

CHAPTER 11

PUBLIC ENTERPRISES

Objectives

At the end of this chapter the students should be able to explain public enterprises, describe the various types and their respective methods of formation, state their sources of capital and reasons for government ownership. Finally the students should be able to enumerate their advantages and disadvantages.

11.1 Types

There are two types of public enterprises namely - The state undertaking or statutory corporation and municipal enterprises.

- (A) **Statutory Corporation:** They are statutory because they are based on the acts of parliament, national or state assemblies, or decrees under military regimes in order to undertake some industrial or commercial (trading) functions. They are otherwise referred to as public corporations because they are set up mostly with the tax payers' money. Unlike the public limited company mentioned earlier on, they are not privately owned, they can be federal, state government or local government owned.

Examples of Federal Government Statutory Corporations in Nigeria include the Nigerian Railway Corporation (NRC); the Nigerian Ports Authority (NPA); the Federal Airports Authority of Nigeria (FAAN); the Nigerian Steel Development Authority (NSDA); the National Electric Power Authority (NEPA) and the Nigeria Television Authority (NTA).

In Ghana, there are the Ghana Broadcasting Corporation and the Electricity Corporation. In Sierra Leone, there is the Sierra Leone Electricity Corporation.

- (B) **Formation:** Public enterprises or statutory corporations are creations of national/state governments through the instruments of law passed by the national state assemblies.

11.2 Management

- (i) **Ownership:** Such enterprises belong to the people or the public, for whom the government only serves as a medium for creation.
- (ii) **Control:** The control of such companies is always in the hand of a board of directors appointed by the government of the day. The board is in turn answerable to the commissioner or minister in charge of that public corporation. The Minister of Transport is in charge of the railway corporation while that of Aviation is in charge of the Airways corporation.

- (iii) **Policy matters:** These are decided by the commissioner or minister in charge, who in turn is merely echoing the policy of the government of the day. He takes decisions on major broad policies such as capital expenditure, training, expansion, etc.
- (iv) **Administration:** The day-to-day administration is left with the board through its executive chairman or director who ensures the execution of the broad policies.
- (v) **Sources of capital:** These are mostly from government votes, which should not be exceeded without reference to the national or state assembly or the parliament. Other sources of capital are from ploughed-back profits, and loans which must be authorized by the minister in charge) from development banks such as NBCI or NIDB or any other approved sources. However, all capital expenditure must be submitted for assembly's approval through the commissioner or minister.
- (vi) **Mode of operation (commercial):** It is now the fashion that some government enterprises must strive, to operate on commercial basis, i.e. they will charge commercial rate for their operations and at the same time serve public interests.
- (vii) **Accountability:** Public corporation (utilities) must give account of their stewardship to the national or state assemblies or parliaments through the ministers or commissioners, to whom they pass their annual reports and accounts for onward transmission to the assembly. Such reports and accounts are usually debated in the legislative houses and serve as a basis for assessing the performance of such corporation. In the assembly, there is usually a standing committee on public utilities which has authority to investigate and call for facts on the conduct of each of the public corporations. This is a way of effecting control over the public corporations.

11.3 Reasons For Ownership

- (i) Some services are essential to the survival of human beings. These are known as public utilities such as water, electricity, gas, roads and so on. They are best provided by the government.
- (ii) It is not enough to provide such essential services, they must be made available at reasonable prices that will put them within the reach of the common man. In some countries, such necessities are made available at heavily subsidized costs.
- (iii) To provide and facilitate the growth of infrastructures nation wide for example, good communication systems and railway network.
- (iv) To control key industries which, if left in the hands of individuals, might impede national industrial development programmes; for instance, the iron and steel industry.
- (v) To take charge of industries needing large capital, which private individuals might not be prepared to undertake, e.g. the petroleum industries.
- (vi) To prevent the private monopoly of key industries and the consequent uneven distribution of the large proceeds from such key national industries which might go to

the pockets of very few individuals; for instance, proceeds from the national crude oil or the iron and steel industries.

- (vii) To avoid unnecessary and uneconomical duplication and competition in the provision of infrastructural facilities, e.g. in the erection of water pipes or electric poles.
- (viii) To prevent foreign domination and control of the national economy. For instance, the Nigeria Federal Government has intervened in order to control petroleum, the insurance and re-insurance businesses and the banking sector of the national economy.

11.4 The Advantages of Statutory Corporations

- (i) Emphasis is placed on services rather than on profit. This is particularly so in Western Europe, as regards the transport system.
- (ii) The basic necessities of life like water, electricity, roads, etc., are equally brought within the reach of both the poor and the rich.
- (iii) It facilitates the development of infrastructure by the body (the government) most be capable of handling it.
- (iv) The large industrial base such statutory corporations provide for the government enables the latter to put under check and control, the vagaries inherent in the national economy, and to engage in long-term economic planning for the nation.
- (v) The statutory corporations enable the government to be directly in charge of tendering development and sustaining those key national industries that are both politically and economically unsafe to leave in the hands of private individuals. Examples are the Nigerian petroleum industries, Nigerian iron and steel industries, Ghana gold industries and Sierra Leone diamond industries.

11.5 The Disadvantages of Statutory Corporations

- (i) There is virtually no competition or profit motive. This tends to sweep efficiency under the carpet.
- (ii) Since they are answerable to the public through parliament or the assemblies, they tend to play safe, instead of taking initiatives and being enterprising and thereby become drains on public funds.
- (iii) Those in control are not usually the best in the circumstances. They are more of political appointees than experts with professional experience. As a result, efficiency is adversely affected, and so the corporation becomes a liability.
- (iv) Usually, major policy decisions and the day-to-day execution of such policies are influenced by political considerations.

- (v) Statutory corporations are usually extremely large and tend to suffer from over-centralization with its twin evils of red tapeism™ (slow decision-making process), and lack of personal touch between the top management and the junior staff.
- (vi) In some statutory corporations, funds and resources have been allegedly mismanaged, as they employ more people without corresponding increase in output. Government ownership of industries, however, tend to frustrate foreign investments.

Other Disadvantages are:

- (i) **Conflict of economic and political considerations:** The pricing of the services or products of the public corporations has economic considerations on the one hand, and political and social considerations on the other hand. For instance, while higher charges for the consumption of electricity, gas, water or use of public transports might be economically desirable, they might equally be politically unacceptable and socially unjustifiable.
Another area of conflict is how to decide whether to close down the operations of a public utility in certain areas because their operations cannot be justified on commercial or economic grounds; but at the same time, they are providing essential social services and economic sustenance in form of valuable employment and income to the locality.
- (ii) **Recruitment of senior management staff:** Public corporation are notorious for filling most top management posts with political faithfuls, rather than with the best qualified personnel available for the job. This amounts to sacrificing professional expertise for political considerations.
- (iii) **Staff remuneration:** The practice by public corporations of adopting the civil service scales of salaries for their employees has not helped in attracting the best professional skills into the corporations. In 1981, the President of Nigeria set up a commission to look into the possibility of taking out some professional classes of personnel from the civil service pay structure. Consequently, the senate standing committee on public corporations came out with recommendations that personnel of the public corporations (or parastatals) should be given remunerations outside the civil service salary scales in order to attract talents to such corporations.
- (iv) **Control:** Public corporations are financed with the tax-payers'™ money; hence, there is the persistent crying for striking a balance between the control exercised by the tax-payers'™ representatives in the assemblies and the freedom that is necessary for their efficient performance.
- (v) **Measurement of efficiency:** It is not always easy to measure public corporations for efficiency for two reasons:
 - (a) In the situation of their virtual monopoly of operations, it might be difficult to measure their efficiency.
 - (b) Some statutory (public) corporations provide tangible services which are difficult to quantify e.g. the public transport.

- (vi) **Vulnerability to industrial actions:** Since the government corporations provide very essential services, the public will be badly hit by industrial strikes.
- (vii) **Costs of inefficiency:** The tax-payers finance the statutory (public) corporations. Consequently, the tax-payers, and not the inefficient employees or the incompetent board of directors, bear the costs of any inefficiency.

11.6 Municipal Enterprises

Municipal enterprises are the enterprises undertaken by local government authorities. They are a means of supplementing the efforts of the state or the national governments in bringing essential services to the people in the local and rural areas.

Examples of such services are:

- (i) Provision of local bus services
- (ii) Provision and maintenance of certain local road networks.
- (iii) Construction and maintenance of school buildings.
- (iv) Construction and maintenance of dispensaries and cottage hospitals.
- (v) Sustenance of economic life by determining local rates and building of market stalls, public toilets, abattoirs, etc.
- (vi) Improvement and sustenance of rural social life through the provision of social amenities like cinemas recreational facilities, etc.

The Characteristic Features of Municipal Enterprises

It is quite safe to describe the municipal enterprises as a prototype of the state or national enterprise. This is because of striking similarities in the features.

Policies, management and personnel: Their policies, mode of operations and staff recruitments are all conceived and born in polities.

Accountability: Like the state or national enterprises, they are accountable to the local rate-payers by which they are financed, through the local government. Like their counterparts at the state or national levels, they are responsible to their supervisory councillors who are the local commissionersTM. The latter are responsible for policy formulation and receive feedback in form of financial and accounting reports which are relayed to the local government council as a whole; and from there to the state commissioner for local government, who carries the same to the state assembly.

Sources of finance: The sources including the following:

- (i) Grants from the central government.
- (ii) Rates collected locally.
- (iii) Revenues from services rendered, e.g. bus fares, rent from market stalls or town halls and proceeds from cinemas or recreation centres provided by the local government.
- (iv) Loans from commercial banks and other financial institutions (by approval and guarantees of the state government).

(v) Ploughing back profits

The Advantages of Municipal Enterprises

- (i) Their operations constitute an organized effort for supplementing the efforts of state and national governments in the provision of basic amenities for the rural dwellers.
- (ii) The local populace are spurred on to make considerable contributions in form of self-help efforts towards making the rural community a better place for themselves to live.
- (iii) Since the personnel manning such municipal enterprises are the local people, the enterprises provide opportunities for the training of local folks for higher state and national assignments.
- (iv) Municipal enterprises provide substantial local employment, thereby increasing the standard of living of the rural population.
- (v) The provision of social services tends to reduce the migration of the rural population to urban centres.

The Disadvantages of Municipal Enterprises

- (i) *Political appointees*: Staffing is usually based on political patronage rather than professional considerations, this results in poor management of the enterprise.
- (ii) *Lack of initiatives*: Employees' commercial initiatives are stifled by the practice of bureaucracy through political bosses, i.e. the supervisory councillors and the commissioner for local government, which can result in losses.
- (iii) *Fraudulent practices*: There are often reported cases of embezzlement of funds and misuse of local government resources.
- (iv) *Unprofitable enterprises*: A lot of municipal enterprises are run on recurrent deficits bordering on insolvency, or possible liquidation as they are always subsidised or may remain a permanent drain on the financial resources of the municipality
- (v) *Chronic shortage of capital*: Throughout the long history of municipal enterprises, inadequacy of capital finance has been a constant feature. Solutions to this in form of increase in local rates have been considered politically unwise and socially unacceptable; while substantial increase in government grants has always been frowned upon by the central government.

Summary

Public enterprises are otherwise known as government public corporations and they can be created by Acts of Parliament or simply raised by incorporation, just as limited liability companies. Reasons for their formation are motivated by the government's social, economic and political interests in the welfare of its citizens. The policies in the corporation are usually governed and directed by the governments while the management is by an

executive appointed by the government. Whereas the extent of government intervention in non-statutory corporation depends on government's share holding.

Both the advantages and disadvantages of government corporation basically arise from the government's motives and control of such corporations. Similarly municipal enterprises are the counterparts of government corporations at local government levels.

Revision Questions

A. *Essay Questions*

1. Explain briefly in about two to four sentences (with examples) each of the following:
 - (a) Statutory corporations.
 - (b) Non-statutory corporations.
 - (c) Enterprises under government departments or ministries.
 - (d) Municipal undertakings or enterprises.
 - (e) Private enterprises.
2. (a) For what reasons do governments participate in ownership of industries?
(b) How far do the performances of the public corporations justify government objectives?
3. Compare the sources of capital finance of public corporations with those of municipal enterprises.
4. List and explain any FTVE reasons why the Government goes into public enterprises.
(20 mks)

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5. (a) State and explain FIVE features which are common to public corporation and public limited companies. (10 mks)
(b) Explain any FIVE differences between public limited companies and public corporations.

(10 mks)

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B. *Objective Questions*

1. Which of the following is an internal source of capital to a business concern?
 - A. Trade Credit
 - B. Debenture
 - C. Overdraft
 - D. Retained Profit

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2. What is NOT a reason for government participation in business enterprises?
 - A. Controlling monopoly power.

- B. Price control and consumer protection.
- C. Provision for heavy capital investment.
- D. Provision of public utilities.
- E. Strained international relations.

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- 3. Which is not a public corporation?
 - A. National Electric Power Authority.
 - B. National Examination Council.
 - C. Nigerian Airways.
 - D. Nigerian Railways.
 - E. Ports Authority.

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- 4. Another word for Public Enterprises is
 - A. Joint Stock Company.
 - B. Public Company.
 - C. Chambers of commerce.
 - D. Partnership with Government.
 - E. Public Corporation.
- 5. These are the advantages of the public enterprises
 - A. Emphasis is on provision of services rather than profit making.
 - B. Economic development is facilitated.
 - C. Management breeds bureaucracy.
 - D. Encourage development of key industries.
- 6. One of these is false about the features of a public enterprise.
 - A. Ownership is by government.
 - B. Management is by a board whose members are hand picked by the government of the day.
 - C. Under no condition do they make profit.
 - D. They can provide services as well as make profit.
- 7. These are the disadvantages of public enterprises
 - A. lack of profit - motive gives rise to gross inefficiency.
 - B. Government ownership destroys private participation.
 - C. Key industries can be supported by large capital.
 - D. Civil servants do not have the correct disposition to business management.
- 8. One of these bear the losses sustained by the public enterprises
 - A. The tax payer.
 - B. The board of directors of the public enterprises.
 - C. Members of the state and the national assemblies.
 - D. Members of the federal executives council.

9. The following are the argument against the public enterprises.
 - A. Too much government interference.
 - B. Capital requirement is much.
 - C. Provides much employment.
 - D. Some employment is basically political.
10. The following are the motives of government in the ownership of business except
 - A. Provide essential services to the people.
 - B. Distribute cash to tax payers as part of profits.
 - C. Control key industries.
 - D. Prevent monopoly of key industries by personal individuals.
 - E. Provide the much needed capital to key industries.

Project

Mention (i) 5 statutory corporations that are located in your state.
(ii) 2 non-statutory corporation also in your state.
(iii) 3 Municipal enterprises in a local government.