

The Effect of Privatization on Firm Financial Performance in Kenya

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Abstract: This study aimed at establishing the effect of privatization on firm financial performance in Kenya. The study was based on the financial reports of six firms which were privatized within the period 1991 and 2008. The analyses covered a period of three years before and after privatization for each of the firm, and the mean and standard deviation on returns on turnover, total assets and equity were the key statistics performed on the data from those firms. The study found out that the firms improved their performance after privatization. The Government should therefore move away from pursuing commercial activities and instead concentrate in activities such as provision of services and creating the legal and institutional framework conducive to increased private investment.

Keywords: Privatization, Finance, Performance.

1. INTRODUCTION

From 1963 when Kenya achieved political independence, the Government's participation in commercial activities grew rapidly and broadly resulting in state dominance in various forms (including monopolies) in many commercial activities. The establishment of the parastatals was driven by a national desire to: accelerate economic social development; redress regional economic imbalances; increase Kenyan Citizen's participation in the economy; promote indigenous entrepreneurship; and promote foreign investments (through joint ventures). This desire was expressed in the Sessional Paper No. 10 of 1965 on African Socialism and its application to planning in Kenya.

The Sessional Paper guided nationalization under which a few private sector operations were brought under government control. It pointed out that nationalization was only needed when the assets in private hands threaten the security or undermine the integrity of the nation; or when productive resources are being wasted; or when the operation of an industry by private concerns has a serious detrimental effect on the public interest; or when other less costly means of control are not available. The paper indicated that once in government hands the nationalized operations had to operate efficiently, cover costs and earn profits at least equivalent to taxes paid when operating efficiently. It also emphasized the complementary role played by private sector in creating additional productive assets for the country and employment and the need to utilize government resources in areas in which private sector is unable and unwilling to invest.

The Report on Review of Statutory Boards (1979) pointed out that: the growth in the parastatal sector had not been accompanied by development of efficient systems to ensure that the sector plays its role in an efficient manner; there was clear evidence of prolonged inefficiency, financial mismanagement, waste and malpractices in many parastatals; government investments had largely been at the initiative of private promoters with government being brought in either as an indispensable partner or to undertake rescue measures; many of the parastatals had moved away from their primary functions, especially the regulatory boards most of which had translated their regulatory role into executive one, resulting in waste and confusion; and there was danger of over-politicizing production and distribution through establishment of too many parastatals.

The Report on the Working Party on Government Expenditures (1982) pointed out that: Kenyanization had remained merely presentational through government ownership; state corporations' operations had become inefficient and

unprofitable, partly due to multiplicity of objectives; existence of parastatals in commercial activities had stifled private sector initiatives; and many of the joint ventures had failed, requiring the government to shoulder major financial burden. The Report on the Working Party on Government Expenditures concluded that some of the resources diverted to the government to finance the state corporations' activities could have contributed more to national development if these state corporations were left in the private sector. The report recommended that: the government should act as a creator of favourable setting within which people can develop themselves and the economy; the government should divest from its investments in commercial and industrial enterprises to transfer active participation to more Kenyans through participation in shareholding; the government should reduce exposure to risk in areas in which the private sector can assume risk without government intervention; the government should dismantle some of the existing administrative hurdles which discourage private sector initiative and provide needless opportunities for corruption; and the government should reorganize legal and institutional framework regarding monitoring and supervision of parastatals.

The Sessional Paper No.4 of 1991 on Development and Employment in Kenya decried the continued deterioration of the performance of state corporations. The Paper pointed out that while the creation of state corporations through which government participation in economic activities was appropriate soon after independence, the objectives for and the circumstances under which most of the state enterprises were created had since changed. The paper underlined the need to implement privatization and divestiture of state corporations urgently in view of the managerial problems afflicting the parastatals leading to poor return on government investments. It pointed out the existence of a larger pool of qualified manpower, the availability of more indigenous entrepreneurship to permit private sector led economy and the need for non-tax revenue for the Government.

The Policy Paper on Public Enterprises Reform and Privatization (1994) outlined the institutional framework and the guidelines and procedures to be applied in privatizing state corporations. The paper pointed out that there were 240 commercial public enterprises with public sector equity participation and classified the public enterprises into two categories: 207 non strategic commercial public enterprises which were to be privatized and 33 strategic commercial public enterprises which were to be restructured and retained under public sector ownership and control.

The 1998 version of the Policy Paper on Public Enterprises Reform and Privatization shows that by 30th September 1998 of the 207 non strategic commercial public enterprises 145 had been privatized as follows: 12 were liquidated; 14 were sold through receiverships; 53 through pre-emptive rights; 8 through public flotations; 14 through competitive bidding; 1 through management buyout; 5 through partial divestitures; and 39 through complete divestitures. The Privatization Programme (2008) notes that most of the non strategic commercial enterprises had been privatized either fully or partially by the end of the first phase of the programme in 2002.

Cook and Kirkpatrick (1995) stated that privatization is one of the several policy options for promoting improvements in SOEs performance and can take a variety of forms each with a different impact on the objectives of privatization policy. They stated that SOEs can be privatized in a number of ways. The different methods of privatization can be grouped into two categories: methods involving the sale of enterprise (divestiture) – public flotation, private sale and management buyout; and methods involving transfer of control from public to private sector – contracting out, management contract and leasing and franchising. Each of these privatization methods contributes in varying degrees to the government's privatization objectives. The choice of the method used will vary with the objectives and constraints prevailing in each case.

2. STATEMENT OF THE PROBLEM

Cook and Kirkpatrick (1995) observed that despite the difficulty of measuring public enterprise performance, one of the main reasons for the drive towards privatization had been the poor financial performance of SOEs. Privatization was being driven by a pragmatic reaction to over three decades of poor financial performance by SOEs. Private ownership was thus favoured, on the grounds that returns to capital were lower among SOEs and they generally had a poor reputation for innovation, diversification and quality of goods and services.

According to Nellis (2006) many public enterprises performed poorly. Rather than contribute to state budgets, they drained them. A high percentage failed to produce a sufficient quality or a high quality of service or a product. He noted that there was widespread failure to charge cost covering tariffs in infrastructure/utility public enterprises; and subsidies from government and soft budget kept the enterprises afloat. These flows eventually posed large financial burdens on government budgets and thus attracted the attention of the international financial institutions and donors.

Nellis, further observed that most governments were finding it more difficult to provide their infrastructure firms with capital needed for maintenance and expansion. Much of the improvement resulting from privatization came from the ability of the new private owners to tap private capital markets. Strained public funding was not sufficient to meet repair and expansion needs. Private operators were more able to raise investment capital from private markets.

Aseto and Okelo (1997) noted that privatization in Kenya was being undertaken because there was general dissatisfaction with the performance of many state-owned enterprises: the enterprises had failed to meet popular expectations for product quality or quantity; many of them had been too ambitious in their product lines or unable to deliver on time; a large number of the enterprises had been unable to compete with the already flourishing private sector; and the technological advances had made some of the products or services provided by the enterprises obsolete. Moreover, the changing world markets or differing consumer tastes had made products of these enterprises more difficult to market. They therefore concluded that the government felt privatization could be justified as a way of meeting the changing consumer demand.

Poorly performing public enterprises, sheltered from market competition and enjoying preferential access to scarce inputs, have limited the growth of the enterprises, increasing their costs of business and blocking their access to markets. The Government has had to shoulder heavy fiscal and managerial burdens, absorbing an increasing share of the scarce public resources. This has consequently called for measures which would ensure the public enterprises become more responsive to market forces and the price mechanism. The reform efforts that have been instituted to make the public enterprise sector more responsive to market forces and price mechanism are threefold: market liberalization; enterprise reform (restructuring); and privatization. In Kenya key in the reform efforts has been privatization. The various studies that have been carried out on privatization and related fields in Kenya include: Nyong'o et al (2000) *The Context of Privatization in Kenya*; Debrah and Toroitich (2005) *The Privatization of Kenya Airways, a case study*; and Odipo (2010) *Whether Privatization has Achieved its Objectives in Kenya, a case of firms privatized at Nairobi Stock Exchange*. No study has been carried out on the effect of privatization on firm performance in Kenya. This study aims at establishing the effect of privatization on firm financial performance in Kenya. Therefore, the question that remains unanswered is whether privatization has resulted in improvement in the financial performance of the privatized enterprises. This study will analyze the financial performance of the privatized firms in Kenya before and after privatization. The results of the study will give an indication as to whether privatization should be encouraged as a reform strategy or discouraged.

3. LITERATURE REVIEW

Few studies have examined the operating and financial performance of newly privatized firms in developing countries. The existing empirical literature has focused on the experience of developed countries with the notable exceptions of Galal et al (1994), Megginson et al (1994), Boubakri and Cosset (1998) and D'Souza and Megginson (1999). In a World Bank study, Galal et al (1994) assess the welfare gains or losses resulting from the privatization of 12 companies operating mostly in non-competitive markets in 4 countries: Chile, Malaysia, Mexico and United Kingdom. They reported net welfare gains in 11 of the 12 cases. Productivity increased in 9 of the 12 cases and remained unchanged in the other 3. The methodology involved allocation of the costs and benefits of adjustment among different economic groups. The analysis revealed no case in which workers lost overall from privatization. They claimed that the results provided evidence in support of net welfare gains even when they tried to isolate the effect of privatization from the effects of other factors such as changes in market structures and in macroeconomic conditions. However, their sample was small and unrepresentative of the universe of privatized firms in developing countries and any generalization of their evidence should be avoided.

In contrast, a major study by Megginson et al (1994) compared the pre- and post-privatization financial and operating performance of 61 firms from 18 countries (12 industrialized and 6 developing (non-industrialized) and 32 industries over the period, 1961-1990. The methodology involved comparing real sales, investment spending and operating efficiency. They presented strong evidence that, following privatization, their sample firms became more profitable, increased their real sales and their investment spending and improved their operating efficiency. The companies significantly lowered their debt levels and increased dividend payments. More surprisingly, they found no evidence that employment levels declined after privatization. Instead, they reported an increase in the mean and median employment and they found that 64 percent of the sample companies employed more workers after privatization. Their results were generally unchanged when they partitioned the data into smaller sub-samples and compared the financial and operating performances of fully versus partially privatized firms, privatized firms operating in competitive versus noncompetitive industries, and (industrialized) versus non-industrialized (developing) country firms. They documented important changes in the size and

composition of the board of directors for the newly privatized firms in their sample. However, the sample included only a small number of firms headquartered in developing countries. Depending on the financial and operating performance measure, the number of sample firms operating in developing countries ranged from 3 to 12. Therefore, the sample size was too small to consider that the reported evidence reflected the actual experience of privatizations in developing countries.

Boubakri and Cosset (1998) considered a large set of newly privatized firms (79) headquartered in 21 developing countries that experienced full or partial privatization over the period 1980 to 1992. Their sample covered a wide range of developing countries in terms of development level and capital market sizes. Their sample included countries identified as low-income economies (Bangladesh, India, Pakistan), lower-middle-income economies (Chile, Jamaica, Nigeria, Philippines, Thailand, Tunisia, Turkey) and upper-middle-income economies (Argentina, Brazil, Greece, Malaysia, Mexico, Portugal, Singapore, South Korea, Taiwan, Trinidad and Tobago, Venezuela). The sample also included firms operating in competitive and non-competitive markets. In addition to companies privatized through public share issues considered by Megginson et al, their sample also included companies privatized through direct sale to another company, a frequently-used method in developing countries. In their methodology they compared operating efficiency, capital investment, real sales, total employment and dividends. In addition they used both raw and market-adjusted performance measures so as to isolate the effect of privatization from the impact of macroeconomic changes on the financial and operating performance of SOEs. For both unadjusted and market-adjusted performance measures they found that newly privatized firms exhibited significant increases in profitability, operating efficiency, capital investment spending, real sales, total employment and dividends. They also documented a decline in leverage following privatization but this change was significant only for unadjusted leverage ratios. Additionally, their results were generally robust when they partitioned their data into various sub-samples such as full versus partial privatizations, control versus revenue privatizations, companies operating in competitive versus non-competitive industries and companies based in upper-middle-income countries versus low-income and lower-middle-income countries. However, their evidence suggested that privatization yielded greater benefits for companies operating in developing countries with high income per capita and for companies whose governments surrendered voting control.

D'Souza and Megginson (1999) compared the pre- and post-privatization financial and operating performance of 85 companies in 28 countries and 21 industries that were privatized through public share offerings for the period from 1990 through 1996. Out of these 85 companies, 58 of the firms were from 15 industrialized countries and 27 from 13 developing countries. The methodology involved comparing output, operating efficiency, and dividend payments. They documented significant increases in profitability, output, operating efficiency and dividend payments and significant decreases in leverage ratios for their full sample of firms after privatization. These results were generally unchanged when the full sample was partitioned into the following sub-samples: firms headquartered in an industrialized or developing country, firms whose voting control was sold or retained by the divesting government, firms operating in a competitive or non-competitive industry, firms with or without a large scale (at least 50 percent) turnover in the firm's board of directors after privatization, firms whose CEO was retained or replaced after privatization. In contrast to Megginson et al (1994) they found insignificant changes in the capital expenditures to sales measures in the post privatization period (as Boubakri and Cosset, 1998). They concluded that their results combined with those of Megginson et al (1994) and Boubakri and Cosset (1998) suggested: that privatization improved the financial and operating performance of newly divested firms; that these improvements were the results of socially beneficial improvements in productive efficiency and entrepreneurial effort; and that privatization worked in a wide variety of countries, industries and competitive environments.

4. RESEARCH METHODOLOGY

The researcher adopted a quasi-experimental (event-study) design to carry out the study. The researcher observed the pre-privatization performance and the post-privatization performance of the various SOEs in Kenya that have been privatized during the period 1991 and 2008. Mugenda and Mugenda (1999) define a population as a complete census of all items or people in a researcher's area of study. The population of the study was the companies which were previously either wholly or substantially owned by the Kenya Government, but in which now the Government's ownership has been diluted within the period 1991 and 2008. The population for the study consisted of 152 companies.

The study was based on the financial reports of the selected firms in which the Kenya Government has disposed of its equity holding during the period 1991 and 2008. To draw the sample size the firm must have been in operation for at least three years before the privatization and continued in operation for three years after the privatization. Most of the firms were privatized through liquidations and receiverships as most of them were already experiencing financial problems. Using this criterion a sample of six firms was selected for review.

Secondary data consisting of annual financial reports were collected from either the individual firms selected or the Investment Department of Treasury. Data forms were designed to record the key data items for the period of six years reviewed by the study for each of the selected firms. The data listed in these forms provided the necessary items used in the computation of the various ratios such as return on turnover, return on total assets and return on equity. These ratios were key indicators of a firm's financial performance. The aim was to come up with valid empirical evidence on comparison of financial performance before and after privatization of the selected firms. To compare the performance of the selected firms before and after privatization, descriptive statistics such as mean and standard deviation were used. Microsoft Excel Software was used to carry out the data analysis.

An event study, in finance research, is an analysis of whether there was a statistically significant reaction in financial markets to past occurrences of a given type of event that is hypothesized to affect public firms' market values. The event that affects a firm's market value may be within the firm's control, such as the event of the announcement of a stock split. Or the event may be outside the firm's control, such as the event of a legislative act being passed, or a regulatory ruling being announced, that will affect the firm's future operations in some way. Descriptive statistics such as mean and standard deviation were used to test the data for its ability to be relied upon for valid conclusion. These tests were applied on all the data for the pre-privatization and post-privatization periods. In the study the event was privatization. Financial data of six companies in which the Government disposed of its equity holding within the period, 1991 to 2008, was analyzed. The analyses covered a period of three years before privatization and three years after privatization for each of the chosen corporations.

4. FINDINGS

The various firms which are the subject of this study have been analyzed individually using various performance measures such as return on turnover, return on total assets and return on equity to get the firms' annual performance for the period before and after privatization. This is shown in Table 1.

Table 1: Firm's Performance on the Basis of Return on Turnover, Return on Total Assets and Return on Equity

Firm	Ratio	Year Prior to Privatization			Year After Privatization		
		Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
KENGEN	ROT	33	18	16	17	30	15
	ROTA	5	2	2	2	4	2
	ROE	61	29	32	44	88	38
HFCK	ROT	16	30	16	17	16	17
	ROTA	0	1	1	3	3	3
	ROE	56	25	14	63	48	52
MSCL	ROT	-2	0	6	8	-3	8
	ROTA	-2	0	8	1	-2	9
	ROE	-14	-3	62	6	-21	78
NBK	ROT	8	4	3	28	9	6
	ROTA	1	1	1	2	2	1
	ROE	94	88	14	37	50	39
KQ	ROT	-9	0	17	8	11	9
	ROTA	-14	-1	33	8	10	7
	ROE	-73	-2	67	37	57	52
KEN RE	ROT	21	26	11	28	25	23
	ROTA	5	7	3	11	9	9
	ROE	33	50	26	99	89	103

Note: ROT is Return on Turnover; ROTA is Return on Total Assets and ROE is Return on Equity. ROT, ROTA and ROE are percentage returns of net profit on turnover, total assets and equity respectively.

Source: Author's Own Computations

KENYA ELECTRICITY GENERATING COMPANY:

The returns on turnover (ROT) for the three years before the privatization are 33, 18 and 16 respectively, while ROT for the corresponding three years after the privatization are 17, 30 and 15 respectively. The return on turnover improved in the first year (2007) after privatization. The improvement was further amplified in the second year (2008). However, in the third year (2009) the performance dropped drastically. On average the performance by the firm for the two periods show no apparent change on the basis of return on turnover. The improvement in return on turnover in the first and the second years can be attributed to the growth in the national economy following the reforms initiated by the Government over the period 2003 – 2007. Other factors which can be attributed to improvement in the performance could be the demand on the management by the board of directors to deliver on the terms agreed on following the listing of the company on the Nairobi Stock Exchange. The fall in performance in the third year (2009) can be attributed to the adverse weather conditions experienced in that year which led to fall in water levels in the dams of the company. Hydro-electric power forms the highest source power generated by the company.

The returns on total assets (ROTA) are 5, 2 and 2 respectively for the three years before privatization, while ROTA for the three years after privatization are 2, 4 and 2 respectively. The return on total assets was low in the first year (2007) after privatization, rose in the second year (2008) but again fell in the third year (2009). Overall, the performance on the basis of return on total assets does not seem to present any significant change for the two periods. The improvement in return on total assets in the second year (2008) can be attributed to the acquisition of more technologically advanced equipment that boosted generation of power leading to higher turnover and net profit. The fall in performance in the third year (2009) can be attributed to the adverse weather condition experienced in that year leading to low turnover and net profit and low return on total assets.

The returns on equity (ROE) for the three years before privatization are 61, 29 and 32 respectively, and ROE for the three years after privatization are 44, 88 and 38 respectively. The return on equity rose significantly in the first year (2007) after privatization and the rise continued into the second year (2008) but dropped in the third year (2009). Overall, the performance by the company shows a significant improvement after privatization on the basis of return on equity. The improvement in return on equity in the first and the second years can be attributed to the growth in the national economy following the reforms initiated by the Government over the period 2003 – 2007. The fall in performance in the third year (2009) can be attributed to the adverse weather condition experienced in that year leading to low turnover and net profit and hence low return on equity.

HOUSING FINANCE COMPANY OF KENYA LIMITED:

The returns on turnover (ROT) for the three years before privatization are 16, 30 and 16 respectively, while (ROT) for the three years after privatization are 17, 16 and 17 respectively. The return on turnover improved in the first year (1993) after privatization, slightly dropped in the second year (1994) and again rose slightly in the third year (1995). On average, the performance on the basis of return on turnover improved in the period after privatization. The company pursued diversification strategy by venturing into ancillary areas of business related to the development and finance of residential houses. The expanded portfolio included: mortgages on commercial properties; insurance; estate management and technical consultancy. These efforts helped to grow the net profit and therefore improved the return on the turnover.

The returns on total assets (ROTA) for the three years before privatization are 0, 1 and 1 respectively, and the ROTA for the period after privatization are 3 for all the three years. The return on total assets improved in the first year (1993) after privatization and remained constant in the second year (1994) as well as the third year (1995). Overall, the performance on the basis of return on total assets is higher for the period after privatization. The diversification strategy meant expanded market and therefore growth in sales and profits. The growth in profit thus improved the return on assets.

The returns on equity (ROE) for the three years before privatization are 56, 25 and 14 respectively, while ROE for the three years after privatization are 63, 48 and 52 respectively. The return on equity improved significantly in the first year (1993) after privatization; however, it dropped in the second year (1994) but again rose in the third year (1995). Therefore the performance on the basis of return on equity shows there is an improvement in the period after privatization. The improved profitability following business diversification resulted in higher returns on the equity employed and thus the probable return to the share-holders.

MUMIAS SUGAR COMPANY LIMITED:

The returns on turnover (ROT) for the three years before privatization are -2, 0 and 6 respectively, while (ROT) for the three years after privatization are 8, -3 and 8 respectively. The return on turnover improved significantly in the first year

(2002) after privatization, dropped in the second year (2003) and rose again in the third year (2004) to the level of the first year. On average, the performance on the basis of return on turnover improved in the period after privatization. The improved performance after privatization can be attributed to the management's effort in the strengthening of the distribution network and therefore increasing the market penetration and the company's sugar reached virtually all parts of the country. Also during this period the company branded its sugar and introduced the 2kg, 1kg, 1/2kg and 1/4kg packets to target the various income groups of its probable customers. This effort resulted in improved turnover and net profit.

The returns on total assets (ROTA) for the three years before privatization are -2, 0 and 8 respectively, and the ROTA for the three years after privatization are 1, -2 and 9 respectively. The return on total assets improved in the first (2002) after privatization, dropped in the second year (2003) but rose in the third year (2004). Overall, the performance on the basis of return on total assets does not seem to present any significant change for the two periods. The increased penetration of the market and the expansion of the production capacity meant more investment in assets meaning that the profit would be spread over more assets thus resulting in lower returns on the assets for the first two years after privatization. However, as the gains of the market penetration and capacity expansion start being felt in the third year, the returns on assets improves and this is likely to continue into foreseeable future.

The returns on equity (ROE) for the three years before privatization are -14, -3 and 62 respectively, and the (ROE) for the three years after privatization are 6, -21 and 78 respectively. The return on equity rose significantly in the first year (2002) after privatization and then dropped in the second year (2003) but rose significantly in the third year (2004). Overall, the performance by the firm shows an improvement after privatization on the basis of return on equity. The results of the capacity expansion pursued by the management after privatization were not felt in the first two years thus low returns on equity. However, as the results of the expansion start being realized in the third year, the returns on equity rises and this is likely to continue into the near future.

NATIONAL BANK OF KENYA LIMITED:

The returns on turnover (ROT) for the three years before the privatization are 8, 4 and 3 respectively, while ROT for the corresponding three years after the privatization are 28, 9 and 6 respectively. The return on turnover improved significantly in the first year (1995) after privatization; however this improvement was not maintained as in the second year (1996) the performance dropped drastically and fell further in the third year (1997). However, on average the performance by the company for the two periods on the basis of return on turnover shows some improvement in the period after privatization. The company's management embarked on deposit mobilization by expanding its branch network after privatization. The bank also relaxed its terms for extending loans to its customers. For instance, salaried customers could secure loans by presenting their pay-slips for the last three months. This helped the bank to boost its turnover as well as the net profit.

The returns on total assets (ROTA) for the three years before privatization are 1, 1 and 1 respectively, and the ROTA for the period after privatization are 2, 2 and 1 respectively. The return on total assets improved in the first year (1995) after privatization and remained constant in the second year (1996), eventually dropping slightly in the third year (1997). Overall, the performance on the basis of return on total assets is higher for the period after privatization. The deposit mobilization and the relaxed leading terms together with the strengthening of controls over operational cost helped improve the profit thus improving the return on the assets.

The returns on equity (ROE) for the three years before privatization are 94, 88 and 14 respectively, and the ROE for the three years after privatization are 37, 50 and 39 respectively. The return on equity rose significantly in the first year (1995) after privatization and rose slightly in the second year (1996) but again fell slightly in the third year (1997). Overall, the performance by the firm shows a drop after privatization on the basis of return on equity. The bank increased its share capital by more than one and half times, but the growth in turnover and the net profits did not match the increase in share capital, therefore the lower performance in terms of return on equity in the period after privatization. The increase in assets may reverse this trend as this may help the bank to boost its turnover and net profit.

KENYA AIRWAYS LIMITED:

The returns on turnover (ROT) for the three years before the privatization are -9, 0 and 17 respectively, while ROT for the corresponding three years after the privatization are 8, 11 and 9 respectively. The return on turnover dropped in the first year (1997) after privatization; rose in the second year (1998) and dropped again in the third year (1999). However, on

average the performance by the company for the two periods on the basis of return on turnover shows some improvement in the period after privatization. After privatization the company embarked on cost cutting measures which involved installation of strong financial and budget processes. These measures included: reduction in the fleet and increase in the utilization of the remaining aircrafts; review of the routes and fares structure and reduction in staff numbers through voluntary severance programme. These measures helped to reduce costs while improving the net profit and thus the growth in return on turnover.

The returns on total assets (ROTA) for the three years before privatization are -14, -1 and 33 respectively, and the ROTA for the three years after privatization are 8, 10 and 7 respectively. The return on total assets dropped in the first year (1997) after privatization, rose in the second year (1998) and then dropped slightly in the third year (1999). Overall, the performance on the basis of return on total assets improved in the period after privatization. The cost reducing measures employed by the management helped improve the net profit and thus improving the return on the assets.

The returns on equity (ROE) for the three years before privatization are -73, -2 and 67 respectively, and the ROE for the three years after privatization are 37, 57 and 52 respectively. The return on equity dropped in the first year (1997) after privatization, rose in the second year (1998) and dropped again in the third year (1999). Overall, the performance by the firm shows an improvement after privatization on the basis of return on equity. The ability of the management to lower the cost through strong financial control and budget processes, helped to grow the net profit which in turn improved on the return on the equity.

KENYA REINSURANCE CORPORATION LIMITED:

The returns on turnover (ROT) for the three years before the privatization are 21, 26 and 11 respectively, while (ROT) for the corresponding three years after the privatization are 28, 25 and 23 respectively. The return on turnover rose in the first (2008) year after privatization, dropped in the second year (2009) and again dropped slightly in the third year (2010). However, on average the performance by the company for the two periods on the basis of return on turnover shows some improvement in the period after privatization. Following the privatization, the corporation embarked on a growth strategy that involved marketing strategies to expand the existing business and acquisition of new business. This helped to grow the premium revenue and therefore turnover. At the same time the corporation employed financial controls to ensure that costs do not grow at the same rate the revenue was growing. The result of these efforts was improved return on turnover.

The returns on total assets (ROTA) for the three years before privatization are 5, 7 and 3 respectively, and the (ROTA) for the three years after privatization are 11, 9 and 9 respectively. The return on total assets rose in the first year (2008) after privatization, dropped in the second year (2009) and remained at the same level in the third year (2010). Overall, the performance on the basis of return on total assets improved in the period after privatization. The growth in net profit as a result of aggressive marketing and the effective cost control measures ensured improved returns on assets.

The returns on equity (ROE) for the three years before privatization are 33, 50 and 26 respectively, and the ROE for the three years after privatization are 99, 89 and 103 respectively. The return on equity rose significantly in the first year (2008) after privatization, dropped in the second year (2009) and rose again in the third year (2010). Overall, the performance by the firm shows an improvement after privatization on the basis of return on equity. The improved net profit following the expanded market and thus revenue ensured the growth in returns on equity.

When the firms reviewed are analyzed using summary statistics such as mean and standard deviation on the performance measures such as return on turnover, return on total assets and return on equity; the firms show improved performance on all the three measures. The means of the returns are higher on all the measures of performance for the period after privatization and the deviations between the returns are lower for the post-privatization period. This is an indication that the firms performed better following privatization and that returns were stable as shown by the low standard deviations on all the three performance measures for the post-privatization period as compared with the pre-privatization period.

When the firms are analyzed individually on the three measures of performance none of the six firms failed to perform better after privatization on all the measures of performance. Only one firm, (Kenya Electricity Generating Company), registered no apparent change on two of the measures of performance i.e. return on turnover and return on total assets. One firm, (Mumias Sugar Company), registered no change on return on total assets. The lack of improvement on the return on total assets could be accounted for by probably the increase in assets following privatization which may have been financed by borrowing rather than by equity. However, National Bank registered a drop on return on equity. Housing Finance Company and the Kenya Reinsurance Corporation registered improvement on all the three measures of performance.

5. CONCLUSION AND RECOMMENDATIONS

Overall, the results show significant improvement in the financial performance of the privatized firms after privatization. It is therefore necessary for the Government of Kenya to pursue the privatization policy. The Government should thus move away from pursuing commercial activities and instead concentrate in activities such as human capital enhancing activities, provision of services and creating the legal and institutional framework conducive to increased private investment.

More research on privatization experience in Kenya needs to be done especially to assess the influence of economy-wide changes on the firms' performance. Other avenues of research with regard to privatization experience should deal with the effect of privatization on the development of the stock market in Kenya and other countries in Africa.

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