Science Arena Publications
International Journal of Philosophy and Social-Psychological Sciences
Available online at www.sciarena.com
2016, Vol, 2 (2): 1-5

AN INVESTIGATION ON THE PERFORMANCE OF OPERATING PROFIT MARGIN OF PRIVATIZED SOEs

MAGAJI ABUBAKAR MUHAMMAD
1- SCHOOL OF REMEDIAL AND BASIC STUDIES
FEDERAL POLYTECHNIC KAURA NAMODA, ZAMFAA STATE, NIGERIA

Abstract: The economic crisis facing Nigeria has been blamed on mismanagement, inappropriate economic policies and public enterprises had been identified as one of such inappropriate policies. Market mechanism and private ownership are now the dominant development strategy. The economic and physical problems at the time of impendence necessitate the expansion of state owned enterprises. The technical committee on privatization and commercialization valued the state owned enterprises at ₦500 billion in 1993. The paper uses mean comparison method of analysis. The method measures the differences between the samples. Secondary data collected from the thirty five sampled companies is used. The financial data for the period of ten years is used for the analysis. The analysis is done to evaluate where the sampled companies have experience operative profit margin change in the mean difference after privatization. The companies in the oil marketing industry have generally indicated increase in the mean difference. Similarly, companies in the manufacturing sector recorded operative profit margin increase after privatization. The trend is recorded in the insurance and banking sectors.
Keywords: Operating Profit Margin, Performance Privatized SOEs

INTRODUCTION

The macro-economic and social crisis facing less developed countries in general and Nigeria in particular call for serious concern. This crisis has generally been blamed on mismanagement, inefficiency and inappropriate economic policies. Public ownership of enterprises has been emphasized as one of those inappropriate economic policies, and has been responsible for the slow, negative growth, and multiplication of inefficient structures observed in Nigeria. For these reasons, there has been a swing now in the dominant development strategy away from state ownership and control towards the direction of market mechanism and private ownership (Yahaya, 1993). This is one of the main thrust of privatization. Privatization, if carefully implemented, can contribute to establishing a more sustainable basis of economic growth and development. It can also give more people control over their local industries by having shares.

The overall contribution of Public Enterprises to production and resources employment is extremely difficult to assess, for lack of precise and reliable data. (Short, 1984) estimates that Public Enterprises realized on average 32.4 percent of all investment in 1974 – 1977, but contributed only 17.5 percent to GDP. The contribution of public enterprises to GDP is 5 to 15 percent, while their share in investment is 15 to 50 percent, and their contribution to formal employment is 20 to 45 percent.

The Public Enterprises sector's productive contribution is therefore low, labour productivity is below average; and its contribution to employment relatively costly in terms of investment. The high labour/output ratio reflects the existence of widespread overstaffing. (UNCTAD; 1993). The general opinion is that public enterprises are by and large inefficient, with high production costs and low productivity. It was estimated that the overall deficits of Public Enterprises in recent times amounted to an average of 3.1 percent of GDP, increasing the overall public sector deficits from 1.6 to 4.7 percent. In the context of the ongoing fiscal crisis in Nigeria, Public Enterprises represent a considerable drain on fiscal resource. (UNCTAD, 1993).

THE EVOLUTION OF PUBLIC ENTERPRISES IN NIGERIA

The existence and expansion of the State-Owned Enterprises (SOEs) is one of the major features of the Nigerian political economy since the colonial period, (Dike, 1991). Although at the time of independence, economic condition was conducive for the expansion of the state enterprise in the economy due to market failure. The country achieved political independence with many economic and physical problems. For example, lack of basic physical infrastructure facilities (roads, water supply, telecommunication, airports, etc.), underutilized manufacturing industries, lack of adequate indigenous capital and capital market, technology and know-how and expertise to adequately exploit the natural resources and build modern economy. Therefore, in the absence of a strong private sector to solve these problems, government has no option but use public enterprise to play the leading role in economic development.

The first categories of state-owned enterprises (SOEs) were those set up as specialized agencies or parastatals. They include: Nigerian Railway Corporation (NRC), the Nigerian Port Authority (NPA), the Nigerian Electric Power Authority (NEPA) now Power Holding Company Plc, the Nigerian Airways, etc. those were set up mostly in the colonial period and therefore, have undergone considerable capitalization (Dike, 1991). With the windfall gains from the oil sales, the state became deeply involved in the economic activities by pursuing capital projects; the iron and steel firms, the oil refineries under the aegis of the Nigerian National Petroleum Corporation (NNPC), the breweries, the cement firms, the financial house, etc. So according to (Magaji, 2007) the economic activities of state in Nigeria become so expanded significantly beyond the orthodox domain of social services and utilities.

To further the participation of government in economic activities the state promulgated nationalization and indigenization decrees of 1972 and 1977. The firms nationalized from (EXXON) in 1975; African petroleum, nationalized from British Petroleum (BP), to mention but a few, (Dike, 1990). In addition, there are a number of former foreign enterprises where the Nigerian State is majority or minority shareholder, but which are still subject to private law. Although a comprehensive list of state owned enterprises in Nigeria is very difficult to get if not impossible, their number at the federal level were put at 107 in 1981, (Dike, 1991). But (TCPC, 1993) put the number of state owned enterprises at 600 and 900 smaller ones at state and local government levels.

The value of state-owned enterprises at federal level was estimated to around 36.456 billion naira which the Technical Committee on Privatization and Communication (TCPC) now Bureau for Public Enterprises (BPEs) re-valued using the 1993 estimates as being about 500 billon Naira. Of this investment, public enterprises producing hard-core infrastructures such as electricity, water, telecommunication and transport accounted for about 37.4 percent, (TCPC, 1993). But (Ezenwe, 1999), put parastatals owned and managed by the various tiers of government and their institutions at 1,600 – 1,700 of which about 450 are said to belong, wholly or partially to the federal government. These state owned enterprises according to the Ezenwe have been estimated book values or market value of 37 billion naira and their contribution to GDP is put at 45- 50 percent. For the maintenance and sustenance of these public enterprises, the Nigerian government had usually expended about 30 percent to 40 percent of its fixed capital and re-current expenditures, respectively on them annually during the Pre-Structural Adjustment Programme (SAP) period, (FRN, 1986).

Due to Nigeria's windfall gains from the crude oil sales nobody complained about the inefficiencies and inadequacies of the public enterprises with their associated financial wastes even with the expansion of public enterprises economic activities (Ayodele, 1999). In fact, during the oil boom years, the issues of public enterprise inefficiency had been relegated to the background. Once the oil boom was over, concerns about the poor performance of these enterprises surfaced and the Federal Government began to address the issues of public enterprises. A Presidential Commission of enquiry on parastatals was set-up in 1981 (Odama Commission) to examine the operation of these enterprises and identify the problems afflicting them. A second study group formed in October 1984 by the Buhari administration, confirmed most of the findings of the 1981 commission. Now that most of the state owned enterprises including has been privatized the need to compare the behavior pattern of the state-owned enterprises at the two different periods is justified.

METHODOLOGY

This paper used secondary data because focuses on the performance of privatize enterprises it therefore requires two set of data pre- and post-privatization data. A total of 35 companies are selected. The research sourced the financial data of the privatized SOEs for the period of 10 years. The data collection is limited to those SOEs that are fully privatized to private investors through public offer of shares because only SOEs that are privatized in this way generate post financial and accounting data that is directly comparable to pre-privatization data. The data on the performance of privatized firms are calculated covering five years before and five years after privatization. Thereafter mean value of each variable is calculated. Year of privatization is excluded from the mean calculation since it is phase of both state and private ownership. The data are sourced from the annual reports of the privatized enterprises.

Mean comparison method of analysis is used to analyze the data collected. The mean comparison measures differences between population or samples. In the mean comparison method, independent and dependent sample (matched sample) can be chosen. Since this study is related to measuring firm performance pre- and post- privatization, using the dependent sample is the most appropriate one. Specifically, according to Corder and Dele (2009), the mean comparison method is used for comparing the firm performance for pre-privatization (*B*) and post-privatization (*A*) periods. Let say X_B and X_A are measurement firm performance for pre-privatization and post-privatization periods of sampled group of firm, respectively. The means of firm performance of each sampled group for pre-privatization and post-privatization periods are represented by $\overline{X}_B$ and $\overline{X}_A$, respectively. A higher mean in the succeeding era suggests improvement in the performance of the sampled groups. Throughout the mean comparison analysis, it is assumed that dependent random samples are selected from one population, the population of differences, $D = X_B - X_A$ is continuous, and the *n* differences are a random sample from the population of differences.

In the opinion of Corder and Dele (2009), two dependent samples mean is used to determine if the difference between the sampled groups is statistically significant. For examining the differences mean performance of grouped firms for pre- and post- privatization periods, H_0: $\mu_B - \mu_A = 0$ against $H_1 : \mu_B - \mu_A \neq 0$ are used. The *t* – test is used to test the hypotheses. In common with other statistical test, the two sample *t* – test requires that the data have an approximately normal distribution and the standard deviations from the two samples are approximately equal.

Result and Discussion

The mean comparison result of the 35 selected privatized companies is presented below. The analysis has been done to evaluate whether the companies experience change in the mean difference after privatization. *OPM* model measures the cost of goods sold as well as other operating expenses. *OPM* shows the firm's ability in generating sales from all financial resources committed. It is calculated by dividing earnings before interest and taxes (EBIT) by sales revenue. Firm ability to produce large volume of sales with a given amount of input is the most important aspect of its operating performance. Therefore, a firm should strive to manage production efficiently to maximize sales. This because, in the opinion of Pandy (2007), underutilized assets increase firms need for costly financing, expenses for maintenance and up keeping. Previous study results such as Nellis and Losers (2002); Magginson *et al.* (1994), shows that privatization leads to better *OPM*. This research use *OPM* to measure the impact of privatization on the privatized SOEs. On the basis of the above mentioned research findings, this study makes a hypothesis that privatization has significant effects on the *OPM* model of the privatized SOEs.

The result of the operating profit margin model indicated that the 35 sampled privatized SOEs recorded significant increase of mean difference. The companies in oil marketing industry, Forte oil has the highest OPM mean increase of 1.57. The company was having 0.17 OPM mean before privatization and this increased to 1.75 after privatizing the company.

Table 1: Summary of Oil Marketing Companies` (OPM)

Name Of Firm	Mean Before	Mean After	Mean Difference
Forte Oil	0.17	1.75	1.57
Mobil Oil	0.51	1.94	1.43
Okomu Oil	0.39	1.82	1.42
Oando Oil	0.29	1.68	1.38
MRS Oil	0.42	1.70	1.28
Total Oil	0.28	1.54	1.25
Conoil	0.15	1.28	1.13

Other companies with high OPM mean include Mobil oil, Okumo oil and Oando oil companies. These companies recorded 1.43, 1.42 and 1.38 OPM mean difference. The OPM mean of these companies increased from 0.51, 0.39 and 0.29 before privatization to 1.94, 1.82 and 1.68 after the companies were privatized.

Similarly MRS, Total oil and Conoil companies recorded increase of 1.28, 1.25 and 1.13 OPM mean difference. The companies has 0.42, 0.28 and 0.15 OPM mean before privatization but their figures rose to 1.70, 1.54 and 1.28 after privatizing the companies.

Likewise the five sampled companies in the manufacturing sector recorded increase in OPM mean difference, for instance Benue Cement Company recorded 1.31 OPM mean difference. The company's OPM mean rose from 0.24 before privatization to 1.56 after privatizing the company. In the same way, Ashaka cement and WAPCO Nigeria Plc., recorded improvement of 1.30 and 1.29. The OPM mean of these companies rose to 0.24 and 0.26 before privatization to 1.54 and 1.55 after privatizing the companies respectively.

Table 2: Summary of Manufacturing Companies` (OPM)

Name Of Firm	Mean Before	Mean After	Mean Difference
Benue Cement	0.24	1.56	1.31
Ashaka Cement	0.24	1.54	1.30

WApco plc	0.26	1.55	1.29
Salt Company plc	0.15	1.38	1.23
CCNN plc	0.28	1.46	1.18

The National salt company of Nigeria and CCNN plc also recorded significant improvement of OPM mean difference. These companies recorded 1.23 and 1.18 OPM mean difference. The companies` OPM mean increased from 0.15 and 0.26 before privatization to 1.38 and 1.46 after privatization respectively. The increases in OPM mean difference of companies in the manufacturing sector are significant. The result of the companies in the oil sector and manufacturing sector is in line with the hypothesis.

In the insurance subsector, all the twenty sampled privatized SOEs have recorded significant improvements in OPM mean difference. The result indicated that Cornerstone insurance company plc Consolidated insurance company plc and International energy insurance company plc recorded the OPM mean difference of 1.57, 1.55, and 1.58 each. Their OPM mean increased from 0.06 each before privatization to 1.64, 1.61 and 1.65 after privatizing the companies.

Table 3: Summary of Insurance Companies` (OPPM)

Name Of Firm	Mean Before	Mean After	Mean Difference
Royal Exchange Ins.	0.06	1.66	1.60
Lasaco Insurance	0.05	1.65	1.60
Intern. Energy Ins.	0.06	1.65	1.58
Connerstone Ins	0.06	1.64	1.57
Consolidated Ins	0.06	1.61	1.55
Linkage Insurance	0.06	1.58	1.51
Prestige Insurance	0.06	1.56	1.50
Equity Insurance	0.06	1.56	1.50
Niger Insurance	0.06	1.55	1.49
Crusada Insurance	0.07	1.56	1.48
Law Union Insurance	0.06	1.54	1.48
Unity Insurance	0.08	1.56	1.48
Standard Insurance	0.18	1.58	1.39
Oasis Insurance	0.05	1.45	1.39
Regency Insurance	0.06	1.45	1.38
Universal Insurance	0.07	1.45	1.38
Unic Insurance	0.09	1.36	1.27
Aiico Insurance	0.46	1.65	1.19
Guinea Insurance	0.29	1.42	1.13
Continental Insurance	0.57	1.55	0.93

Similarly Crusader insurance company plc, Law union insurance company plc and Niger insurance company plc recorded OPM mean difference of 1.49 each. The OPM mean of these companies rose from 0.07 and 0.06 each for law union and Niger insurance before privatization to 1.56, 1.54 and 1.55 each after privatization. Likewise, Royal exchange insurance company plc and Lassaco assurance company plc recorded improvement of 1.60 each of OPM mean difference. The OPM mean of these Companies increased from 0.06 and 0.05 before privatization to 1.66 and 1.65 after privatizing the companies.

The other companies, particularly AIICO insurance company plc, Guinea insurance company plc, Unic insurance company plc and Universal insurance company plc have recorded improvement in OPM mean difference. These companies had records of 1.19, 1.13, 1.27 and 1.38 OPM mean difference. The respective OPM mean of these companies rose from 0.46, 0.29, 0.09 and 0.07 before privatization to 1.65, 1.42, 1.36 and 1.45 each after privatization.

Other insurance companies in the sample that recorded OPM mean difference improvement are Equity insurance company plc, Linkage insurance company plc, Prestige insurance company plc, Regency insurance company plc, Standard insurance company plc and Unity insurance company plc. These companies had OPM mean difference of 1.50, 1.51, 1.50, 1.58, 1.39 and 1.48. The OPM mean of these companies rose from 0.06 each to 1.56, 1.58, 1.56, 1.45, 1.58 and 1.56.

Also Oasis insurance company had 1.39 OPM mean difference. The company's OPM mean increase from 0.05 before privatization to 1.54 after the company has been privatized. Continental reinsurance company plc recorded the lowest OPM mean difference of 0.18. The company was having 0.57 before privatization and the figure increase to 1.55 after privatizing the company. The OPM mean difference increase of insurance companies is in line with the hypothesis.
In a similar pattern the three sampled banks of the banking subsector, UBA Plc. has the highest OPM mean difference of 1.49. The company had its OPM mean improved from 0.16 before privatization to 1.65 after privatizing the bank. The Union

bank Nigeria plc followed UBA in term of improved OPM mean difference. The bank has 1.47 OPM mean difference. The bank's OPM mean result shows that prior to privatization it has 0.11 OPM mean but the figure increased to 1.58 after the company is privatized. The First Bank plc also recorded an improvement of 1.40 OPPM mean difference. The bank had 0.16 before privatization and the figure improved to 1.56 after the bank has been privatized. The increase of OPM mean difference in the sampled banks is significant.

Table 4: Summary of Banks` (OPM)

Name Of Firm	Mean Before	Mean After	Mean Difference
UBA plc	0.16	1.65	1.49
Union Bank plc	0.11	1.58	1.47
First Bank plc	0.16	1.56	1.40

In conclusion, the overall analysis of the operating profit margin model demonstrated substantial improvement. From the results, it can be concluded that profitability of privatized SOEs have increased after privatization. The operating profit margin model result is similar to those of Baubakri and Cosset, (1998, and 1999) Megginson et al (1994) and Jerome (2008). The operating profit margin result of this study is not only similar to the findings of the above mentioned studies but also supported it.

REFERENCES

Bourbarki, N. and Cosset, J.C. (1999). Does Privatization meet the Expectations? Evidence from African Countries, Paper presented at the *African Economic Research Consortium biannual research workshop*, Nairobi (Kenya), December 1999.

Jerome, A. (2008). Privatization and enterprise performance in Nigeria: Case study of some privatized enterprises: *African economic research consortium* (AERC), Nairobi, Kenya.

Megginson, W., R. Nash, M. and Van, R. (1994). "The financial and operating performance of newly privatized firms: an international empirical analysis", *Journal of Finance* **49**, 403-452.

Nellis, J., and Loser, S. (2002). Recent Privatization Trends in OECD Countries, *Financial Market Trends*, **82**, 43-58.

Dike, E. (1990). "The Political Economy of the Buhari Regime" The Nigerian Journal of International Affairs. Vol.16, No.3, pg. 86-116.

Dike, E. (1991). Economic Transformation in Nigeria: Growth Accumulation and Technology, Ahmadu Bello University Press Limited, Zaria, Nigeria.

Ezenwa, (1999). Performance of the Productive Sectors of the Nigerian Economy under the Structural Adjustment page Publishers Service Limited, Lagos, Nigeria.

FRN, (1984). Federal Republic of Nigeria: Structural Adjustment Programme for Nigeria, July 1986 – 1988.

Magaji A.M. (2007). Privatization as an Alternative Development Strategy for Nigeria (1986 – 2003); Unpublished M.Sc. Thesis, ABU, Zaria.

Short, R. (1984). "The Role of Public Enterprises: An International Statistical Comparison" in D. Folyd, C. Gray and R. Short (eds), Public Enterprises in Mixed Economies: Some Macroeconomic Aspects IMF Washington, D.C.

TCPC, (1988/89/90). Annual Report and Audited Account P.I.

TCPC, (1993). The Presidency: Technical Committee on Privatization and Commercialization, Final Report, vol.1: Main Report.

UNCTAD, (1993b). Reforming Public Enterprises and the Public Sector in Sub-Saharan Africa, UNCTAD Discussion Papers, July.

Yahaya, S. (1993). "State Versus Market: The Privatization Programme of the Nigerian State" In Olukoshi A.O. (ed) The Politics of Structural Adjustment in Nigeria, Ibadan.