

**Privatisation and Commercialisation are often used synonymously to convey the same thing. However, though their broad objectives are similar they have two fundamentally different structures.**

Below, we examine the difference between Privatization and Commercialisation within the Nigerian context and as defined and applied under the Nigerian Privatisation and Commercialisation Decrees. We further briefly assess the suitability of the two as it relates to government agencies such as the Federal Housing Authority.

Essentially, the broad objective of both terms is to reduce the element of government involvement in the running of businesses and to create more competition within the industry in order to realize economic efficiency in the enterprise itself and in the wider industry. The economic theory and justification being that government involvement in the enterprises creates inefficiency and mismanagement in those businesses. The notions of privatization and commercialization are essentially based on the Adam Smith principle of Perfect Competition as postulated in his book Wealth of Nations. In his hypothesis, where each enterprise focuses on maximizing its profit, this results in the business operating at its lowest average costs and essentially a reduction in price and increase in efficiencies. The economic justification has resulted in global wholesale changes from the former USSR to the United Kingdom to China. The latter perhaps more starkly exhibiting more the dichotomy and

difference between commercialization and privatization.

Below, we examine the main and fundamental difference in structure between Privatisation and Commercialisation.

### **Privatisation:**

Broadly defined 'Privatisation' *is the transfer of ownership of business enterprises from public ownership to private ownership*". This means that the enterprise is no longer 'owned' by the government but rather by private non governmental bodies. The means whereby 'privatisation' occurs is through the 'sale' of the 'ownership' by share transfer or complete divestment of assets. The effect of 'privatisation' of the business is not only to remove government ownership of the enterprise but also to remove government participation in the control and decision making of the enterprise. This two pronged change is in contrast to commercialization.

Examples of such 'privatisation' was seen in the United Kingdom in the 1980s

under the then Prime Minister Thatcher, in sale of the likes of British Gas, British Telecom, British Airways, whereby the United Kingdom government sold its shares the enterprises to the general public. Included would also be the sale of council housing to private individuals. (housing Stock) which was formerly owned by local governments, this was not a privatization by sales / transfer of shares but rather by divestment of the assets.

### **Commercialisation:**

'Commercialisation' may be broadly defined *'as the re-organisation of the structure of a public enterprise (ie which is owned partially or fully by the government)* to make it more focused on profit maximization'. This often involves the re-organization of the decision making structure of the enterprises but in contrast with privatization does not involve the re-organization of the ownership structure of the enterprise.

As stated earlier, in China for example, whilst there is no or limited form of private ownership, many government

enterprises are operated in an autonomous and profit maximizing basis.

### **Same Difference !**

Whilst the above definitions provide a contrast privatization and commercialization, the two however should not be regarded as being mutually exclusive. In many cases, both privatization and commercialization may overlap and may be implemented in the same business and each may its elf be implemented partially to an enterprise.

Thus for example an enterprise which is wholly owned by government may be partially privatized such that the government relinquishes a majority or a minority of its share ownership. In such partial privatization, the management decision making is undertaken by a Board of Directors which is constituted according to the shareholding, it is therefore likely Likewise, commercialisation may be such that the government whilst retaining overall or final decision making policy over the enterprise nevertheless leaves the main decision making in a commercialized

fully autonomous Board of Directors and management, with the requirement that the enterprise becomes self sufficient in its funding and activities and perhaps the requirement that it attains certain financial milestones.

Under full commercialization, the Board of Directors is expected to behave as profit maximizers without autonomously that is without the influence of government. As stated above the fully commercialized company, though still fully owned by government would however be expected to raise its own funds for both its capital and recurrent expenditures. Partially commercialized businesses however though they would have operational autonomy would have some recourse to government for its funding.

### **Choice of Privatization or Commercialisation**

The choice of privatization whether full or partial and commercialization again whether full of partial whilst it may depend on the overall government policy, consideration should also be

given to the type of industry or rather the type of goods or service involved. That is whether the good or service being provided is as economists would term them a 'private good' or 'public good' and also in other regards whether such a business would be able to thrive and stay afloat if privatized given the nature of the good or service being produced. .

Under the Nigerian Privatization and Commercialisation programme for example 145 government organizations were slated for either privatization or commercialization. Of this number 110 were slated for either full or partial privatization whilst 35 were slated for either full or partial commercialization.

Federal Housing Authority (FHA), by its terms of reference under its establishing decree, has as its central role the provision of social housing for the generality of the Nigerian people especially for the poor. Whilst housing may be regarded as a private good in that it can be provided for by the private sector, the choice to provide social housing for the poor means that pure profit maximization as would be attributable to a fully privatized and fully

commercialized enterprise may be unsuitable. This would be so given the high capital costs of providing the construction of the buildings and infrastructure. Profit maximizing would likely therefore result in high prices of housing undermining the government policy to provide social housing for the poor.

Partial commercialization and partial privatization may provide a more suitable model for government agencies such as the Federal Housing Authority, whereby the operational and management decision making is partially removed from the intervention of the government. Such a model would have the advantage of focusing the management to behave in a more efficient and cost effective manner as in the case of fully privatized or commercialized businesses but, would also have the advantage of also achieving government policy of providing social housing for the poor.

In addition, the element of transfer of partial ownership means that such as enterprise would be able to partially

source for funds in the capital markets and private sector.

A further consideration which may be made in agencies such as the Federal Housing Authority is whether such an organization can be split into different business units, with some unit being fully privatized and the other being partially commercialized. In this regards it may be that the 'estate management' arm of the FHA may be fully privatized and the construction and development business unit being only partially commercialized. Or even perhaps being split into 3 units, the construction and development unit being fully privatized, the sales unit partially commercialized and the estate management unit being fully privatized. Given the social nature of the housing sector such a model would have the advantage of the construction unit being able to source for funds from the capital markets and private sector, and given the autonomous and profit maximizing decision making process such construction would be expected to be with reduced costs and increased efficiency. The sales unit being only partially commercialized will seek to achieve both the welfare social

policy of the government, but in a more commercially efficient method..

In conclusion, it can be seen that whilst the end objective of privatization and commercialization are similar, their framework both legal and structural are fundamentally different. Advantages and disadvantage of both forms will ultimately depend on the enterprise involved. However as has been shown above, the two forms should not be regarded as mutually exclusive. Perhaps the more modern way of thinking should be not to contrast the two forms highlighting their relative advantages and disadvantages but rather to amalgamate and to synthesize the advantages of each.

In Nigeria as in elsewhere a position should be taken on an ad hoc basis. Perhaps the more successful privatizations or commercialisations in Nigeria have been those which have a more clear cut structure however, as is seen in the Power sector reforms, and in the attempted privatization of NITEL, were the company is more complex, the issues raised and the possible solutions require more creative approaches.

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