-20	-20	400	400	400
Total	130	130	0	0	2100	2158	2158
X = 26	Y = 26						

$$r = \frac{\sum (x - \bar{x})(y - \bar{y})}{\sqrt{\sum (x - \bar{x})^2 \sum (y - \bar{y})^2}} \quad r = \frac{2100}{\sqrt{(2158)(2158)}}$$

$$= 0.973, \therefore r = 0.973$$

Testing the significance of correlation. Note that the  $r=0.973$  and  $n=5$  from the above table. Using the t- statistics:

$$t = r \sqrt{\frac{n-2}{1-r^2}}$$

We therefore obtain

$$t = 0.973 \sqrt{\frac{5-2}{1-(0.973)^2}}$$

#### Decision rule

The tabulated value of  $\alpha=0.05$  while the degree of freedom is 3.182. Hence, the computed value is greater than the tabulated value. i.e.  $7.52 > 3.182$ . We therefore, reject  $H_{01}$  and accept the alternate hypothesis  $H_{02}$  which states that privatization of public enterprises will bring positive impact in promoting economic development.

	X	Y	X-X	Y-Y	(X-X)(Y-Y)	(X-X) <sup>2</sup>	(Y-Y) <sup>2</sup>
SA	46	56	20	30	600	400	900
A	53	43	27	17	459	729	289
U	9	12	-17	-14	238	289	196
D	16	10	-10	-16	160	100	256
SD	6	9	-20	-17	340	400	289
Total	130	130	0	0	1797	1918	1930
X = 26	Y = 26						

From these calculations and substituting into the correlation formula:

$$r = \frac{1797}{\sqrt{(1918)(1930)}} \quad r = \frac{1797}{\sqrt{1823.99}} \quad r = 0.9$$

Testing the significance of correlation: Note that the  $r = 0.934$  and  $n = 5$  from the table above. Using the t-statistics:

$$t = r \sqrt{\frac{n-2}{1-r^2}}$$

We therefore obtain:

$$t = 0.934 \sqrt{\frac{5-2}{1-(0.934)^2}} \quad \therefore t = 4.53$$

#### Decision rule

The tabulated value of  $\alpha=0.05$  while the degree of freedom is 3.182. Hence, the computed value is greater than the tabulated value, i.e.,  $4.53 > 3.182$ . Since  $r$  calculated is greater than the tabulated, we therefore reject the null hypothesis and accept the alternate hypothesis which states that privatization of public enterprises is supposed to be a major road map to Nigeria's sustainable economic development.

#### Data Analysis and Results of Findings

This research used the Pearson Moment Correlation Coefficients to analyze the data. In each of the tables, two sets of questions were used. A question goes for the independent variable X and another question goes for the dependent variable Y. The first table deals with two questions (for X and Y) that have relationship with the first hypothesis to ascertain that privatization of public enterprises can bring positive impact in promoting economic development. The result obtained was highly revealing and it shows highly positive correlation between the independent (X) and dependent (Y) variables as a final figure of 0.0973 was obtained.

The second hypothesis did not prove too different from the first one. The result 0934 of the second hypothesis was

also inspiring and instructive as it shows a high level of position correlation between the dependent variable (Y) and the independent variable (X).

The two results show that the nation desires privatization of its Public enterprises in order to promote efficiency, competition, quality product and fair prices.

#### Conclusion

Privatization as a component of state owned enterprises reform has been adopted by both developed and developing economies. It has been adopted for macroeconomic stability and growth. Nigeria has large public enterprises sector which covered the entire economy. The growth of public enterprises was due to the fact that the government had wished to lift the economy to commanding height from the increase in oil revenue of 1970s and early 80s. The country invested over 35 billion US dollar in the sector between 1980 to 1987 alone. These enterprises have performed poorly and reasons for their poor performance include multiple and conflicting objectives, inefficiencies and misuse of monopoly power etc. which resulted in the country's under-achieved economic development and growth. These problems led the country into adopting privatization as a reform package.

In conclusion, if privatization must of necessity bring forth the desired benefits, it has to be viewed not as an end itself, but as a means to get government interested in fostering a new division between the public and private sectors in order to increase the efficiency and contribution to development of both sectors. Therefore, the success of privatization should be judged not in terms of the sale or contract itself or the price paid to government, or even the survival or expansion of the enterprises sold, but rather, on the basis of whether there are net benefits to the people. Privatization must result in better service at lower prices as desired by consumers who, oftentimes are not much bothered about economic philosophies. If privatization does not bring tangible benefits in one form or another, the opponents of privatization who argue that the benefits are not worth the cost would feel justified. And; indeed, as the FGN (1993) also correctly observed, the primary argument for privatization and commercialization is of course, that the efficiency and profitability of the investments will improve after the exercise. At the end of the day, it is perhaps only a clear demonstration of such improvement that will convince people who hold such (opposing) views.

The ongoing privatization is a good policy measure, which the Government must pursue with vigour. The privatization equity loan program of government should be reactivated and made available to the poor and civil servants. Privatization programme, if faithfully implemented has the potential of making the private sector the engine of growth of the economy. Privatization is no doubt a fruitful economic policy if sincerely implemented. It would open new opportunities, increase private sector participation in the economy, expand capital markets, equity finding inflow of investment, job creation and engender continued deregulation, provide modern infrastructure, new technology and improved efficiency. Privatization is an economic policy of much relevance and importance world-wide and has the capacity of promoting efficiency. Of much importance is that privatization would promote competition among the major actors in the system. With competition, there will be provision of better quality products by manufacturers. Competition also has the positive effect of bringing down prices of products and all



these will definitely promote better quality of life among the citizenry.

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