Privatization and Financial Performance (Earnings per share) on Selected Money deposit Banks in Nigeria (1980-2015)

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Abstract
The abysmal performance of state owned public enterprises due to the government bureaucracy coupled with corruption has become worrisome to the government and the public. Therefore, economic reforms such as privatization, commercialization and liberalization were carried out to address the aforementioned in federal government establishments. This study investigated the impact of privatization on financial performance of selected DMBs in Nigeria. The study employed ex-post facto research design. Three banks were chosen from the target population of nine privatized deposit money banks, namely, FBN Plc, UBA Plc and UBN Plc. Secondary data were used, while the pre and post diagnostic tests coupled with descriptive statistics and panel regression analysis were carried out. The findings revealed that privatization component (Percentage of share privatized, Age of bank, No of Directors, Incremental asset size and Leverage) had significant impact on EPS (Adj. $R^2 = 0.731$, $F(5, 30)= 20.085$, $p<0.05$) of selected DMBs in Nigeria after privatization. The study concluded that privatization affected financial performance of selected deposit money banks in Nigeria. The study hereby recommended that the country's corruption level must be relatively low to enable the government record a huge success of the programme.
Keywords: *Commercialization, Deposit money banks, Federal-owned enterprises, Performance, Privatization*

1.0 Introduction

The goal of any credible and legitimate government to ensure sustained improvement in the standard of living of the citizenry had made the government to prepare development plans that facilitate effective and efficient mobilization, optimal allocation and management of national resources to boost financial performance of the economy (Ajibola, 2008; Asaolu, 2015; Dornigie, 2012; Duru, 2000; Megginson & Netter, 2001). Drawing on the successful experience of most developed economies, many African countries at independence adopted a statist approach to economic development, with government being the major player. It is estimated that about three thousand enterprises are fully or partially controlled by governments in Africa. In Nigeria the size of government in the economy had grown sharply between independence in the 1960s and the era of structural adjustment in the 1980s. Nigerian economy from colonial history through independence and up till today has been characterized by huge government investments in public enterprises thus making government a major shareholder (Dornigie, 2012; Duru, 2000).

Evidences abound that this public-dominated process have not achieved the desired impact in most African countries coupled with the development in the globalized world and these have precipitated the clamouring for comprehensive national economic reforms that will facilitate efficient macroeconomic management such as privatization, commercialization and liberalization with more emphasis on privatization (El-Rufai, 2000; Usman, 2000). In Nigeria, the performance of the public sector was not accompanied by sustainable economic growth rate anticipated by policy makers or planners and these had slowdowns especially the economic activities of the country (El-Rufai, 2000; Usman, 2000).

Privatization is a common process world over or put differently, evolution of a New World Economic Order. This process is part of wider concept known as new "Public Management." which is characterized by the liberalization or deregulation of economic activities. Also, it is the relieving of the government shareholding to the public and / or private sector so as to boost the performance of the organizations (Gonzalo, Pina & Torres, 2003). The modern idea of privatization as an economic policy was pursued for the first time by the Federal Republic of Germany in 1957, when the government eventually sold its majority stake in Volkswagen to private investors. The next big move in privatization came in the 1980s with Margret Thatcher's privatization of Britain Telecom and Chirac's privatization of government owned communication companies (Burton, 1987; Vogelsang, 1988; Wessel, 1991).

With deep internal economic crisis, shortage of foreign capital and debt obligations, many African countries like Egypt and Ghana also embarked on privatization. The privatization programme in Egypt started in the beginning of 1990s with the banking sector, a perfect target. In a few years all joint venture banks were privatized and also one of the four big state-owned banks was also privatized. The results show that the effect of privatization is positive on profitability, efficiency and asset quality (Kamaly, El-Ezaby & El-Hinawy, 2015). Furthermore, Ghana started her privatization programme in late 1980s and between 1987 and 1990 Ghana's privatization programme generated revenues for the government equivalent to about 14% of the gross domestic product (GDP) from moribund public sector that was solely dependent on state subventions, and thus succeeded in easing the fiscal crises and fostering the Structural Adjustment Programme (SAP) (Appiah-Kubi, 2001).

The scope of Nigeria's privatization programme covers several sectors: aviation, communication, banking and finance, oil and gas, media, manufacturing, transportation, water sector, refineries and petrol chemical plants, hospitality and tourism among others (Asaolu, 2015; El-Rufai, 2000). Furthermore, there have been many studies on the privatization and financial performance of privatized public owned enterprises but the performance of privatized deposit money banks (DMBs) especially in such areas as Return on equity, Return on capital employed, Earnings per share (EPS), Incremental share price and Return on asset is yet to be adequately addressed. Therefore, researcher would be assessing privatization and EPS on the activities of federal government privatized DMBs; the federal government being the major shareholder of these banks also had the highest number of directors that formulated the policies of the banks. UBN Plc's earnings per share (EPS) before privatization were $0.16, $0.04, $0.04, $0.004, and $0.01 in 1987, 1988, 1989, 1990, 1991 and 1992 respectively. UBA's EPS before privatization were $0.24, $0.16, $0.12, $0.14, $0.01, and $0.01 in 1987, 1988, 1989, 1990, 1991 and 1992 respectively. While FBN's EPS were $0.20, $0.20, and $0.09 in 1987, 1988, 1989 respectively, earnings in 1990 and 1991 were nil due to loss recorded (NSE Factbook, 1993; IBTCI Consortium, 2008; TCPC Final Report II, 1993).

The following were the importance and rationale for this study:

The study would assess how privatization had helped in bringing efficiency and profitability in the hitherto state owned public enterprises by unearthing the distortions in the public enterprises and revealing most of their causes, thus enabling policy makers to design appropriate policies that would reduce the known distortions.

In addition, this study made several contributions to the extant literature. It would show the impact of privatization on performance in the context of a financial system or banking industry that went through a boom and burst cycle with perverse incentives for true financial intermediation, and also, serves as a veritable reference to prospective researchers writing on similar theme in the future to be cognizant of the materials available under privatizations

The study identified some of the contradictions inherent in privatization thereby affording the opportunity to avoid their consequences. Also, to correct the shortcomings arisen from privatization exercise.

Furthermore, the findings of this study would be of tremendous help to the following stakeholders and also keep them informed about the economic impacts of privatization and commercialization of public enterprises in the economy: federal government, National Council on Privatization (NCP), public enterprise to be privatized, individuals and institutions; policy makers, privatization commission / bureau, research scholars, banking and commerce, (prospective) investors (institutional / corporate and individual) on stock market, tertiary institutions, captains of industries, the unions, the workers, upcoming in the field of privatization, the pensioners, the Nigerian public and the development partners.

The relevant theory is shareholder's theory; Corplaw-Blog (2014) postulated that the shareholder theory was originally proposed by Milton Friedman in 1970. The theory states that the sole responsibility of business is to increase financial performance of that company, in other words, it is the maximization of shareholders wealth. It is based on this premise that directors are appointed as the agent of the shareholders to run the company for the shareholders' benefit, and therefore they are legally and morally obligated to serve their interests.
Friedman (1970); Olowe (2009); Pandey (2008) highlighted the following fundamental assumptions that lend support to the shareholder's view of the firm: Human, social, and environmental costs of doing business should be internalized only to the extent required by law while all other costs should be externalized; The self-interest as the prime human motivator, people and organizations act rationally in their own self-interest to maximize efficiency and value for society; Firm is fundamentally a nexus of contracts with primacy going to those contracts that have the greatest impact on the profitability of the firm; A principal-agent relationship exists between the shareholders and management; and lastly, the objective of the firm is to create value (or wealth) for the shareholders in terms of higher EPS, higher ROE, maximization of profit, etcetera.

According to Morris, Jean and David (2008) the following are the advantages of shareholders theory: Shareholders wealth maximization is accepted by academic finances community and financial economists as the appropriate objective for financial decision making and also a fundamental building block of corporate financial theory. The shareholder provides the best framework in which to balance the computing interests of various shareholder (current and future stakeholders) when making business decisions. It provides a long term financial view on which the strategic decision is based. It provides a universal approach that is not subject to the particular accounting policies that are adopted. Therefore it is internationally applicable and used across sectors. Lastly, it forces the organization to focus on the future and its customers, in particular as well as the value of future cash flows. The disadvantages are also enumerated below (Morris, Jean & David, 2008): It has been used for encouraging short-term managerial thinking, and also condoning unethical behavior through the exploitation of employees, customers, and other stakeholders. It encourages short term profit maximization at the expense of the long run. Development and implementation of the system can be long and complex.

The shareholder theory is now seen as the historic way of doing business with companies realizing that concentrating solely on the interests of shareholders has some disadvantages. A focus on short term strategy and greater risk taking are just two of the inherent dangers involved. The role of shareholder theory can be seen in the demise of corporations such as Enron and Worldcom where continuous pressure on managers to increase returns to shareholders led them to manipulate the company accounts (Morris, Jean & David, 2008).

2.0 Material and Method

The *ex-post facto* research design was used for this study. This design provided a robust framework for diagnosing the need for change and for the planning of privatization interventions in transition economies. Relevant data that described structure and characteristics of the privatization process for this study were collected from different publications of the Federal Office of Statistics (FOS), relevant banks' annual reports, the Central Bank of Nigeria, the Nigerian Stock Exchange (NSE) Factbook, and Bureau of Public Enterprises/

The target population consisted of nine (9) privatized deposit money bank (formerly known as commercial bank), while the sample size was all the privatized banks that met the following conditions:

(i) The privatized federal government- owned bank with going concern status.
(ii) Privatized federal government - owned banks having their share traded at the floor of the Nigerian Stock Exchange (NSE).
(iii) The bank that has retained its brand name identity; for the purpose of clarity and consistency.

(iv) The bank with up to date financial records.
(v) The bank not involved in legal tussle (court issue).

In line with the aforementioned, this selection process had reduced the sample size to the following three privatized federal government owned deposit-money banks:

(i) First Bank of Nigeria Plc. (FBN)
(ii) United Bank for Africa Plc. (UBA)
(iii) Union Bank of Nigeria Plc. (UBN)

2.1 Operationalization of Variables

The operationalization of the research variables was into two and presented below:

X= Independent Variable
Y= Dependent Variable
X= Independent Variable (Privatization)
Y= Dependent Variable (Performance)
$Y = f\ (X)$
$X = (x_1, x_2, x_3, x_4, x_5)$
Where:
x_1 = percentage of shareholding = (SH)
x_2 = Age of the bank = (AG)
x_3= No of directors = (ND)
x_4 = Incremental asset size = (AZ)
x_5 = Leverage = (LV)

$Y_= (_{y1})$
$_{y1\ =}$ Earnings per share (EPS)

Functional relationship
EPS = f (SH, AG, ND, AZ, LV) Equation
PERF = f (SH, AG, ND, AZ, LV) Equation

Model
$y_{1\ =}\ \beta o + \beta_1\ x_1 + \beta_2\ x_2 + \beta_3\ x_3 + \beta_4\ x_4 + \beta_5\ x_5 + \varrho$

3.0 Results, and Discussion of findings

This segment handles the data analysis, results, and discussion of findings.

3.1 Panel Least Square (PLS) Before Privatization Policy

To determine the impact of privatization on earnings per share (EPS) in selected deposit money banks (DMBs) in Nigeria before and after privatization, the panel least square (PLS) method of estimation was used. Before the analysis a series of diagnostic test were carried out to ascertain the statistical soundness of the models and whether they could be used for forecasting (Gujarati, 2004). The statistics obtained under the 5% level of significance show that we can go for panel Co-integration test in order to determine the long effect among the variables.

Table 3.1: Panel Co-integration Result Before Privatization (H_0)

Unrestricted Cointegration Rank Test (Trace)				
Hypothesized		Trace	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None	0.100229	3.168445	3.841466	0.0751
Trace test indicates no cointegration at the 0.05 level				
* denotes rejection of the hypothesis at the 0.05 level				
**MacKinnon-Haug-Michelis (1999) p-values				
Unrestricted Cointegration Rank Test (Maximum Eigenvalue)				
Hypothesized		Max-Eigen	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None	0.100229	3.168445	3.841466	0.0751
Max-eigenvalue test indicates no cointegration at the 0.05 level				
* denotes rejection of the hypothesis at the 0.05 level				
**MacKinnon-Haug-Michelis (1999) p-values				

Results in Table 3.1 show that there is cointegration relationship between the dependent and independent variables in the model. Hence, with the null hypothesis which states that no co-integration against the alternative which states that common auto regression coefficient (within-dimension) and individual auto regression coefficient (between-dimension) - we cannot reject the alternative hypothesis for both groups and the study concluded that there is a long run relationship between EPS and Privatization Components.

Table 3.2: Panel Least Square Regression Before Privatization (H_0)

Dependent Variable: D(EPS)				
Method: Panel Least Squares				
Date: 01/12/19 Time: 12:35				
Sample (adjusted): 1983 1991				
Periods included: 9				
Cross-sections included: 3				
Total panel (balanced) observations: 27				
	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.505487	0.329877	-1.532351	0.1428
SH	0.017157	0.340125	0.050442	0.9603
AG	-0.025190	0.317467	-0.079348	0.9376
ND	-1.411665	0.588401	-2.399155	0.0275

AZ	0.744930	0.554576	1.343241	0.1959
LV	203.0603	108.3996	1.873258	0.0774
R-squared	0.466819	Mean dependent var		3.444444
Adjusted R-squared	0.229849	S.D. dependent var		32.51277
S.E. of regression	28.53263	Akaike info criterion		9.801175
Sum squared resid	14654.00	Schwarz criterion		10.23312
Log likelihood	123.3159	Hannan-Quinn criter.		9.929615
F-statistic	1.969954	Durbin-Watson stat		1.928841
Prob(F-statistic)	0.610715			

Source: E-VIEW Output (2019)

The established regression equation from the analysis is stated as follows:

EPSit = βo + β1SHit + β2AGit + β3NDit + β4AZit + β5LVit + ϱit

EPSit = -0.213514 - 0.440164SH - 0.210355AG - 0.149368ND + 0.744930AZ -16.50167LV

Table 3.2 presents panel regression output on the impact of privatization on earning per share (EPS) in selected deposit money banks in Nigeria before privatization. From Table 3.2 results show that percentage share privatized (SH), Leverage (LV) and incremental asset size (AZ) positively affect EPS, but insignificant. Also, the panel regression result shows that no of director (ND) showed negatively and significant effect on EPS, while the age of the bank (AG) is negatively affect EPS but not significant. Furthermore, the value of adjusted R^2 explained that 22.298% of the variation in the EPS is explained by the independent variables used in the model. The value of F-statistics (1.969954, p= 0.610715) for the model was statistically insignificant at 5% level of significance, therefore the model used for this study is considered not fit since the Prob (F-statistic) is greater than 5% level of significance. Also, the value of Durbin Watson (DW) of 2.2 approximately to 2.0 for the model showed an evidence of no serial correlation. Based on this panel result in Table 3.2, the null hypothesis (H_0) which states that before privatization policy of the government, privatization components such as %share, Asset, Leverage, Director and AGE do not significantly impact on return on EPS of selected DMBs before privatization in Nigeria was not rejected.

3.2 Panel Co-integration Result After Privatization

This section discusses co-integration relationship between the study variable. Before estimation of the model to determine impact of privatization on EPS before privatization, a unit root test was carried out so to check whether variables are the trending stationary at all levels or not. In Testing for unit root by computing the different types of test, gives statistic with normal distribution and a more powerful panel unit root test. The results of all the stationary test is presented in the Appendix. The Levin, Lin & Chu test assumes common trends but allows the error term to be independent while it varies in Fisher tests allowing for individual unit root process. The statistics obtained under the different tests at levels shows that at 5% level of significance we can accept the null hypothesis that the panel data is non-stationary.at first difference all test are stationary that is we can reject the null and accept the alternative hypothesis that no unit root. Since the study variables for hypothesis two are stationary at first difference, therefore the study proceed for panel Co-integration test in order to determine the long effect among the variable

Table 3.3: Panel Co-integration Result after Privatization (H_0)

Unrestricted Cointegration Rank Test (Trace)				
Hypothesized		Trace	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.313286	21.42275	3.841466	0.0000
Trace test indicates 1 cointegrating eqn(s) at the 0.05 level				
* denotes rejection of the hypothesis at the 0.05 level				
**MacKinnon-Haug-Michelis (1999) p-values				
Unrestricted Cointegration Rank Test (Maximum Eigenvalue)				
Hypothesized		Max-Eigen	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.313286	21.42275	3.841466	0.0000
Max-eigenvalue test indicates 1 cointegrating eqn(s) at the 0.05 level				
* denotes rejection of the hypothesis at the 0.05 level				
**MacKinnon-Haug-Michelis (1999) p-values				

Thus, with the null hypothesis which states that no co-integration against the alternative which state that common auto regression coefficient (within-dimension) and individual auto regression coefficient (between-dimension) - we cannot reject the alternative hypothesis for both groups and conclude that there is long run relationship between EPS and Privatization Components. Therefore we can go on and test for Panel regression method of analysis.

Table 3.4: Panel Least Square Regression After Privatization (H_0)

Dependent Variable: D(EPS)				
Method: Panel Least Squares				
Date: 01/12/19 Time: 13:10				
Sample (adjusted): 1997 2015				
Periods included: 19				
Cross-sections included: 3				
Total panel (balanced) observations: 57				
	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.515889	0.203208	-2.538727	0.0144
SH	0.090645	0.187410	0.483674	0.0008
AG	0.011166	0.103936	0.107436	0.0149
ND	0.228078	0.027734	8.223908	0.0000
AZ	-0.026606	0.051992	-0.511741	0.0112

LV	1.225340	2.942720	0.416397	0.0390
R-squared	0.769991	Mean dependent var		0.000702
Adjusted R-squared	0.731656	S.D. dependent var		7.696873
S.E. of regression	3.987129	Akaike info criterion		5.747959
Sum squared resid	763.0656	Schwarz criterion		6.070546
Log likelihood	-154.8168	Hannan-Quinn criter.		5.873328
F-statistic	20.08591	Durbin-Watson stat		1.880566
Prob(F-statistic)	0.000000			

Source: E-VIEW Output (2019)

The established regression equation from the analysis is stated as follows:

EPSit = βo + β1SHit + β2AGit + β3NDit + β4AZit + β5LVit + ϱit

EPSit = -0.515889 + 0.090645SH + 0.011166AG + 0.228078ND - 0.026606AZ + 1.225340LV

Table 3.4 presents panel regression output on the impact of privatization on earning per share (EPS) in selected deposit money banks in Nigeria after privatization. From Table 3.4 of panel regression method of analysis, the results showed that SH, LV, ND, and AG positively and significantly affect EPS. Also, the panel regression result further showed that AZ negatively affects EPS and statistically significant.. Furthermore, the value of adjusted R^2 explained that 73.17% of the variation in the EPS is explained by the independent variables used in the model. The value of F-statistics for the model was statistically significant at 5% level of significance, therefore the model used for this study is considered to be fit since the Prob(F-statistic) is less than 5% level of significance. Also, the value Durbin Watson (DW) of 1.8 approximately to 2.0 for the model showed an evidence of no serial correlation. Based on this panel result in Table 3.4, the null hypothesis (H_0) which states that privatization components do not have significant impact on EPS of selected DMBs after privatization in Nigeria was rejected.

3.3 Discussion

The objective three of this study sought to determine the impact of privatization on earnings per share (EPS). This study showed that there is a positive relationship between privatization and EPS. This is also corroborated by Ogbechie and Koufolpoulos (2007) that competence of directors is seen as the most determinants of effectiveness of boards. Grygorenko and Lutz (2007) stated that privatization stimulates private sector development, attracts foreign direct investment, fosters competition and contributes to the formation of stock market. This is also buttressed by Jegede, Akinlabi and Soyebo (2013) that board size is statistically significant to bank performance. In conclusion, Abdulazeez, Ndibe and Mercy (2016) revealed that bigger board size contributes more to performance than smaller board size, because when a board size is large, it will be difficult for a person (may be the chief executive officer- CEO) to be overbearing. However, this is contrary to El-Faitouri (2012) that showed that there is no relation between characteristics of the boards of directors and corporate performance measured by Tobin's Q. Furthermore, Wintoki, Linck, and Netter (2012) found no causal relation between board structure and current firm performance. This outcome is also supported by Beck, Cull and Jerome (2005) in their study of bank privatization and performance using empirical evidence from Nigeria, Brownbridge (2005) discovered that banks are used to finance political activities, channel loans to party supporters as well as banks' directors. All these have affected the performance of banks negatively in terms of ROE, ROA, EPS, IMPS and ROCE.

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