



## **Public Enterprises and Economic Development in Nigeria: A Critical Analysis**

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### **Abstract**

*The study examines public enterprises as basis for economic development in Nigeria. Survey research method is used. The study is anchored on modernization theory. The gap of the study is that public enterprises should be properly managed because of the critical role it plays in economic development. This study relies on secondary sources of data as veritable tools for its analysis. Findings revealed that public enterprises that are supposed to champion the recovery of Nigerian economy are not living up to expectation. The study concludes that in other climes because of the critical role public enterprises play towards economic growth, they are properly managed, but in the Nigerian experience, the reverse is the case. The study recommends that since public enterprises are different from private enterprises that are mainly for profit making, they should be properly managed by the relevant authorities to ensure the realization of the felt needs, yearnings and aspirations of all Nigerians.*

**Keywords:** *Public Enterprises, Economic Development, modernization, Economy, Private Enterprises*

### **Introduction**

The development process of any economy is substantially determined by the way the various productive forces in and around the economy are organized. This organization by dominant institutions and social relations of production in turn reflects the ideological interest of rulers and policy makers. Economic control by the state apparatus offers an advantage from which to view the historical evolution of these social relations of production and public enterprises constitute only one segment of the economic control by the state.

Public enterprise suggests that a number of institutions, establishments or ventures are owned by the state (federal, state or local) and that effective management of all these will boost state economy in both short and long-run for the purpose of providing public utility or social services for all citizens or within a society. The utility could be in form of water supply, electricity, gas and petroleum, transportation, housing, health services, road networks, telecommunications, education among others. (Levisky, (2020))

The government of a nation has a traditional role to play in providing a law, order and security to guarantee peaceful co-existence of citizens and provide conducive atmosphere where business can thrive without hindrance. In Nigeria and many developing countries, government plays multiple roles such as traditional, regulatory and developmental. The increase in the scope of government roles is due to increasing complexity of modern economic life and technological advancement at the dawn of the 20<sup>th</sup> century (Ayodele, 2019)

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Government assumes responsibility for the development of certain goods enjoyed by the citizens notably roads, public health, water etc. In the Nigerian experience, electricity and communications are part of the public goods heavily subsidized by the government while in the U.S.A telecommunications and gas are within the private domain. Again in Nigeria, education is fast becoming public good while 50 years ago, it was essentially a private good. This is because many state governments have taken over primary and secondary schools. However, because of the federal government interest in primary education, the universal primary education (UPE) and universal basic education (UBE) were introduced in 1976 and 1990 respectively. Although private schools spring by leaps and bounds in Nigeria, education is still regarded as public responsibility. We then see government not only making law and order for peace and security, but also regulating our economic lives and offering to the people certain public goods whose quantity and diversity are expanding progressively. And to meet the felt needs, yearnings and aspirations of her citizens, through the provision of public goods and utilities, government puts in place policies and regulatory measures to achieve her set goals. (Collins, 2018)

### **Objectives of the study**

The study is predicated on the following research objectives:

1. Maximize the relationship between social benefits and social cost of projects and programmes.
2. Maximize the potential growth of the product and its advantages to man.
3. To equalize economic opportunities by eliminating unjustifiable inequality of wealth.

### **Methodology**

The study made use of secondary sources of data to critically examine the role of public enterprises in the development of Nigerian economy. The choice of this method was informed by its outstanding qualities and expert submission that enhances efforts of findings and obtaining understanding of people opinions and beliefs about the importance of the roles played by public enterprises in the development of the nation's economy. This methodology helps us to understand in the broadest possible form, not just the product of scientific enquiry but the process itself because it outlines the step-by step details of the procedures followed in carrying out the research. It also avail readers of the opportunity of assessing the views of authorities cited in the literature review. Data for the study were sourced from text books, journals, magazines, internet, dictionaries encyclopedias, newspapers, and workshop and seminars papers as well as quoted speeches.

### **Theoretical Framework**

Modernization theory is used because its propositions capture the various elements, problems and solutions to the subject matter of this study which is economic development. This theory had its earlier apostles like Marx Weber whose thesis rested on the relationship between Protestantism and the development of capitalism. Other streams of influence ran from the thoughts of Herbert Spencer, Emile Durkheim to the contemporary sociologists such as Neil J. Smelster and Talcolt Parsons. But the man whose theoretical postulations gained great currency in modernization school remains Rostow and his famous book; *The Stages of Economic*



Growth: A Non-Communist Manifesto, published in 1960. The book proposes a theory of economic growth as an alternative to Marx's theory of development.

For the purpose of this study, we will focus on the theoretical postulations of Rostow because of the fact that some aspects of the theory have been used in an attempt by governments in developing countries like Nigeria to chart the part of development. The major assumptions of Rostow's stages of economic growth state that, economic change and transformation of any society have both political and economic consequences for development. This period of change is divided into stages and therein a transition from under development takes place and all countries must necessarily pass through them. For him therefore, all societies at all times could fall into a particular stage of development. These stage categories are the mere traditional society, the pre-condition for a take-off, the drive to maturity and age of mass consumption (Rostow, 1960)

Rostow posits further that these stages are not mere generalization of sequence of development of modern societies but they have inner logic and continuity that propel transition from one state to the next. Stages growth theory to him constitutes both a theory of economic growth, a general theory of development and modern society and history and he used United States of America as his case study.

A lot of criticisms have been leveled against this theory by Andrew Gunder Frank and other scholars, however, modernization theory has facilitated our understanding that internal contradictions and leaders who make development policies in developing countries like Nigeria with no serious commitment manifested in unrealistic goal setting, corruption, inefficiency complex government structures, non-existent of people and economic growth policies and weak government institutions are responsible for the underdevelopment of these countries. This understanding forms the rationale for the adoption of this theory.

### **Conceptual clarifications**

Two key concepts in the topic require theoretical appreciation to define parameters with which the chosen variables are identified. These are public enterprises and economic development. Public enterprises are organisations agencies etc., put in place by the state to render services sometimes on profit basis and sometimes on profit basis and sometimes on service delivery basis and they are specialized.

All over the world public enterprises are regarded as veritable parts of public governance. This is because public administrators and policy makers rely on them for the development of the state because of the special roles they play. (Asnibia, 2020)

Economic development: This recurs when there are qualitative and quantitative improvements in all or almost all the sectors of an economy and can be sustained so as not to relapse into economic recession leading to poverty and greater dependency again (Gill, 2019)

### **Review of related literature**

**History of public enterprises in Nigeria:** The history of public enterprises is as old as the history of Nigeria as a nation state because they were integral part of colonial administration. The first generation of public enterprises was generated by the colonial power to provide services outside the normal bureaucratic structure to help in the export of goods and to facilitate exploitation. Some examples of such public enterprises are the Nigeria railway corporation, Nigeria ports Authority, NIPOST and Telephone, Nigeria Regional Marketing boards and



National Electric power Authority (NEPA). According to Rodney (1972) they inadvertently contributed to development, but they also facilitated exploitation of Nigerian economy because they were set up for selfish reasons.

According to Ladipo (2020) at independence, the new Nigerian Political landscape faced the dilemma of how to accelerate socio- economic development of the nation. The agreement among Nigerian leaders then was to adopt capitalism and capitalist pattern of development but lacked the strategy of moving it forward because ideology alone was not enough. They ended having capitalist model, socialist model and mixed economic model. Unlike Ghana, Guinea and Tanzania that focused on socialism and socialist model of economy. Others who were core capitalists agitated that the state should minimally be involved in the control of the economy or leave it completely in private hands as was the case in Kenya, Ivory Coast and Malawi. It was also accepted from independence that the state should play effective role in the management of the economy as is the case in socialist countries. Therefore in the post- independence development plan especially the second development plan of 1970 to 1975, the creation of more public enterprises was accepted as public goal. Even the first development plan of 1960 to 1968, public enterprises were needed outside the normal bureaucratic structures to support the ministries of work, health and education, to manage their money and quicken the entire development process. (Ladipo 2020)

In spite of the early-day state involvement in production, the hey-days for the establishment and expansion of public enterprises in Nigeria was the period between the end of the Second World War and the achievement of political independence. Beginning with the famous commodity produce marketing board of the 1940s, both the central and all the regional governments created some public institutions to foster general development beyond providing the conventional scope of public utilities by the middle of 1960s. The range of Nigerian public enterprises had stressed from farm organization to manufacturing; housing, multi-purpose power and from trading to banking and insurance. (Aboyade, 2019)

The military intervention in the political set-up of Nigeria in 1966 witnessed an upsurge in the establishment, expansion and operation of the public enterprises in the country. While the politicians of the first and second republics in Nigeria were accused of non-performance in the areas of satisfying the desires of the masses, the military dictatorship could not be seen as doing better. The performance of these public utilities is far from being satisfactory even up till today. (Aboyade, 2019)

### **Types of public enterprises**

Three kinds of enterprises become identifiable. Firstly, those wholly owned by government secondly, those wholly owned by private individuals and thirdly, those jointly owned by government and private. In terms of the constraining objective, two types of enterprises can be identified namely; those which exist to merely provide some services without relating the cost to the service provided and those that exist to maximize the value of services rendered given the cost or to maximize cost given the value of service to be rendered.

Using the two bases (ownership and constraining objective) three types is usually identified:

- i. *Type one is wholly owned by government.* This type exists to neither provide a service product for which a charge may or may not be made nor reflect any market



- consideration. Examples government departments and development Corporation. The post and telephone department (NIPOST) recently fall under type one
- ii. *Type two include enterprises in which objective is defined around the difference between the revenue generated from the service product and the cost of providing it. Public corporations which operate dual variable cost and service belong to this category.*
  - iii. *The third type includes enterprises jointly owned by government and private individuals or firms and have objectives defined in terms of cost and revenue. Ordinary Business Corporation with government participation belongs to this category.* (Ayoade, 2020)

### **The objectives and roles of public enterprises:**

The establishment of public enterprises by any government call for some considerations in terms of the objectives and the roles they perform to satisfy the yearning desires of the citizens. These objectives and roles include:

1. To maximize the relationship between social benefits and social costs of projects and programs.
2. To maximize the potential growth of the product.
3. To equalize economic opportunities by eliminating unjustifiable inequality of wealth.
4. Provide the necessary infrastructural facilities for private enterprises to operate.
5. Establishing a set of regulatory devices to make private enterprises conform as much as possible to standard of good behavior.
6. Supplementing private enterprise investment activity where this is not forthcoming adequately or promptly. (Akinloye, 2019)

### **Management and performance of public enterprises:**

According to Akinloye (2019) management is the accomplishment of objectives by organizing an environment favourable to performance by an organized group with specially assigned functions. This explanation shows that at times, emphasis is on public, at other times it is on goals to be attained as well as the resources to attain them, yet at other times, the function is emphasized. This is concerned with the use of available resources to attain a predetermined goal which therefore necessitates performing certain functions. (Ganapathi, 2015 & Ekuliman, 2019)

The performance of the management of any enterprise can be evaluated in a variety of ways. First, it could be appraised by examining the extent to which the goal is attained for resources used to attain part or all of it. Second approach examines the function performed by management. It is generally agreed that if the goal of management is to be attained, functions such as organizing, staffing, directing, planning and controlling have to be performed. The third approach refers to the units charged with the performance of these functions. The three approaches are mutually inclusive not exclusive. (Hemming and Manson, (2021)

The performance of any enterprise is determined by external environment, managerial competence and the degree of freedom to use such competence which in turn is heavily dependent on the organizational structure as well as the influence or interference of the board members. Apart from external factors, the board of directors of an enterprise is the dependent



variable that determines its performance. The board formulates recruitment policy, appoints the general managerial team members. The board also determines the quality of workers, assumes control of the enterprise and its performance depends on its composition, functions and freedom of action. (Kayode, 2020)

### **Management problems of public enterprises**

The rapid extension of government involvement in economy shows Nigerian government as an offspring of British government which had been in private enterprise-type business almost from the beginning and this constitutes very serious problems such as professional inadequacies and governments unnecessary control which is counter-productive. For example, chairman usurped the power of chief executive and minister usurped those of both the chairmen and chief executives. This resulted in creating chaotic conditions that made public corporations and state enterprises hot beds of power struggle. The chief executive could also contend with the powers of other team members such as the secretary, accountant, personnel managers etc. this struggle for power makes them responsible to nobody but only to themselves. (Nwanwehe, 2018)

Another significant issue with the effectiveness of public enterprise management in Nigeria is political meddling. In order to gain control and influence, political parties attempted to divide up public businesses among themselves. Because parties were ethnically orientated prior to 1999, chief executives (MDs) who did not belong to these ethnic groups were typically removed for political reasons rather than for their poor performance, and they were replaced by the most unqualified, incompetent, inefficient, inexperienced, and corrupt ones. Since Nigeria attained independence in 1960, this has been the norm.

Absence of integrity, competence, qualifications and professionalism are other serious problems. Since political parties in Nigeria financed their activities from “kick-backs” obtained from corporation contracts, integrity in management was an anathema to partisan interest. According to Okigbo (2019) problems of public enterprises in Nigeria include, poor Management, corruption, frequent change in government, policy formulation and implementation which according to Aweto (2020) change about the same frequency as regime change, incompetency of chief executives and government interference. All these problems hinder the realization of the set objectives of public enterprises in Nigeria (Okigbo, 2019)

The goals and advantages of commercialization and privatization of public enterprises: Commercialization is the management tool that the public sector uses to implement the private enterprise management approach in order to address shortcomings in public institutions. Profit maximization is the sole economic goal; however, this is not the primary driver in cases where government subsidies such as NEPA, NITEL, NIPOST, NRC, etc. are in place. Therefore, commercialization represents a time when price, finance, and investment decisions may be made concurrently and independently of outside influences to avoid any gaps. (Oyedije, 2020)

Privatization essentially refers to the sales of public sector assets and this is a distinct phenomenon of the 1980s. There are wide range of public sector activities being suggested for privatization with various methods, strategies and policies. The growing appeal of privatization in both developed and developing countries can be traced back to economic development of the 1970s which is the oil boom in Nigeria. Privatization has been frequently recommended for



developing countries where the industrial sector and occasionally key elements in the commercial sectors are heavily dominated by public enterprises (Olugbemi, 2019)

Objectives and benefits: the overall objective of commercialization and privatization is to maximize gain, to avoid waste and to render quality services. It is a means of improving the efficiency of an enterprise. It limits the scope of political interference in decision making. It makes managers responsible to stakeholders. It imposes the discipline of financial capital market. It ensures productive efficiency. It allows an enterprise gain access to private sector financing. It may spur the development of domestic capital market and leads to a reduction in public sector deficit. Privatization disarms public sector unions that are abusing a monopoly position. It ensures increased competition and hence improvement in allocated efficiency. (Umar, 2019)

### **Public enterprises and social services**

Public enterprises have considerable impact on some social services such as banking, the air, rail, sea services, housing, education, industry and agriculture, information and communication, catering, provision of industrial and domestic power among others. Government subsidy on all of these essential services rendered by these public enterprises clearly differentiates it from the main objective of private enterprises which is purely profit maximization (Russell, 2021)

### **Conclusion**

This study's primary goal is to critically examine how state enterprises contribute to Nigeria's economic growth. This conclusion is reached in light of the study's findings: Nigeria lacks consistency in the creation and application of policies; as a result, any policy created by an administration is always phased out at the end of that government, making it impossible for public companies to provide the services they are expected to because policies change frequently. In other countries, public enterprises serve as the foundation for development; but, in Nigeria, corruption and poor management have the opposite effect.

Because the profits from public enterprises are viewed as a national treasure and are sucked into private coffers by a select few, they are unable to satisfy the needs, desires, and ambitions of the populace, and their performance cannot be compared to that of the private sector in terms of effectiveness, quality, and services provided. (Public Enterprises Bureau, 2019)

### **Recommendations**

Based on the findings of the study, the discussions involved and conclusion thereafter drawn, the following recommendations are hereby proposed:

1. Stake holders should ensure that public enterprises aid economic growth in Nigeria.
2. The removal and punishment of corrupt officials in charge of public enterprises is necessary.



3. Public enterprises should borrow ideas, methods and adopt private sector enterprises strategy if they want to succeed.
4. The government should formulate and implement policies pertaining to the operations of public businesses in a consistent manner.
5. Public enterprises that are not performing up to expectation should be privatized or scrap to avoid waste.
6. Managers of public enterprises should be accountable to both government and the citizens.
7. Public firms should always provide high-quality services to fulfil the aspirations of the people, and their management should refrain from power struggles that hinder output, effectiveness, and delivery.

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