

Failure Of Public Sector And Its Reform: A Nigerian Perspective

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Abstract

This paper focused on the critical evaluation of the failure of public sector in Nigeria. The general objective of this study was to examine the effects of public sector reforms; while the specific objectives were to determine the effects of human capital development, corruption, capacity utilization and exchange rate on industrial growth in Nigeria. Ordinary Least Squares (OLS) method was used to estimate the variables. The empirical results revealed that corruption had significant effect on industrial growth; while human capital development had significant positive impact on industrial growth in Nigeria. It was later recommended that Nigeria should intensify efforts in the fight against corruption among other recommendations.

Key Words: Public Enterprise, Capacity Utilization, Industrial Growth, Human Capital, Corruption.

INTRODUCTION

1.1 Background of the Study

The public sector of any country is the major aspect of its economic system through which the stabilization, allocation and distributive functions of the state are carried out. Hence, it is uncontestable that the public sector is an indispensable unit of any economic system (Ezeoke, 2005). From the Singaporean experience, there is strong evidence that a properly managed public enterprise can be as productive and efficient as a private one. The stack reality is that when politics, usually of virulent nature intrudes into the management of public

enterprises, efficiency is sacrificed; and managers may rarely be permitted to shed labour to produce at minimum cost. And more importantly, procurement may after be treated as a way of enriching contractors, procurement officers, relatives and friends. This is the case with the Nigerian public enterprises.

In the period 1973-1990 in Nigeria, the country invested as much as ₦ 115 billion into the public enterprises. By 1985, the public sector accounted for 50 percent of the country's GDP and more than 60 percent of the modern sector employment. The number of public sector enterprises

stood at 70 non commercial and over 100 commercial public utilities. Capital investment in these enterprises during this period amounted to ₦ 23 billion with about ₦ 8 billion in equity and ₦ 15 billion in loans, while about 40 percent of the Federal Government non salary recurrent expenditure and 30 percent of capital investment budget went into maintenance of public enterprises (Iweama, 2013).

In spite of these massive investment, the performance of these enterprises has continued to fall short of expectation as the financial returns from them are less than ₦ 500 million annually, owing to inefficiencies and poor quality of service (Ofondu & Okun, 2013).

By 1986, it became clear that the maintenance and sustenance of these enterprises were not sustainable. Hence, Nigeria took a decision to categorize and subsequently privatize the public enterprises. This was aimed at providing solution to the problem of poor performance of the country's public sector

which emanated from multidimensional conflicting objective (FRN, 1994).

Paucity of suitable equipment posed a serious problem to the management of Nigeria's public sector as a whole. It is on record that the indigenization of foreign firms in Nigeria as witnessed in the period 1970-1980 was aimed at transferring the control of the economy to indigenous entrepreneurs. This experiment identified that indigenous entrepreneurs inhibit technological accumulation. Which necessitates continued dependence of the public sector on foreign technology? Even where the equipment is available it is poorly maintained and not fully utilized (Chukwuemeka & Duru, 2013).

The poor capacity utilization of industries in Nigeria is concomitant upon uncontrollable dependence on imports. This has given rise to a sharp increase in the cost of imports and incessant short falls in foreign exchange and depreciation of domestic currency.

The problem of Nigeria is majorly due to institutional weakness and structural

inadequacy. Hence, the failure of the public enterprises in contributing to aggregate supply of goods and services has continued to raise some relevant questions.

1.2 Statement of the Problem

The failure of the Nigerian public enterprises explains the poor aggregate supply; while the weakness of this sector explains the rising unemployment, poor productivity and the rising cost of living.

The problem of public enterprises in Nigeria is due to defective capital structure, constant political interference, corruption lack of managerial skill, financial indiscipline and lack of political will to enforce reforms and institutional weakness.

The major problem that necessitated this study is the insignificant empirical studies on the Nigerian public enterprises.

1.3 Research Question

In order to capture the objectives of this study the following research questions are hereby formulated.

1. What is the relationship between capacity utilization and industrial growth Nigeria?
2. What is the relationship between human capital development and industrial growth Nigeria?
3. What is the relationship between exchange rate movement and industrial growth Nigeria?

1.4 Significance of the Study

Considering the potentials of public enterprises in Nigeria in contributing enormously in the building of aggregate supply and creation of employment, the outcome of the present study would go a long way in directing the policy makers in their decision making over finding a lasting solution for the efficiency of public enterprises.

Again, this study will add to the existing body of literature on public enterprises especially in Nigeria. Therefore it may serve as a reference document for further studies.

1.5 Objectives of the Study

The general objective of this study is to examine the effects of reforms on public enterprises in Nigeria, while the specific objectives are:

1. To examine the effect of capacity utilization on industrial growth Nigeria.
2. To examine the effect of human capital development on industrial growth.
3. To examine the effect of exchange rate movement on industrial growth Nigeria.

1.6 Hypothesis

H₀₁: Capacity utilization in the industrial sector has no significant effect on industrial growth in Nigeria.

H₀₂: Human capital development has no significant effect on industrial growth in Nigeria.

H₀₃: Exchange rate movement has no significant effect on industrial growth Nigeria.

1.6 Scope of the Study

This study was on Nigeria. It covered the period 2000-2016. The following variables were tested: industrial growth, rate capacity

utilization, exchange rate and human capital development index.

2.0 Literature Review

2.1 Conceptual Literature

This section of the study would clarify the following concepts

- i. Capacity utilization
- ii. Human capital development

2.2 Theoretical Literature

This section of the study is meant to review the effect of the privatization of the public enterprises in Nigeria.

The privatization of the essential utilities in Nigeria has given rise to exploitation of labour and retrenchment of workers. For instance, in Nigeria privatization is yet to yield. The desired dividend fruit rather it has worsened the nation's economy. It has given rise to retrenchment of workers. Many workers have resigned their appointments because of poor job prospects (Ayodele, 2016).

Then transfer of the nation's public sector into the private hand has been disadvantageous in many respects. So far, it

has given rise to shortfalls in aggregate supply of goods and services and sharp rise in prices of essential goods and services (Abedi, 2001; Inyang, 2008). These two problems have worsened the existing uneven distribution of income. Income distribution has been Skewed against the poor (Okafor and Uchendu 2000). The fundamental truth remains that absence of foreign participation in the privatization exercise in Nigeria explains the continued managerial problem in this sector (Obi, 2017; Fashoyin 2015). Foreign participation in privatization could have enhanced the technological accumulation and managerial status (Orgero, 2011). Meanwhile, the motive of privatization of public enterprises was to enhance productivity and bring about sustainable development, but it appears that the situation has worsened (Cehc & Yilmaz 2011; Dea, 1996). For instance, the privatization of the power sector in Nigeria appears to be an error. Sensitive public utility like power sector should have been retained by the Federal Government while

at the time encourages both foreign and indigenous entrepreneurs to invest in it to break the likely monopoly (George, Owoyemi, Onokala, 2012). Then with the establishment of research and production units, acquisition of technical skills by workers in the public sector and the cultivation of indigenous technology base would be possible through the interactions between the workers in the public sector and those in the private sector (Mbigi, 2002; Oghojafor, George, and Owoyemi 2012).

The decision to private sensitive utilities in Nigeria has been ill-conceived. One pertinent question which must be asked is: to what extent is privatization suitable for solving the problems of non availability of equipment and under utilization in the Nigerian economy? Any attempt to provide an answer to this question would of necessity involve a critical analysis of the goals of privatization in Nigeria (Reding, 2002; Yesufu, 1982; Ugwu, 2012).

For instance, 1984, the commission on federal government statutory corporations

and the state owned corporations identified inadequate performance measures as one of the factors responsible for the poor performance of the public enterprises (Ayodele, 1994; George, 2012; Osisioma 2000). And to solve problems of inadequacy of equipment and capacity under-utilization, the structural adjustment program (SAP), was for (a) accelerated development and make possible use of local raw material and intermediate inputs to replace imported ones; (b) development of local technology; (c) promotion of export oriented industries; (d) liberalization, controls and facilitation of greater indigenous and foreign investment (Ogbona 1994; Asogwa 2013). An insight into the performance of the public enterprises under SAP in Nigeria revealed that none of the above stated objectives has been achieved so far, due to poor implementation of the programs (United Nations E-Government Survey, 2016).

After many decades of restructuring, the fundamental defects of the Nigerian economy still persist. The economic base

remains import oriented with weak industrial and technological base. And where the available equipment are not too primitive, they are too Sophisticated and unsuitable for the task at hand. This is attributed to the high level of corruption, lack of probity and integrity and indolence (Okoh 1994; Amagoh 2015). All these problems may make the failure of privatization exercise imminent in Nigeria.

2.3 Roles of Entrepreneurship

The role of entrepreneurship in economic development involves increasing per capital output and income, initiating and constituting change in the structure of business and society; this change is accompanied by economic growth and increased output.

Entrepreneurship facilitates the use of local raw materials and other resources. Being relatively labour intensive, enterprise creates substantial employment opportunities at low capital cost and being resilient, flexible, can better adapt to unexpected changes in the economic and

financial environments. In agreeing with this, Okonkwo (1993) contended that the industrial future of Nigeria depends critically on the twin pillar of a stable macro-economic environment based on a foundation of proactive partnership between government and the public sector. Paying of more taxes which enables government to provide basic amenities, mobilize savings and investments, dispersal of industries, 'competition globally and earning foreign exchange for the economy (Onuoha, 2005).

Stimulation of indigenous entrepreneurship in developing country like Nigeria is made possible. Private individuals or groups are afforded the opportunity to manage the businesses with minimal resources requirement.

Chuta (1984) mentions that investment in small businesses help to transform traditional sector. It modernizes the people's perception of life and introduces the use of machines instead of manual labour. Again, the skills of men are

modernized and synchronized with developments in the new industrial sector.

Another function of entrepreneurs in Nigeria's economy is creation of employment. In Nigeria of today, government cannot provide 100% employment for the citizens; entrepreneurship has helped many to be gainfully employed. It helps to reduce unemployment problem in the country i.e., the root of all socio-economic problems. It leads to wealth creation.

Furthermore, utilization of resources is being accomplished. Resources that might end up to be idle in the hands of people are effectively mobilized (capital, skills etc.) and employed productively. More so, it also induces backward and forward linkages which stimulate the process of economic development in the country. It helps to link up various sectors of the economy. It constitutes the market for Agriculture extractive and industrial outputs. Also, it helps in diversifying economic activities but also in saving foreign exchange for their mother country.

It helps reduce the concentration of economic power, stimulates economic equitable redistribution of wealth, income and even political power in the interest of the country. It contributes to regional activity and cooperation. It promotes Nigeria's export trade, reasonable quantity of products or services from Nigeria are sold in other countries. Trade among member states of ECOWAS is expanding. Good trades Relationship (import and export) are being fostered due to the factor of comparative cost advantage.

According to Baumbach (1992), he states that some of the economic contributions of entrepreneurs include

No business is an entity on its own which does not interact. It must buy from other firms and sell either to different firm or customers in competition.

In a dynamic environment or " an age of rapid change, a globalize world, competition can be the vehicle of change, through innovation or through improvement. Competition is needed to preserve a system of free and independent

enterprise. Competitive capitalism insures freedom of enterprise which provides for individual creativity as well as a livelihood for a large segment of the population. Innovation is, new idea generation, inventions, improvement are needed to remain in a global world. There is a Japanese proverb which says "Fall seven times." It means innovation is required to remain competitive which are all needed to develop the economy.

By providing employment for rural areas will reduce the incidence of urban migration, iv. Better Standard of living:- increase in demand , in supply of large quantities of goods and services as a result of numerous economic activities will in turn result in a better standard of Irving for the people (Osuala, 1993).

Entrepreneurship as a distinct factor of production contributes to the economic development of an economy in many significant ways as mentioned above. The overall role of entrepreneurship in economic development of an economy is

put as "an economy is the effect for which entrepreneurship is the cause."

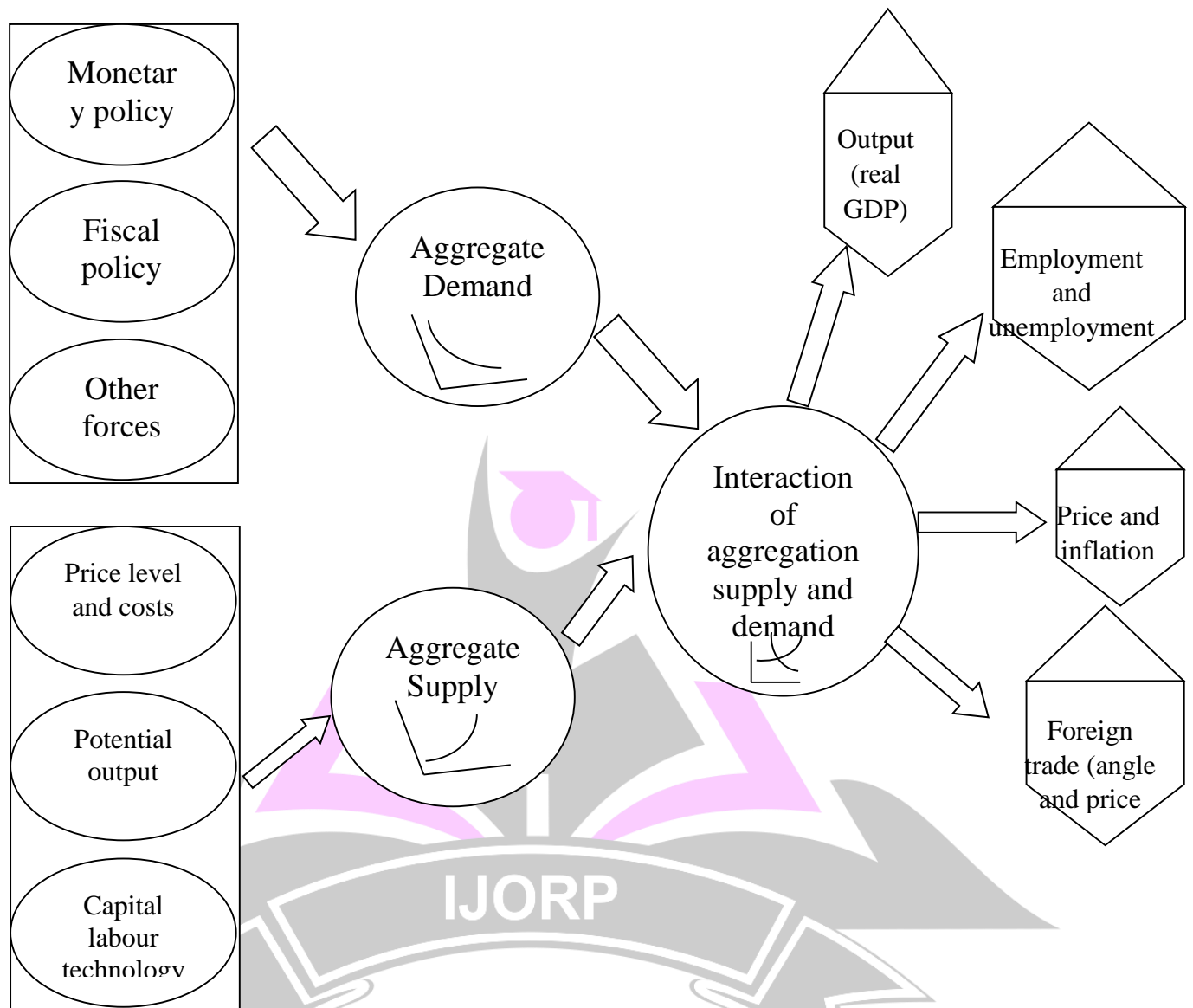
3.1 Theoretical Framework and Methodology

3.1:1 Theoretical Framework

This section of the study explains the theoretical basis for explaining the failure of public enterprises in Nigeria. According to Rea and Parker (2014) found in Obi (2017), it refers to a set of interrelated variables that can be used to formulate propositions for explaining the relationship among the relevant variables.

The economic history of nations can be indentified in their macroeconomic performance. Shortfalls in aggregate supply explain the problems of the public enterprises in Nigeria. And a more devastating problem is the relationship between the ever growing aggregate demand and the declining aggregate supply. The equilibrium established by the declining aggregate supply and the ever increasing aggregate demand in Nigeria explains the high rate unemployment and the falling real income (RGDP), while what explains the fall in real income and the depreciating exchange rate, high cost import, capacity under utilization, problem of human capital development is the inability of the public enterprises in Nigeria to contribute to aggregate supply (Keynes, 1930). Keynes general theory of employment is appropriate in explaining this.

Keynes' General theory of employment, interest and money



Source: Samuelson and Nordhaus (2001)

The key diagram above shows the major factors affecting the overall economic activity. On the left are the major variables determining aggregate supply and demand. These include policy variables, like monetary and fiscal policies, along with stocks of capital and labour. In the centre aggregate supply and aggregate demand interact as the level of demand beats upon the available resources. The chief outcomes are shown on the right in hexagon output, employment, the price level and international trade. So the problem of the public enterprises

can be captured by the condition of the aggregate supply; while its interaction with much aggregate demand in Nigeria results in the ongoing recession (Sameulson & Nordhaus, 2001).

3.1:2 Methodology

This study would employ secondary data, from past thesis, journals, books and records, annual reports and statistics. Most various issues.

of the data have been sourced through Central Bank of Nigeria annual Reports, CBN statistical bulletin, and

3.2 Method of Analysis

Ordinary Least Square (OLS) method was used to estimate the model.

3.3 Specification of the Model

In line with Keynes' general theory of employment, interest and money, the following model is specified:

$$RGDP = F (Cu, exR, Km) \quad (1)$$

Eq (1) can be re-written as

$$RGDP = \alpha_0 + \alpha_1 Cu + \alpha_2 exR + \alpha_3 Km + \varepsilon_1 \quad (2)$$

Where RGDP = Real income; Cu = Capacity Utilization;

exR = Exchange rate; KM = human capital

α_0 = intercept; α_1 α_3 = Coefficient.

4.1 Presentation and Discussion of Empirical Results

4.1.1 Presentation of Results

Table 4.1

Dependent Variable: INDGR

Method: Least Squares

Date: 10/12/17 Time: 11:58

Sample: 1 17

Included observations: 17

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-58.02667	15.90349	-3.648675	0.0033
CU	0.042732	0.080982	0.527677	0.6073
EXCHR	0.018180	0.015915	1.142289	0.2756
CORRUPN	0.038880	0.305969	0.127071	0.9010
KM	153.0453	30.87043	4.957666	0.0003

R-squared	0.823456	Mean dependent var	20.52941
Adjusted R-squared	0.764608	S.D. dependent var	5.980360
S.E. of regression	2.901503	Akaike info criterion	5.208263
Sum squared resid	101.0246	Schwarz criterion	5.453326
Log likelihood	-39.27024	Hannan-Quinn criter.	5.232623
F-statistic	13.99294	Durbin-Watson stat	1.812326
Prob(F-statistic)	0.000180		

Diagnostic test of the model. The overall

Significance of the model shows that it has goodness of fit as the adjusted R-squared was 0.76 meaning that the model can explain 76 percent of the relationship between industrial growth and the explanatory variables.

The F –statistic shows that the model does not have problems of multicollinearity as F – statistic is significant at less than 50 percent. The Durbin Watson test shows that the model is significant. This shows that there is no case of autocorrelation.

Stability of the Coefficients

Corruption has significant negative impact on public enterprises in Nigeria; while the

left of the variables are not significant. Human capital development has significant positive impact on industrial growth in Nigeria according to the empirical findings. The rest of the variables had no significant effect on industrial growth.

5.1 Summary and Conclusion

Summary

Based on the empirical findings, human capital development and corruption have very significant, impact on the performance of public enterprises in Nigeria.

Over the years the government has emphasized the curbing of corruption but the much effort has not yielded the required

dividend. The different dimensions of corruption affect entrepreneurship in Nigeria. This is because the much resources that should have been used in human capital development have been diverted through corruption.

Conclusion

In line with the discussion so far, it is concluded that the major problems bedeviling the public enterprises in Nigeria are corruption and paucity human capital development.

Recommendations

There is much need in Nigeria to build the critical skill through university and tertiary institutions curriculum reforms. Nigeria has made many reforms in this direction, but implementation remains a huge problems. Nigeria should intensity much effort to minimize corruption to the barest minimum through government machineries.

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