

PDF - INVESTMENT MANAGEMENT PRACTICES AND GROWTH OF PUBLIC ENTERPRISES IN ENUGU STATE, NIGERIA, 2006-2011 - researchcub.info ABSTRACT

This study was on investment management practices and growth of public enterprises in Enugu state, Nigeria. The objective of this thesis was to identify investment management practices employed in public enterprises in Enugu State; and explain how the adoption of appropriate investment management practices promoted the growth of the enterprises. The purpose of this study was to analyse any observed growth of public enterprises in Enugu State in terms of the extent to which they employed proper investment management practices. In the course of this study, we adopted a survey research method. Three methods of data gathering namely; documents, questionnaire and oral interviews were used. Hence, primary and secondary data were used to analyse the data. In applying purposive sampling technique, responses from a total of 20 respondents were analysed. Mean score statistics and single classification analysis of variance (ANOVA) were employed to analyse the data. The data were presented in tables, bar chart, pie chart and graphs. Research revealed that the extent to which: capital budgeting decision practices were applied in public enterprises in Enugu state was low in ENTRACO, low in IKH, average in ESMC and high in NLR; control practices were adopted in public enterprises in Enugu State was average in ENTRACO, average in IKH, high in ESMC and high in NLR; and employees of public enterprises were motivated was low in ENTRACO, low in IKH, average in ESMC and high in NLR. Consequently, auxiliary enterprises in ENTRACO was 0, in IKH was 0, in ESMC was 1 and in NLR were 3. Internal rate of return in: ENTRACO was 19.8%, IKH was 10.2%, ESMC was 33.9% and NLR was 34.2%. ANOVA revealed that the application of appropriate investment management practices in public enterprises in Enugu State influences their growth. This analysis was in agreement with our empirical findings. Based on our findings, we recommended that public enterprises should adopt; internal rate of return technique to ascertain the internal rate of returns on investments; reappraisal of investment to determine whether value for money was being obtained from any level of investment; and sponsoring of employees for studies on project initiation so as to equip the employees with the skill of initiating investments.

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## LIST OF ABBREVIATIONS

ENTRACO – Enugu State Transport Company Ltd.

IKH – Ikenga Hotels Ltd Nsukka

ESMC – Enugu State Marketing Company Ltd.

NLR – Nike Lake Resort Hotels Ltd Enugu.

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## CHAPTER ONE

### INTRODUCTION

## 1.1 Background to the Study

The solidity of Nigeria's public enterprises became significant immediately after independence on 1st October, 1960. On assumption of power, the nationalists articulated a clear role for public enterprises as instruments for promoting national development. The indigenization policy of 1972 as enacted by the Nigerian Enterprises Promotion Decree of 1972, which took effect from 1st April 1974, with its subsequent amendment in 1976 provided a concrete basis for governments' intensified efforts towards participation in the ownership and management of public enterprises (Elijah, 2009). The government capital investments in public enterprise totaled 23 billion naira between 1975 and 1985. In addition to equity investments, government gave subsidies of 11.5 billion naira to various states for the maintenance of their enterprises (Ogundipe 1986). Government has a lot of roles to play in order to raise the standard of living of her citizens. For instance, this developmental role of the state was provided for in the country's 1979 constitution and also enshrined in the 1999 constitution. According to sections 16 of 1979 constitution and 24 of the 1999 constitution: The state shall:

Harness the resources of the nation and promote national prosperity and an efficient, a dynamic and self reliance economy.

Control the national economy in such manner as to secure the maximum welfare, freedom and happiness of every citizen on the basis of social justice and equality of status and opportunity.

Without prejudice to its right to operate or participate in areas of economy other than the major sectors of the economy, manage and operate the major sectors of the economy.

Without prejudice to the right of any person to participate in areas of the economy within the major sector of the economy, protect the right of every citizen to engage in any economic activities outside the major sectors of the economy. In the light of the foregoing therefore;

The state shall direct the policy toward ensuring:

The promotion of a planned and balanced economic development;

That the material resources of the nation are harnessed and distributed as best as possible to serve the common good;

That the economic system is not operated in such a manner as to permit the concentration of wealth or the means of production and exchange in the hands of few individuals or groups; and

Suitable and adequate shelter, suitable and adequate food, reasonable national minimum living wages, old age persons, and unemployment, sick benefits and welfare of the disabled are provided for all citizens.

In order to achieve the above listed economic objectives, governments, at all levels-central, state and local governments assumed the role of entrepreneurs by embarking on the establishment of public enterprises.

As we stated at the beginning part of this chapter, public enterprises are some of the agencies which colonial administration bequeathed to the people of Nigeria. These are enterprises owned by the Federal, State or Local governments. They are established by specific laws, which contain provisions relating to finance,

personnel, method of achieving their objectives and other matters necessary for the realization of their goals. Public enterprise is an institution operating services of an economic or social character on behalf of

government but enjoying an independent legal status. It is largely autonomous in its management though responsive to the public through government and subject to some directives by governments; is equipped on

the other hand with independent and separate funds and legal and commercial or non profit – oriented/ attributes of enterprises (Hanson 1960). There are many reasons that explain why African states have

created and sustained public enterprises. Nellis (2009:2) reasons thus:

Institutions and pre-dispositions inherited from centralized interventionist colonial regimes; a tendency to associate liberal capitalism with colonialism and imperialism; the post war ascendancy of leftist statist political ideologies; the apparent absence or embryonic nature of the indigenous private sector enterprises; the conversion of failing private enterprises into public enterprises to forestall increases in employment; the attractiveness of public enterprises to politicians who use them as patronage mechanisms to distribute jobs to both the mighty and the minor and to provide goods and service. These are but some of the more important historical, economic, social and political factors which have led almost every African state to create large public enterprise sector.

The fundamental reason for the establishment of public enterprises in all economies is the provision of services which are too costly for individuals to provide. Modern governments especially those in the transitional societies are expected to be committed to the enhancement of economic and industrial growth and development for the provision of social welfare services. They may directly establish and run industrial and commercial enterprises under the country's company law, obtain direct shares in private, industrial and commercial enterprises, go into partnership with private businesses or institute agencies to do so on behalf of the public. Thus public enterprises are being expanded to include the provision of essential services such as marketing, transport, housing, hospitality, games, financial services and garbage removal. Public enterprises in Nigeria also undertake development projects like market construction and reconstruction for the overall good of the public, however with the aim of profit making.

There are various forms of public enterprises all over the world. In Nigeria for example, Adamolekun (1982: 43) distinguished the group thus:

Statutory corporations which involve public utility corporations, development finance corporations and the welfare and social service corporations;

Mixed economy enterprises; and

State owned companies.

Statutory corporations are created by special statutes. These statutes make provisions for their operational guidelines. They are expected to provide infrastructure facilities such as water, electricity and transport satisfactorily and at modest costs. They are also expected to ensure that goods of adequate quality and quantity are made available to the people. Mixed economy enterprises are those enterprises in which government co-operates with private entrepreneurs to establish a commercial venture. The state puts in a greater share in the enterprise. With the state putting in a greater share implies that she has an edge in the ownership, control and management of the enterprise. State owned enterprises or companies operate under the same company laws that regulate the activities of private sector enterprises. In Enugu state for example, Enugu State Marketing Company; Enugu State Transport Company, Ikenga Hotels, Nike Lake Resort Hotel, and Nigerian Construction and Furniture Company belong to this category. These enterprises are expected to provide services and at the same time maximize profits. This means that they are profit oriented.

This study is specifically concerned with state owned enterprises that were created to be generating wealth needed for the provision of public good, including employment opportunities. Unfortunately, public expenditures attached to the upkeep of state owned enterprises in most of the countries of the world and especially in Nigeria have been observed to be less productive since they have failed to yield a corresponding positive return both directly and indirectly (Uzochukwu, 2003). This fundamental problem

of defective capital structures is due to the application of inappropriate investment management practices leading to unwise investment which generates losses, (Usman, 2002). Fekuru (2000), presented evidence of poor performance of state owned enterprises with 60 percent of posted net losses and 36 percent negative net worth which resulted to an astronomical rise of accumulated losses in Nigeria. The government is therefore, finding it difficult to sustain the requirements of its state owned enterprises, particularly since they performed below expectations in terms of their returns on investments and quality of service delivery. As public enterprises are confronted with the problem of application of inappropriate investment management practices; the dwindling of their financial returns become manifest. Public enterprises in Enugu State are established and funded by the government through budgetary allocation and subventions. They also generate fund from the sale of their goods and services and seek both long and short term loans from banks, especially from African Development Bank as well as from other miscellaneous sources. But the funds are not always enough to face the new challenges caused by expanded competition due to the breaking of the government's monopoly in some businesses by the private sector organizations. Hence, public enterprises in Enugu State are faced with the problems of managing her limited finances in such a way that the objectives for which they were created could be realized with some degree of efficiency. For quite a long time now, a call has been made on how to improve the condition of public enterprises for their sustainability and public satisfaction. Akpan (1982: 49) noted that:

Public enterprises should be run in a business like manner in the sense of conserving and utilizing available resource for the achievement of the best possible results; eliminating red tape; being fully and readily responsive to the needs of the public who constitute their 'customers' and employers; being expeditious in the dispatch of their functions, in short doing away with all the stigma usually associated with public service bureaucracy.

Up till today, public enterprises are challenged by improper investments leading to their suppression and sale to private enterprises. This state of affairs in public enterprises should not be allowed to persist. In the production of some of the consumer goods and services by public enterprises, it is necessary to determine whether the capital outlays are justified or not. This justification is determined by the rate of financial returns to investment (Adeyemo, 2010).

If public enterprises in Enugu State are to perform their statutory obligations to a reasonable standard they must be financially viable and their overall management must be geared towards attaining efficiency in investment management. Improving the financial State of public enterprises in Enugu State implies integrating right or modern investment management practices which among others involve investing the available funds in various economically viable projects. In investing in projects, the use of appropriate capital structure and investment management technique to enhance efficient investment in viable profits has been advocated (Pandey, 1991). The adoption of modern investment management practices such as capital budgeting decision practices (investment appraisal techniques), control practices and motivation practices ensure that profitable projects are identified; project monitoring, and customer quality are identified before credit transactions are made; and that employees are encouraged so that they will be initiating investments that can promote the growth of public enterprises in Enugu State, Nigeria. The adoption of appropriate control mechanisms also creates efficient systems of controls that ensure that the businesses run by the enterprises are carried out in orderly and efficient manner. This means adhering to management policy, safeguarding assets and securing as much as possible the accuracy of the enterprises'

funds.

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