

Privatisation and Corporate Governance Efficiency: Liquidity Ratio Assessment of the Nigerian Cement Industry

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Abstract

The study examines how privatization affects public corporations' corporate governance efficiency in the management of the liquidity ratio of the Nigerian cement industry. The observed variables are liquidity ratio and fourteen Corporate Governance proxies as dependent variables and independent variables. Secondary data were outsourced from the cement firms. Descriptive statistics and Pooled OLS regressions were used for analysis. Results suggest that the factors affecting corporate governance efficiency and causing capacity under-utilization in the cement industry are macro-economic challenges and the weak private sector. The average total market value of shares, average foreign ownership, the average percentage of executive directors and average workforce has a positive impact on the Cement industry's performance. However, privatization harms the performance of the company. Likewise, corporate governance has a significant impact on the liquidity ratio of the 1cement industry in Nigeria. The study recommends that corporate governance should reduce the liquidity ratios via long-term investment that will enhance return on investment. In addition, suggests devising strategies for proper liquidity and risk management to enhance financial performance and move towards sustainability and growth.

Keywords: Cement Industry, Corporate Governance Efficiency, Liquidity Ratio, Privatization, Public Corporation

1. Introduction

Prudent corporate governance must always be conscious of the liquidity ratio of their organization, as it determines the propensity to succeed or fail. Potential creditors and investors are gauging the creditworthiness and profitability of a corporation through the liquidity ratio (Jamil and Omar, 2021). It gives adequate information on how corporate governance is rationalizing assets and liability for healthy operations. Scholars are of the view that a healthy liquidity ratio should be a ratio of 2:1, 3:1 at a maximum of 5:1, this is because, having excess liquidity means idle funds (Madushanka and Jathurika, 2018). However, inadequate liquidity

constraint production creates an inability to pay off current liabilities, negatively affects credit worthiness and results in bankruptcy (Mohammed, 2020). And this is exactly what happened to most public corporations, which led to their privatization across the globe. (Bappayo and Magaji, 2006). Therefore, the importance of liquidity ratio to corporate governance sustainability and healthy working capital of any corporation cannot be over-emphasized. Corruption affects corporate governance efficiency and the overall performance of developing economies has become a serious issue of concern for investors (Magaji and Musa, 2015). Furthermore, Demsetz and Lehn (1985) opine that researching corporate governance and

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privatization is a recent development that attracts the least attention from academia and policymakers in Nigeria. This study is aimed at identifying the basis of the inefficiency and bridging the literature gap, especially in Nigeria. This constitutes the problem of interest in this research. Based on the problem mentioned, the paper investigates that; does corporate governance impact the cement industry performance (liquidity ratio)?

The objective of this paper is to assess the relevant impact of corporate governance on the liquidity ratio of cement firms.

Corporate governance inefficiency is an issue of concern for investors in developing economies. In addition, the academic institutions offer corporate governance courses at the graduate and undergraduate levels. Similarly, specialized institutions have research departments in Nigeria that specialize in this topic. This will benefit investors, scholars, policymakers, the cement industry and the economic environment of the whole country.

The study focused on how privatization between 1991 and 2011 became a solution to corporate governance's inefficiencies in managing the cash ratio of the Nigerian cement industry. However, the limitation of research lies in the use of secondary data that is subject to internal manipulations known to researchers. In this regard, researchers used data certified from the annual and BPE reports of cement companies identified as research samples in the Nigerian cement industry.

This paper is divided into the following subheadings: First, literature review and two theoretical frameworks, empirical outlines, methodologies, interpretation and discussion of results, conclusion and recommendations.

2. Literature Review and Theoretical Framework

2.1 Literature Review

Liquidity is the capacity of corporate governance to meet maturing financial obligations. It is the

convertibility and exchangeability of one asset for another in a timely and cost-effective manner. Thus, the value of the asset will not depreciate and is easily disposable.

In this context, if corporate governance increases its investment in current assets as a ratio of 3 to current liabilities, the current ratio will increase accordingly, indicating sound working capital. To this effect, the composition of current assets is also a determinant of quick and other ratios. The method of financing current assets affects the current ratio. For example, if corporate governance invests more working capital in long-term sources, the result is a larger working capital ratio. Conversely, if corporate governance relies heavily on external sources to raise working capital, the ratio will inevitably drop.

Another factor that determines a company's liquidity ratio is QTC's decision to invest capital in fixed assets. Such investment decision of the Board of Directors without recourse to healthy working capital always leads to low liquidity. This means that as more and more of a company's total capital is absorbed in this process, there will be very little funds left to finance short-term needs and as a result, the liquidity ratio will decrease. Thus, the extent of liquidity is decided through the corporate governance choice to allocate funding price range among the constant and modern property. Finally, managing modern property and modern liabilities decide the liquidity ratio. If corporate governance funding choice in modern property isn't sorted properly, the business enterprise might also additionally collect extra liquidity, which might also additionally have unfavorable outcomes on profitability. Contrary wise, Madushanka and Jathurika (2018) find that corporate governance stringent control on investment in all types of current assets may eventually endanger the existence of the firm due to the inability to meet the obligation when due because of the shortage of funds. Similarly, corporate governance control of short-term liabilities plays an important role in determining a company's liquidity by requiring the company to provide the necessary funds from long-term sources to maintain a liquidity position. This means that a prudent financial manager should always

have mechanisms in place to increase the company's liquidity from long-term investments without incurring unnecessary liabilities that would burden the company and its profits. However, the study of Madushanka and Jathurika (2018) finds that Liquidity ratios (Quick ratios) have positively and significantly related to the firm profitability.

2.2 Empirical Review

Muogbo (2013) samples sixty regulators and investors through the Likert-type questionnaire. Cronbach Alpha reliability coefficient gives 0.93 frequencies, percentage and Spearman coefficient of correlation supplement his analysis. The result shows that corporate governance has a significant positive correlation with privatization. However, public enterprises have not lived up to expectations in terms of employment generation, income redistribution and actualization of overall economic development.

Sunday, Yusufu and Abdullahi (2022) investigate the privatization and efficiency of selected enterprises in Nigeria through administered questionnaires. Their multiple regression analysis reveals that privatization significantly and positively relates to the efficiency of affected firms.

A research study attempts to find the effect of state ownership and follow-up audit findings in State-owned Enterprises (SOE) by the government of the Republic of Indonesia by using Ordinary Least Square (OLS) analysis, conducted by observing 98 observations during 2010–2014. The findings show that there is a negative relationship between state ownership and good corporate governance implementation in SOE in Indonesia. The results also reveal that the follow-up of audit findings positively affects the implementation of governance.

Keun (2020) employs the fixed effects method to investigate within the dummy variables industry and year to incorporate the unobservable variables. The data used contains 536 observations of listed non-financial companies in Kazakhstan to investigate the long-run stock performance. The result shows

that return on equity is significantly affected by the ownership structure of the firms.

2.3 Theoretical Framework

2.3.1 Pecking Order Theory

Garton and Schmid (2000) observes that prudent corporate governance will prefer retained earnings as a source of financing short-term investments, however, if it proves difficult, then, the next option should be debt financing and finally equity financing (Johnson, Boone, Breach and Friedman, 2010). Principally, the focus of this theory is on the use of internal resources or the least expensive resources of the firm (La Porta, *et al.*, 1999). This postulation is consistent with the objective of private corporations; however, it defies the realities of the public corporation due to agency problems. The managers of public corporations prefer using debt financing because the retained earnings are compensation for illegitimate interest which is detrimental to the profitability of the corporation that will create operational sustainability and benefit the government. Furthermore, Allen and Gale (1995) suggest that equity financing can argue liquidity, by law, public corporations are not to be quoted in the capital market, even though, the government used to give them soft budget constraints such as grand, aids and subsidy. Nevertheless, their postulations will enable the new corporate governance of the privatized corporations to identify a better way of striking a balance in liquidity ratio.

3. Methodology

The data source is the Cement Company's records and computation was done in Section 4.

The cement company is the only leading firm in the whole of North-Eastern Nigeria and therefore, the firm is the industry. Hence, there is no need to look for additional firms for the research.

3.1 Liquidity Ratio (LQ)

Madushanka and Jathurika (2018) use liquidity ratio to measure performance in similar research. The liquidity

ratio reveals the current financial health of a business, improves credit control, reduces risk and guarantees spare cash to invest in the short term.

The liquidity ratio measures a company's working capital performance. It provides insight to potential lenders and investors on whether a business has the financial strength to deliver its promises on time. In this study, we applied the analysis of the present report.

3.1.1 Null Hypothesis

Corporate governance has no significant impact on the performance (liquidity ratio) of the Company.

Thus, the Current Ratio = Current Assets (CA) is divided by Current Liability (CL).

3.2 Variables and Measurements

We adopted the model of Munuwar *et al.*, (2017). They use OLS but on different variables.

$$LQ_{it} = \beta_0 + \beta_1 TMV_{1it} + \beta_2 STOW_{2it} + \beta_3 INT_{3it} + \beta_4 MINOW_{4it} + \beta_5 FORE_{5it} + \beta_6 BSZE_{6it} + \beta_7 PE_{7it} + \beta_8 PNE_{8it} + \beta_9 DUAL_{9it} + \beta_{10} CCNE_{10it} + \beta_{11} WF_{11it} + \beta_{12} PMS_{12it} + \beta_{13} PNMS_{13it} + \beta_{14} PRIV_{14it} + u_{it}$$

$\beta_0, \beta_1, \beta_2, \dots$ are the coefficients of interest

• Dependent-Variable

Value = Market value of all outstanding shares

Asset = Firm's TOTAL assets

Casset = Current Assets

Fasset = Fixed Assets

D = Debt = Cl + Ltd

Clability = Firm's Current Liabilities

Casset = Firm's Current Assets

LDEBT = Firm's Long-Term Debt.

NI = Net Income (Earnings before Tax)

• Independent-Variables

3.3 Total Market Value of Shares (TMVS)

Marketplace cost of the organization stocks measured market place capitalization of the companies. It is

famous the extent of buyers' evaluation at the great of the organization's corporate governance in liquidity ratio control which persuaded them to patronize the possession of the companies. The expected coefficient is positive.

3.4 Total Share of Government (STOW)

Measures the contribution of government to a company. The higher the share, the higher the current ratio and the improper government intervention. This means that corporate restructuring will be difficult. The coefficient is predicted to be positive.

3.5 Institutional Investors (INST)

Measures the share of large institutional investors. The higher the market share, the greater the institutional investor's ability to manage liquidity ratios.

Thus, business owners are under pressure to satisfy institutional investors. The coefficient is predicted to be negative.

3.6 Minority Ownership (MINOW)

Measures the percentage of minority shareholders in a company. The higher the share, the higher the liquidity ratio and monitoring effort required for expropriation. This means that management will put up with concentrated shareholders to promote personal gains for minority shareholders. The coefficient is expected to be positive.

3.7 Foreign Investment (FORE)

Measures the share of foreign investment in a company. The higher the stake, the more opportunities you must manage liquidity indicators and bring in new talent, new technologies and restructuring. This means that there will be an operational and financial restructuring. The coefficient is expected to be negative.

3.8 Board Size (BSZE)

Number of directors on the board of the company. The cohesiveness of members of the board and the presence of diverse expertise and experience can improve financial performance. Cumbersome groups can adversely affect financial performance and current ratio management.

3.9 Percentage of Executive Directors (PE)

Percentage of executive directors. It is defined as the ratio of executive directors to the total number of directors of the Company. The expected sign of the coefficient is positive. The lower the market share, the more independent the board makes decisions.

3.10 The Proportion of Independent Directors (PNE)

Proportion of independent directors on the board. It is defined as the ratio of independent directors to the total number of directors in the company. The expected sign of the coefficient is positive. The higher the ratio, the more independent the board decisions.

3.11 Variable Representing CEO (DUAL)

A binary variable that represents the CEO. This variable takes a value of 1 if the CEO/Managing Director has two roles and zero if not. The expected sign of the coefficient is positive because the effectiveness of the Executive Committee as an internal control tool is perceived to be undermined by its inseparable role. A unified command structure can motivate the CEO to pursue excellence. In this case, the sign of the coefficient is predicted to be positive.

3.12 Variable Representing Chairman of Audit Committee (CCNE)

A binary variable that represents the chairman of the audit committee. If the chair of the audit committee is a non-executive director, the value of the variable will be 1. Otherwise, this variable takes the value zero. This helps to verify the independence of the audit committee. The independent chairman is expected to contribute to a stricter framework for the management and monitoring of liquidity indicators, thereby improving the company's performance.

3.13 Work Force (WFO)

The workforce measures the total number of employees in a company. It shows the impact of privatization on the workforce. The expected sign of the coefficient is positive. The larger the size, the higher the corporate governance cost.

3.14 Percentage of Executives (PMS)

Measure the percentage of executives who are directly involved in making internal decisions and implementing company policies. It is defined as the number of managers divided by the total number of employees in the company. The expected sign of the factor is positive.

3.15 Total Numbers of Employees (PNMS)

Measure the total number of employees in a company that is not involved in corporate governance. It is defined as the number of non-executive employees divided by the total number of employees in the company. It shows the effect on the workforce. The expected sign of the coefficient is negative. The larger the size, the higher the cost of corporate governance in managing liquidity indicators.

3.16 PRIV_t

Privatization by time, which is a dummy variable.

4. Analysis and Interpretation of Result

Factors that influence corporate governance Efficiency on Cement Industry Performance.

Under this subheading, the results of the cement industry performance trend analysis were interpreted and the factors that influence the effectiveness of corporate governance for industry performance trends were analyzed accordingly.

This effort was expressed in the liquidity ratio result of Table1 which reveals that the industry had a healthy working capital to the tune of 1400:1 in 1991 and rose to 1600:1 in 1992. Banks' strikes became a serious obstacle in effecting transactions and obtaining bank facilities for financial transactions of the industry's suppliers and distributors and collecting soft loans to augment working capital. These factors declined the liquidity ratio from 1000:1 in 1993 to 900:1 in 1994. Furthermore, Inflation was controlled by stabilizing interest rates and the naira exchange rate, prompting industrial boards to improve their working capital as

manifested in the result of table1; where the liquidity ratio became 2000:1 in 1995, 1900:1 in 1996, rose to 2200:1 in 1997, declined to 2000:1 in 1999 and rose to 2700:1 in 2000, 2300:1 in 2001. The above trend of liquidity ratio result discloses how the board of directors and management were uneconomical and prodigal in handling the liquidity of the firm pre-privatization. Not that alone, it exhibited how the corporate governance was inefficient in investing excess liquidity of the firm and their level of expropriation.

Because no way a profit-oriented firm that is not a bank can operate at this level of high liquidity. However, despite the importance of liquidity for working capital in the manufacturing industry and the challenges of restructuring of human and material assets of the company to suit the objectives of a profit-oriented organization post-privatization. The result suggests that the ratio of current assets to current liabilities was 1100:1 in 2002, and rose to 5000:1 in 2003 because they want to pay workers by downsizing entitlements and settlement of all outstanding obligations. Having achieved a level of financial stability, the ratio declined to 1100:1 in 2004, 600:1 in 2005 and rose to 700:1 in 2006. The result suggested that the Liquidity Ratio declined to 500:1 in 2007 and 2008, it rose to 700:1 in 2009, declined to 500:1 in 2010 and rose to 1000:1 in 2011 based on the above trend.

The solvency ratio results show that the ratio of current assets to short-term liabilities (dependent variable 1) is associated with corporate governance authorization (independent variables) with a level of $R = 0.941$.

This implies that there is a strong relationship between healthy working capital and corporate governance performance. The R^2 results show that about 88.6% of the change in working capital is explained by corporate governance authorization. The adjusted R^2 results show that corporate governance authorization accounts for 7.48% of the change in the liquidity ratio.

The calculated statistic is 6,385 and the estimated significance value is 0.005. Tested at a 1% significance level, this model is powerful in explaining the change in the liquidity ratio of Northern Nigeria Cement

Table 1. Performance trend distribution analysis

| Observation | Liquidity Ratio |
|-------------|-----------------|
| 1991 | 1400:1 |
| 1992 | 1600:1 |
| 1993 | 1000:1 |
| 1994 | 900:1 |
| 1995 | 2000:1 |
| 1996 | 1900:1 |
| 1997 | 2200:1 |
| 1998 | 2100:1 |
| 1999 | 2000:1 |
| 2000 | 2700:1 |
| 2001 | 2300:1 |
| 2002 | 1100:1 |
| 2003 | 5000:1 |
| 2004 | 1100:1 |
| 2005 | 600:1 |
| 2006 | 700:1 |
| 2007 | 500:1 |
| 2008 | 500:1 |
| 2009 | 700:1 |
| 2010 | 500:1 |
| 2011 | 1000:1 |

Source: Author's computations.

Table 2. Regression result of liquidity ratio

| Independent variables | Coefficient | Significance |
|-----------------------|-------------|-------------------|
| 1 (CONST) | -14460.118 | 0.017 0.006 0.977 |
| TMV | -5.413E-8 | 0.105 0.133 0.031 |
| STOW | -2.198 | 0.234 0.762 0.078 |
| INST | -80.400 | 0.012 0.100 |
| MINOW | 89.317 | 0.048 |
| FROE | 427.887 | |
| BSZE | 169.553 | |
| PE | 13.861 | |
| PNE | 0.240 | 0.005 |
| WF | 5.620 | |
| PMS | 1738.379 | |
| PRIVt | -15508.670 | |
| R | 0.941 | |
| R^2 | 0.886 | |
| Ajd R^2 | 0.748 | |
| F stat | 6.385 | |

Source: Author's Computation.

Company. With this, it can be concluded that the model has a good fit.

The constant value 14460.118 is the mean of the Liquidity Ratio (LQ) and the p-value is 0.017 in the absence of the corporate governance variable.

Keeping other variables constant, the results show that a one unit increase in TMV leads to a decrease in the Liquidity Ratio (LQ) by 5.413E8 and the estimated significance value is 0.006. The negative coefficient of the result contradicts the positive coefficient expected from the study, which estimates that the equity market value represents investors' assessment of the quality of corporate governance, the strength and the ability to meet short-term and long-term loan compliance obligations. The potential for repayment of a term loan, as well as the ability to pay dividends, allow creditors to determine whether to enter a contract with the company, which in turn affects the value of the company's shares. Company in the secondary market. The value of 0.006 shows that the total market value of the shares has a significant impact on the liquidity ratio (performance) of the Northern Nigeria Cement Company when performing the proxy test at the 1% level of statistical significance. As a result, TMV has a significant and negative impact on business performance (LQ).

The results show that the STOW coefficient is 2.198 and the estimated significance is 0.997. This means that a one-unit increase in government ownership leads to a 2,198 increase in the firm's operating efficiency (LQ). The positive coefficient of the result contradicts the negative coefficient expected of the study that argues that state ownership promotes MC inefficiency by appointing incompetent people to managerial positions and board members based on their relationships and political interests. Again, the p-value shows that state ownership has a positive and significant effect on corporate liquidity.

The coefficient for institutional ownership is 80,400 and the estimated significance is 0.105. This suggests that a one-unit increase in INST will result in an 80,400 increase in corporate performance, which is consistent

with the expected positive coefficient from the study of organizational ownership as a change. Actively in the corporate governance of the company.

However, the p-value depicts that institutional ownership has a positive and insignificant impact on the company's performance.

Surprisingly, when MINOW increases by 1 unit, the current ratio (LQ) increases by 89.318, with an estimated significance of 0.133. A positive factor is expected in studies that assume that increasing MINOW's cohesion will result in management and concentrated shareholders creating illegal means of promoting their interests to undermine the interests of other stakeholders. It was inconsistent with the negative coefficient. A P-value indicates that minority interests have a positive impact on a company's performance (LQ) but are not significant.

The FORE coefficient is 427.887 and the estimated significance is 0.031. The positive factor is consistent with the expected factor of the study, which claims that linking privatized enterprises to capital markets and foreign investment improves information disclosure and accountability, limits government expropriation and increases liquidity did. The p-value is 0.031. Running the test with a statistical significance of 1%, FORE has a significant impact on the liquidity of companies. Therefore, foreign-affiliated companies have a significant positive impact on the company's performance.

When BSZE is increased by 1 unit, the current ratio (LQ) is increased by 169.553 and the estimated significance value is 0.234. This factor is inconsistent with the expected positive factor in the study, which increases the efficiency of board decision-making and management performance monitoring by increasing board membership with appropriate personnel rice field. In addition, a p-value of 0.234 indicates that BSIZE has a significant impact on the company's performance (LQ). Therefore, the size of the board adversely affects the performance of the Cement Company (LQ) in northern Nigeria.

The results show that the PE is 13.861 and the estimated significance is 0.762. The negative coefficient of the percentage of executive directors is consistent with the expected negative coefficient of the survey, stating that the lower the percentage of executive directors, the higher the independence of the board. A p-value indicates that PE has a significant impact on organizational performance when performing surrogate tests with a statistical significance of 1%. Therefore, PE has a negative impact on the company's performance.

A 1 unit increase in PNE increases the current ratio (LQ) by 0.240, giving an estimated significance of 0.078. The negative coefficients in the results do not match the expected positive coefficients in the study. It argues that increasing the proportion of non-executive directors will increase the independence of the board. This means that board decisions are unaffected by senior management and the legal liability of independent directors is not compromised. A p-value of 0.078 indicates that PNE has a significant impact on the company's performance (LQ) when testing with a statistical significance of 1%.

Therefore, in summary, the percentage of non-executive directors has a negative impact on the company's performance (LQ) and has a significant impact.

If the WF is increased by 1 unit, the current ratio (LQ) will increase by 5.620 and the estimated significance value will be 0.012. The resulting coefficients are inconsistent with the expected negative coefficients of the study, which assumes that an increase in WF leads to a decrease in operational efficiency. In addition, important test results show that the p-value for the workforce is 0.012.1. This means that it will have a significant impact on the liquidity ratio. Therefore, the workforce has a positive and significant impact on the performance of the Cement Company (LQ) in northern Nigeria.

The coefficient for APMS is 1738.379 and the estimated significance is 0.100. This result shows that as the unit of PMS increases, the production of the company increases by 1738,379. This factor is consistent with the expected positive factor in the survey that management

percentage measures the number of employees directly involved in corporate policy decision-making, formulation, and implementation. This means harmony between board decisions and management's business activities. However, a p-value of 0.100 indicates that PMS does not significantly affect the company's performance. Therefore, PMS has a positive impact on the company's performance.

Finally, 15508.670 is the difference between the pre-privatization and post-privatization current ratios (LQ), with an estimated significance of 0.048. The positive coefficient of privatization is consistent with the expected positive coefficient of the survey, stating that privatization promotes corporate governance efficiency and has a positive impact on corporate performance (LQ). This result supports the result of the trend analysis that the privatization of Post1 has a higher liquidity ratio than before the privatization. A p-value of 0.048 shows that privatization has a significant impact on a company's performance when conducting tests with a statistical significance of 1%. For this reason, privatization has a significant positive impact on performance (LQ).

5. Summary of Findings

The main finding of this study is that there is a strong link between sound working capital LQ and corporate governance performance. TMV reduces the current ratio by 5.4. With the increase of INST, the production volume of the company will increase by 80,400. Increasing the MINOW result to 89.317 will increase the current ratio.

When BSZE increases by 1 unit, the current ratio increases by 169.553. Increasing the unit of PINE 1 will increase the current ratio by 0.240. When NF 1 increases by 1 unit, the current ratio increases by 5.620. Also, if the unit increases by 2 PMS, the company's production will increase by 1738,379.

Based on the evaluation of liquidity ratio, the elements affecting corporate governance performance and inflicting capability under-utilization in Cement enterprise are macro-financial demanding situations which include devaluation of the naira, power region

crisis, forex rate, inflation, alternate liberalization, inconsistent stabilization policies, political instability and banks' moves and susceptible non-public region. Average overall marketplace fee of shares, common overseas ownership, common percent of government directors and common paintings pressure have a fantastic and enormous effect on Cement enterprise's performance (LQ). However, privatization has a bad and enormous effect on a company's performance (LQ).

6. Conclusion and Recommendations

Therefore, corporate governance will have a significant impact on the cash ratio of Nigeria's cement industry and the cash ratio will drop significantly after privatization. Given the findings and the drawn conclusion, the researcher made the following recommendations. Corporate governance needs to devise strategies for proper liquidity management because the ratio of current liability to the current asset is too high for-profit oriented industry. Corporate Governance needs to focus on long-term investments rather than short-term investments, monitor risk management practices, increase profits and move towards sustainability and growth.

7. Suggestions on Further Areas of Study

Further studies need to be conducted on the reasons behind a higher liquidity ratio above the usual recommendation of financial performance scholars post-privatization.

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