THE IMPACT OF THE METHOD OF PRIVATIZATION USED ON A FIRM’S FINANCIAL PERFORMANCE: A Study of Privatized Firms

A PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE DEGREE OF MASTERS OF BUSINESS ADMINISTRATION (MBA),

FACULTY OF COMMERCE
KENYATTA UNIVERSITY

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DECLARATION

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This Research Project has been with my approval as university supervisor.

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MRS. ORERO

CHAIRPERSON

DEPARTMENT OF ACCOUNTING
DEDICATION

This work is dedicated to:

My father J. C. Kamung’a who has set very high standards for the family.

Hellen Muthoni my mother, my brother Charles and all my sisters.
ACKNOWLEDGEMENTS

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ABSTRACT

Privatization policy was recommended by the World Bank and officially adopted by the Kenya government in 1991. Since 1991 over 140 of the 207 former state owned Enterprises earmarked for privatization have been privatized. Different methods or techniques have been employed to privatize these state owned enterprises (SOEs).

This study aimed at finding out whether the method employed in divesting from these SOEs does impact on the Post divestiture financial performance of the said enterprises. To this end two methods were considered namely:

- Privatization through public share floatation at Nairobi Stock exchange
- Sale via competitive bidding

To achieve this objective information was sought from Nairobi stock exchange (NSE) secretariat library, other post-privatization studies and the executive secretariat and technical units (ESTU) Parastatal Reform Programme Committee. The most important information was company’s financial reports.

Financial ratios for the prior and post privatization period for the selected firms were calculated. The means of these financial rations were computed and these firms were categorized based on the method of privatization and their prior and post privatization financial ratio means compared. The profit after tax ratio mean for companies privatized via public share floatation and that of the companies
privatized via competitive bidding were tested to find out whether they were significantly different.

The analysis revealed that after privatization financial performance improved marginally though this was not a significant change at 95 percent confidence interval. This may be due to the change in management policies, may be due to change in the composition of their board of directors (without any government appointed director).

The results indicate that Post Privatization financial performance of Enterprises divested via public floatation were better compared to those of companies privatized via competitive bidding, since the post divestiture profit after tax was significantly higher for public share floatation than the competitive bidding category.

Further public floatations appear to have attracted considerably many buyers as indicated by the over subscription for their shares. It is therefore recommended that public share floatation technique be employed more when privatizing State Owned Enterprises. More recommendations are given in the last chapter of this report.
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CHAPTER ONE

1.0 INTRODUCTION

1.1 BACKGROUND

Immediately after World War II there was an increase in state involvement in the production of goods and services. This stemmed from an amalgam of political and economic forces and philosophies which were prevalent then (Muir and Saba, 1995).

A number of policies were implemented which shaped the economic profile of the developed and developing countries. Some countries embarked on nationalisation programs mainly focussed on energy transport and other utilities. The nationalised companies were transformed into entities, which became part of the government departments and in other cases they became state owned enterprises SOEs.

Newly independent countries faced many challenging objectives such as development of an industrial base and entrepreneurial class with sufficient capital to invest; promoting indigenization, creation of employment; fostering infant industries and controlling strategic resources. To this end many developing counties responded by accelerating the role of the state in the economy.
For the past twenty-five years governments in developing countries have added significantly to the stock of SOEs, marketing boards, utilities and other enterprises. Governments hoped that public enterprises would assist in development of "strategic" sectors, gain access to commercial credit and thus fill "entrepreneurial gaps," empower numerically large but economically weak segments of the population, maintain employment levels and raise the level of savings and investments. Therefore state ownership was not thought to offer any inherent obstacles to effective functioning of these enterprises. (Shirley and Nellis, 1991)

As early as 1970s many governments had recognised the fact that SOEs were performing poorly. Poor SOEs performance was associated with labour rigidities in the market increased fiscal and foreign debt and inflation problems. SOEs provided poor and unreliable service, failed to meet demand and were lagging behind in technology areas like telecommunications (Shirley, 1993).

Mismanagement, bureaucracy, waste, pilferage incompetence and irresponsibility by directors and employees are the main problems that have made SOEs fail to achieve their objectives.
The poor performance of SOEs in Kenya by 1990 led to outflow from the central government to parastatal equivalent to 1% of the GDP in 1991. Further between 1990-92, the direct subsidies to parastatals amounted to Ksh 7.2 billion and as additional indirect subsidies amounted to Ksh. 14.2 billion (Bhatia, 1996). By 1994, the subsidies paid to parastatal organisations were taking 5.5% of the GDP. The levels of inflation in the country then reflected deficits financed by the Central Bank. Some ways were devised to solve these problems, these included negotiations between SOE and government in a bid to clarify the former’s objectives and set targets, introduction of competition and better accountability to customers, provision of incentives in form of higher salaries and benefits to employees based on performance and increased training of employees. All these measures were not 100 percent successful. Failure of the above measures made many governments embark on Privatization.

1.2 Privatization

Privatization is any transfer of ownership or control from public to private sector (Donaldson, 1995). Privatization as a Policy was recommended by the World Bank as part of a broader program of reforms designed to promote a better allocation of resources, encourage competition, foster a supportive environment for entrepreneurial development, and develop the capital market. Kenya government embraced Privatization as early as
1991. By July, 1992 when the Privatization programme started the parastatal sector was a key player in the economy employing over 170,000 people and accounting for 11% of the Gross domestic product (GDP) and 16% of the gross capital formation (Koimett, 1996).

207 of the 240 SOEs were earmarked for Privatization. To-date the government has divested over 140 SOEs. Different approaches have been used to divest these SOEs. Studies need to be done in order to establish whether they do impact on the results obtained thereafter.

The methods used to divest SOEs in Kenya include:-

a) Public offering of shares on Nairobi stock exchange;
b) Sale of shares by private placement;
c) Negotiated sales in so far as pre-emption right exist and have been exercised;
d) Sale of enterprises assets (including liquidation);
e) Employee/management buy-out;
f) Leasing or reward of management contract; and
g) New private investment in the enterprise.

Questions are raised on what methods to employ in divesting SOEs. Privatization will be more successful, less stressful and less apt to back fire, if the method which is selected, as well as the aims and objectives are
customized to fit the circumstances of what is being privatized, place in which it is happening and the particular point in time. The importance of selecting the right method is that, it is irreversible (Rogozinski, 1992).

The choice of the method and the way it is carried out can have the same or greater importance than the very option to privatize in the first place. Indeed the method selected can have important and unintended consequences (Mario, 1988). Benefits associated with different forms of private participation in infrastructure comprises broader range of private participation options. The nature and the extent of these benefits vary according to the form of private participation involved. Public offerings are politically appealing, since they result in broader share distribution and reduce criticism that the sale was rigged or that the government is transferring assets to a few, wealthy elite.

Despite these advantages direct sales accounted for vast majority Privatization in the developing countries from 1988 to 1993 (Sader, 1994). Direct sales are attractive for several reasons. For small to medium firms, direct sale may be simpler and less costly than public offering. Direct sale is also appropriate for troubled large firms that could benefit from a strong owner and it would be risky for government to offer these stocks in the stock market. Direct sale reflects perhaps the low value of
assets, underdevelopment of local capital markets and widespread use of Privatization by liquidating the firm and then selling the assets.

In contrast transition economies, with their need to privatize many large firms, concern about equity and their desire to develop their financial system, tend to favour public offerings (The World Bank, 1992).

Joint ventures are often employed where the SOEs to be privatized are large, highly diversified and in financial or organisational difficulties. The outside investor can obtain control over particular components of the enterprise without being required to take on the company in its entirety.

Concessions and lease agreements are more appropriate techniques when the government does not want a particular natural resource or infrastructure to be transferred completely to private owners.

Management/employee buy-out technique is the easiest to employ in divestiture. The government does not have to engage in negotiations about future employment in the organisation, leaving those decisions to employers and managers. It may or may not involve the transfer of personnel.
The impact on financial performance will certainly vary depending on the techniques used. The choice of the option is done by The Executive Secretariat and Technical Unit (ESTU) according to a laid down criteria. The divestiture was as follows:

- 11 companies were liquidated;
- 14 companies were put under receiverships;
- 53 companies were sold through pre-emptive rights
- 8 companies were sold through public floatation's
- 14 companies were sold through competitive bidding
- 1 company was sold through management employment buy out techniques and 39 tea factories were sold to farmers. (Ministry of Finance, 1998).

1.3 STATEMENT OF THE PROBLEM.
Evidence that the method used to privatize a Public enterprise (PE) has any impact on its post Privatization performance has been absent. There has been a few systematic attempts made to measure the impact of Privatization on a firm’s performance. The results of these studies have indicated that ownership matters in terms of enterprise financial and operational performance. Most of these post divestiture studies have been carried out in other countries which differ in many aspects from Kenya.
They differ in terms of the level of capital markets development, macroeconomic policies governing trade, finance, labour; and legal and other institutional structures. Overall the level of economic development varies from country to country.

According to a study by Odondi (1998) SOEs become better performers after Privatization. Odondi’s study covered all newly privatized firms whose data was available. In another study conducted by international Research Network Ltd. for the executive secretariat and Technical Unit, Parastatal Reform Committee, it was found out that the level of efficiency rose after privatization. Further firms became more profitable after privatization. Employees were more happier, better trained and remunerated. No attempt was made to analyse these firms based on the method or technique of Privatization used.

This study seeks to find out whether the method or technique used in privatising a PE does have any effect on its post divestiture performance in terms of profits, capital, productivity and solvency. This is a lacuna that needs to be filled.

1.4 THE PURPOSE OF THE STUDY.

The purpose of this study was to find out the relationship between the technique or method used to privatize a given PE and the enterprise’ post
divestiture performance in terms of profits, productivity, capital and solvency.

1.5 **OBJECTIVES OF THE STUDY.**

This study aimed: -

1) To compare the pre-divestiture and post divestiture performance of the privatized firms.

2) To determine whether there is any significant difference in the post divestiture performance depending on the Privatization method used.

3) Rank the firms post divestiture performance based on the results in (3) above.

1.6 **IMPORTANCE OF THE STUDY**

The results of this study may be used to:

1) Encourage more sales of SOEs and give the government the badly needed impetus to hasten the pace of the Privatization process.

2) Make recommendations that can be adopted by those in authority for use in the Privatization process. For instance the most rewarding techniques or method to use in the Privatization of the remaining SOEs.
3) Lobby for public support and participation in the Privatization programme by the government, as they will ensure the public that Privatization does lead to more benefits for the country.

4) Encourage more research into Privatization by other academicians since it will act as “food for thought”.

1.7 OPERATIONAL TERMS

Privatization.
This term refers to the transfer of government assets or enterprises from the government to private control and ownership (World Bank, 1996). Privatization is the complete or partial transfer of control over publicly owned assets to private sector in exchange for payment (Sader, 1995).

Denationalisation
This is selling off public enterprises and is described in literature as divestiture or ownership transfer.

Divestiture.
This is getting rid of a subsidiary either through sale or through a spin off to stockholders of the parent company. (Moffat, 1976). In this study divestiture will be used to refer to the government action of selling off its interest in the SOEs to private sector.
**Private Sector.**

This refers to private enterprises which are all economic activities that are independent of government control (public sector) carried on principally for profit but also including non-profit organisations directed at satisfying private needs. (Ammer et al, 1977)

**Private Ownership.**

Ownership by individuals or by organisations as opposed to public ownership in which some level of government is the owner. (Moffat, 1976)

**Public Sector.**

Refers to all economic activities mostly services that are carried out directly by the government agencies (or outside private sector), largely for public benefit rather than for profit (Amer et al, 1977).

**Public Ownership.**

Refers to ownership and operation of an economic enterprise by the central government (Amer et al, 1977).

**Public Enterprise (PE)/State Owned Enterprise (SOE).**

These terms refer to enterprises which are generally majority owned by the government and their borrowing is implicitly or explicitly guaranteed by the
Public enterprises will be used interchangeably with state owned enterprise which is a government owned or controlled economic entity that generates bulk of its revenue from selling goods and services (The World Bank, 1995). Although strictly speaking public enterprise or “parastatal” is an enterprise in which the government of Kenya has majority of the equity, for the purpose of this study, the terms public enterprise or state owned enterprise will include enterprises in which the government owns minority equity interest, where distinction in relative ownership needs to be made, the terms (majority owned PE) will be used to denote an enterprise in which the government has a controlling shareholding interest.

**Pre-Emption.**

The right to purchase before the others, for example the purchase of shares in a company by its members before members of public do so, or to buy back property from the original purchaser (Walmley, 1979).

**Pre-Emptive Rights.**

The right of shareholders to bid for shares before it is offered to others. (Walmley, 1979)
**Placing.**

A private sale of a new issue to a limited number of investors usually the big institutions, a proportion of the issue being allocated to the market to be available to the general public. (Perry, 1990)

**Golden Shares.**

One share with special voting rights (Ira and Christopher, 1988)
1.8 **ABBREVIATIONS.**

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<tr>
<td>GMA</td>
<td>Capital Markets Authority</td>
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<td>DGIPE</td>
<td>Departments of Government Investment and public Enterprises</td>
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<td>ESTU</td>
<td>Executive Secretariat and Technical Unit</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>NSE</td>
<td>Nairobi Stock Exchange</td>
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<td>SOE</td>
<td>State owned enterprise</td>
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<td>SPSS</td>
<td>Statistical Package for Social Science</td>
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<td>P.E</td>
<td>Public enterprise</td>
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<td>PIC</td>
<td>Public Investment Committee</td>
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<td>PRPC</td>
<td>Parastatal Reform Programme Committee</td>
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A study undertaken by Ochando in 1998 examined the privatization and post-divestiture financial and operating performance of the newly privatized enterprises in Kenya. The study analyzed data into two periods before and after privatization. His findings were as follows:

- Return on equity increased by 61% return on asset by 98.2% with return on sales increased by 49.7% after privatization.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 POST DIVESTITURE PERFORMANCE STUDIES.

Though there are limited, but growing number of empirical studies examining post divestiture performance of former SOEs, the evidence available strongly supports the contention that ownership matters in terms of enterprise efficiency gains and positive welfare consequences. However, it should be noted that conditions affecting the outcome of Privatization vary tremendously from country to country and from firm to firm.

2.1.1 Studies Specific to Kenya.

A study undertaken by Odondi in 1998 examined the pre-divestiture and post-divestiture financial and operating performance of the newly privatized enterprises in Kenya. The performance of each enterprise was analysed into two periods before and after Privatization. His findings were as follows:

- Return on equity increased by 61%, return on asset by 56.2% while return on sales increased by 46.7% after Privatization, thus profit increased after Privatization.
• Efficiency gains were positive and large with net income per employee increasing by 44.3% while sales per employee increased by 48.7% after privatization. Employment declined marginally by 2.6% as a result of employment cuts.

From the above results, it can be concluded that newly privatized enterprises in Kenya improved both in financial and operational performance. Five out of six measures were statistically significant improvements. Firms became more efficient in terms of resource utilisation after Privatization.

Though Odondi’s work contributed immensely to the understanding of post Privatization performance of privatized firms in Kenya, little is known about the impact of the Privatization technique used on the firms post divestiture performance. There was no attempt by Odondi to relate or compare the results obtained to the technique of Privatization used.

Another post privatization study was conducted in 1998 by the international Research Networks Limited on behalf of the ESTU, parastatal reform committee. This study was divided into parts namely the Tea factories post privatization study and the other part comprised of other parastatals.

According to the study the following were the findings, Tea factories reported increase in mean annual percentage changes in the following items, sales profits, professional remuneration and value of exports among
The year before divestiture showed the mean annual percentage changes -8.50, -14.65, -7.30, 15.85 for sales, profits, professional remuneration and export values respectively. Years after divestiture showed the following mean annual percentage change 18.25, 42.88, 33.24 and 22.95 for the said variables respectively. This study covered 19 of the 40 Tea factories divested.

Post privatization results of other parastatals other than Tea factories were as follows. Mean annual percentage changes for sales before 15.88% to 20.39%, profit before tax 15.37% to 46.54%, Total value of exports 75.92% to 23.56%, Total Number of units/volume of the main category actually produced -9.09% to 6.08%, Achievable capacity -2.66% to 3.22%, Number of expatriates 0.63% to 2.1%, Total labour costs 15.61% to 23.56% and Average remuneration for professional 26.78% to 16.45%. By and large these results indicate improvements in firms performance after privatization. This study covered the duration of one year before privatization and undisclosed post privatization years.

2.1.2 Studies World Wide.

In a study undertaken by the World Bank and Boston University, 12 firms spread in four different countries were examined. This study covered the following companies; British Telecom, British Airways, National Freight all in the United Kingdom; Chilgener, Enersis and Compania de Telefonos de
Chile in Chile; Malaysian Airline systems, Kelang Container Terminal and Sports Toto in Malaysia and Telefonos de Mexico, Aeromexico and Mexicana de Aviacion all Mexican companies.

According to Ingo and others the welfare consequences were positive British Telecom was privatized via public floatation in 1984 when 50% of company shares were sold for £3.7 billion. The post divestiture results indicated that productivity increased, price effects were either negative or small and positive. Capital formation improved. British Airways was divested in 1987 through public share floatation. Post divestiture results were impressive since productivity improved fixed capital grew, prices decreased and profits increased. National Freight was divested in 1982 via employee buyout and had surprising success. Real gross fixed capital formation increased output increased and employment shrunk for some time.

Galal and others studied Chile’s divestiture program. Chilengener was divested by first being liquidated and later on via public floatation where shares were offered through the stock market. Post divestiture rate of return increased, efficiency improved and also there was a surge in investment.
Enersis used to be a monopoly electricity company, which was divested through public share floatation. The government first disposed 62% of its shares to private sector and later on these shares were traded in Santiago stock exchange. The post divestiture performance of Enersis indicated that profit increased productivity improved and output was diversified. Compania de Telefonos de Chile (CTC) was a state owned telecommunications enterprises until 1987 when it was sold to the private sector where the controlling shareholders were foreigners. After divestiture, profit and productivity increased, output was diversified and investment increased.

Leroy and others studied Malaysian divestiture and found out that; Malaysian Airline System was divested via share placement to both domestic and foreign markets. The government retained golden shares and it was a partial financial divestiture. The post divestiture results indicated that productivity declined, prices changed though by a small margin as was in investment. Kelang container terminal divestiture was long and difficult. The first step was incorporation of Kelang Container Terminal by Keplang Port Authority, then KCT was awarded a licence to operate for twenty one years. Later on KPA sold 51% of KCT shares to
Konnas Terminal Kelang (KTK). KTK was one of the six bidders and was a joint venture between Malaysian and foreign interest.

After divestiture performance improved markedly. Public profitability grew even with the persisting prices and output also increased. The lottery firm (Sport toto) was sold to private sector in full or 100% as opposed to the other two companies which were partially divested. After divestiture profits increased as a result of increase in sales and the government benefited from increased tax revenue.

Malaysian cases suggest that partial divestitures are sometimes more favourable than full divestitures where the government sells 100% of its equity or relinquishes control to private purchaser. Further combining politically correct ownership with competent professional management can produce good results.

Tandon et al. Studied several Mexican companies that had been divested. These companies included Mexicana Airline which was divested in 1988. 49% of the shares were sold to a foreign owner while another 25% of its shares were placed into trust. Post divestiture performance improved.
Productivity and fixed capital formation improved though profitability declined for the first two years. Aeromexico was divested in 1988. It was first placed into bankruptcy and later on liquidated. The final sale was via competitive bidding where the government accepted the minimum price. After divestiture performance was not good, for instance profit increased marginally for the first two years and later on losses were made. Capital stock shrunk and output fell dramatically. Total factor productivity (TFP) rose by over 20%.

Telmex (Telefonos de Mexico) was privatized in 1990. Divestiture was via competitive bidding. The government very much wanted a foreign buyer so as to improve on technology. The government later on placed 15% of the stock on international stock market. Performance after Privatization was impressive. Private profits and profitability improved, labour productivity and prices increased.

From the study findings above it was concluded that, in all but one case, divestiture yielded positive gains for the economy as a whole in terms of efficiency of enterprise, subsequent investment and consumer welfare (Muir and Saba, 1995). In all the above 12 cases no attempt was made to relate the post divestiture performance to the technique of Privatization that was used to divest the said SOEs.
Leeds studied Jamaica's Privatization of two SOEs. These SOEs were sold through public floatation of shares and both were successful. The post divestiture performance of the Caribbean cement company (CCC) and the National Commercial Bank (NCB) was better. These two companies were considered good performers even before they were privatized. The public subscribed for shares fully. It is not possible to attribute their good post divestiture performance to the methods used to divest them since even when they were under government control they still performed well.

In another study of Bangladesh Textile Mills by Lorch, it was found out that most of the state owned mills were sold through private sale to their previous owners. By and large the private mills outperformed the public mills, however, just like the Jamaica's case there was no study done to determine whether "Private sale" as a technique of Privatization did impact on the mills post divestiture performance in a special way.

Privatization through leasing can yield substantial benefits. Bergeron studied Togo's steel company and found out that the leasing out turned out to be a success to the private sector. Further he compared leasing out of the Togo steel plant to other alternatives such as liquidation or outright
sale. The gains brought in included technical and managerial skills which allowed full utilisation of the assets and greater managerial autonomy.

Togo's case sheds some light on the factors to consider when leasing is chosen as a method of Privatization. Further questions are raised on what technique to be preferable given others and also how leasing should be structured to attract private party.

Brook Lower studied the Guinea Bissau national electricity utility privatization, which was by management contract, where the utility was put under five person management Team. The performance improved, for instance service interruptions that had hitherto been chronic and wide spread were reduced to only a few hours a day. The utility showed a quick turnaround between 1987 to 1990. The lease of water supply by C‘ote D'Ivoire to a French company saur in 1987 had similar results. Sodeci and Ivorian company owned 48%, Saur 48% and the government owned only 4% of the shares. Sodeci continued posting dividends to shareholders, further the service provided was closer to the standards in Europe. On seeing these benefits Guinea Bissau leased its water supply to a private company.
Megginson, Nash and Raddenborgh (1992) analysed the effects of ownership change on performance, using a panel of 41 enterprises from 15 countries. Their sample included enterprises sold through public offerings over a period of 1981 – 89. Comparing pre and post divestiture data they found out that the change ownership correlated significantly with higher profitability, better utilization of human and physical resources, enterprise growth and greater employment. Adam, Cavedish and Mistry (1992) compared same enterprises before and after divestiture by use of case studies in eight countries. Foreman, Peck and Manning compared the performance of British Telcom with that of five Telecommunications enterprises elsewhere using total factor product (TFD) as a basis of comparison. Bishop and Kay (1988), Yarrow (1986) and Caves carried out studies of Post divestiture performance.

2.2 FACTORS CONSIDERED IN DECIDING ON THE METHOD TO USE WHEN PRIVATIZING A STATE OWNED ENTERPRISE

2.2.1 Global Perspective.

Methods are tactics for achieving objectives, with respect to privatization methods used vary depending on the enterprise being privatized. Though there are over twenty (20) methods only six are generally accepted. These are public share offering, private placement (including pre-emptive rights)
management/employee buy out, leases and management contract, sale of assets and joint venture. Of the above methods one has been employed far more than the rest, for example of the 140 privatized SOEs 92 were sold via pre-emptive rights, this represented over 65% of all privatized SOEs. Public share floatation though appealing appear to have accounted for only 6% of all SOEs privatized. Public offering has not been widely employed because of some inhibiting factors that are used as the basic considerations on deciding the technique of privatization to employ.

The method opted for will be determined further by the circumstances (practicabilities), namely the condition of the enterprise beforehand. These include the objectives that guide privatization in that country. The principal ones being relief from financial burden which stems from the huge losses from inefficient SOEs. Mexico deficit was 17% of the GDP in 1987 before it embarked on privatization this went down to 2% by 1992. The desire for government to raise revenue, for instance Britain raised £34 billion from sell of 46 SOEs, Mexico raised £9 billion and Kenya raised over £100 million by the end of 1999 from privatizations. Development of broader ownership (democratic capitalization) whereby ownership of SOEs is fairly spread among the people in a given country. This is one of Kenya’s privatization objectives.
According Borgatti (1993) who studied the central American republics El Salvador and Nicaragua privatization was geared towards job creation while Honduras used it’s privatization programmes to woo foreign investors into the country. The method of privatization may also be affected by the desire by the government to retain some form of control hence existence of Golden shares like in Britain.

The method opted for will be determined further by the circumstances (practicabilities), namely the condition of the enterprise, country’s environment and resources available for privatizing. SOE should have the right corporate form for it to be privatized. In Argentina operators of utilities were required to prove that they were technically and economically unviable, while British Airways need Major financial restructuring which took many years before privatization. In some cases a preliminary step (fragmentation) is employed before privatization. In Honduras the privatization of furniture factory was as follows. Land and Buildings were auctioned off to a local businessman, machinery and equipment were sold to a foreign furniture manufacturer who agreed also to take the workers (Borgatti, 1993).
The country's environment includes the social stability (fear for cost increases or cut back of services especially to the sections of the poor in rural areas), labour issues (fears of losing jobs and Trade Union opposition to privatization), and politicians fear of losing opportunities for patronage. In some countries there are national security considerations while in others the military may oppose the privatization deal, hence the desire for Golden shares. Economic factors do determine how much and what type of privatization is to be done. For instance absence of lively, efficient stock exchange has been cited as a hindrance to privatization via public share floatation.

Privatization programmes can be very expensive and thus the resources available in terms of both human and financial affect the techniques employed. Nicaragua had to contract its own business school graduates to prepare prospectuses, valuations and analyses of the SOEs that had been earmarked for privatization (Borgatti, 1993).

Methods or parts of method of privatization are put together and adapted to fit each case (See the Table 2 below).
Table 2: Reasons for privatizing Telecommunications in six different countries.

<table>
<thead>
<tr>
<th>Country</th>
<th>Reason</th>
<th>Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Argentina</td>
<td>Reduce external debt</td>
<td>Debt equity swap, public share offering to local investors.</td>
</tr>
<tr>
<td></td>
<td>Improve efficiency</td>
<td>Competitive bidding to feign investors</td>
</tr>
<tr>
<td></td>
<td>Modernize</td>
<td></td>
</tr>
<tr>
<td>2. Australia</td>
<td>Increase competition</td>
<td>Franchise, increased capitalization</td>
</tr>
<tr>
<td>3. Mexico</td>
<td>Improve efficiency</td>
<td>Public share offering to locals competitive bidding to foreign investors/operators</td>
</tr>
<tr>
<td></td>
<td>Modernize</td>
<td></td>
</tr>
<tr>
<td>4. New Zealand</td>
<td>Increase competition</td>
<td>Sale to local investory and foreign Operators (No monopoly)</td>
</tr>
<tr>
<td>5. Puerto Rico</td>
<td>Revenues</td>
<td>Fixed price auction/Tax incentives</td>
</tr>
<tr>
<td>6. UK</td>
<td>Increase competition</td>
<td>Public share offering</td>
</tr>
<tr>
<td></td>
<td>Demonopolize</td>
<td>Competitive bidding for foreign groups</td>
</tr>
</tbody>
</table>


Private placements and lease managements contracts are widely used because they are adaptable to the less than ideal conditions that privatizers encounter in many parts of the developing world.

2.2.2 Kenya’s Experience

In Kenya the decision on the method or technique to be used when the government is divesting from a SOE is undertaken by the ESTU in Liaison with other stakeholders. The following factors are considered:
(i) The size of the enterprise (Normally large companies are sold via public share floatation).

(ii) The financial health of the SOE. (The profitability for at least 3 to 5 years).

(iii) Rules of the Capital Markets Authority (CMA)

(iv) Desire to have high quality management

(v) The desire for wide spread share ownership

(vi) Sufficient liquidity in the secondary market.

(vii) Existence or non-existence of a pre-emptive rights clause in the company’s articles of association.

Therefore a large company, with profitable track record for at least 3 to 5 years and not having a pre-emptive clause will be divested via public share floatation.

A company having pre-emptive clause in its memorandum or articles of association, meant to protect minority or existing shareholders will most likely be privatized through sale by exercise of the pre-emptive rights by the existing shareholders. This approach sometimes raises controversies over sale. The Mumias Sugar company is already in this scenario. It had been previously earmarked for divestiture via public share floatation but
later on this approach was rescinded in favour of sale via pre-emptive rights. The same controversies surrounded the early years of privatization that aroused harsh reaction by a one time chairman of the (PIC), MP George Anyona who asked the government to halt the privatization programme until such a time that Kenyan nationals would to be in a position to buy these SOEs (Aseto and Okelo, 1992)

A company that is unable to meet its financial obligations and needs protection from asset stripping by creditors is most likely to qualify for divestiture by receivership. This will allow rational restructuring and survival of the parastatal is safeguarded. On the other hand a potentially profitable company which needs finance and management expertise will most likely be divested by competitive bidding method where it is advertised and sold as a going concern with the hope that the new owners will turn it round. Profits records are normally poor. The other methods are also employed after consideration of factors peculiar to the enterprise being privatized for instance the liquidation of uplands bacon factory limited in 1995.

A hasty or badly implemented privatization can involve economic and political costs such that they end up representing a negative sum game for
the economy as a whole (Macel, 1988). Hence there is need to carefully consider the method employed in privatization.

This study will use financial ratio means to determine to what extent the technique used to privatize a given firm affects its post divestiture performance.
CHAPTER THREE

3.0 RESEARCH DESIGN AND METHODOLOGY

3.1 TARGET POPULATION.

The population that was under study comprised of 140 privatized state owned entreprises in Kenya. This is an appropriate study population for it is suitable for achieving the objectives of the study.

3.2 THE SAMPLE

The population under study was stratified into five separate strata depending on the method used to privatize SOEs. Two of these five strata were sampled for the study. The two categories of SOEs sampled and their respective numbers were as follows:

- Those SOEs sold by public floatations;  8
- Those SOEs sold via competitive bidding;  14

All the 22 State Owned Enterprises were targeted for the study.
3.3 DATA SOURCES

Secondary data was used to accomplish the objectives of the study. The following sources provided most of the data used in the analysis:

(i) NSE Secretariat Library

(ii) ESTU, parastatal Reform Program Committee

(iii) Past Post Privatization Studies.

The secondary data sought is indicated by the appendix D.

The following data was required for the study:

i) Company’s end of year Financial Reports

ii) The companies employees (Numbers)

3.4 DATA ANALYSIS.

The data collected was analysed by use of Microsoft excel and SPSS software’s. Raw data was input into excel spreadsheets file after which formulas were applied to calculate the ratios for all the companies studied. For each firm there was a mean and a standard deviation computation for all its ratios.
Tests were carried out for all the ratios in order to find out whether the difference of the means before and after Privatization is statistically significant. Companies were categorised based on the technique used to privatize them and the results obtained were used to test for statistical significant difference among them. For this purpose the multiple T-test which enables one to test hypothesis about more than two sample means were employed.

3.5 CALCULATION OF THE VARIABLES.

3.5.1 Profit.

The profits comprised the reported profits as shown in the annual results of the firms. Thus the reported profit after tax figures were extracted from the records for all the relevant years. Other measures that were used to indicate financial performance were:-

a) **Rate of Return on Equity (RoE):**

This is the coefficient of net income to permanent business assets and measures the earning power of the assets employed. It was calculated as follows:

\[
\text{RoE} = \frac{\text{Net profit after tax}}{\text{Average Equity}}
\]
b) **Return on Assets**

This is the coefficient of net income to business assets and measures the earning power of the assets employed. It was calculated as follows:

\[
\text{Return on Assets} = \frac{\text{Net profit after tax}}{\text{Total Assets} - \text{Current Liabilities}}
\]

c) **Return on Sales.**

This ratio measures profit margin and was given by:

\[
\text{Return on Sales} = \frac{\text{Net profit after tax}}{\text{Sales (Shs)}}
\]

d) **Earnings Per Share**

This ratio indicates how much of the company profit can be attributed to each ordinary share of the company. It was calculated as follows:

\[
\text{EPS} = \frac{\text{Net profit after tax and preference dividends}}{\text{Number of ordinary shares in issue}}
\]

**3.5.2 PRODUCTIVITY.**

This variable was measured by use of turnover in Shs or output in Shs and then dividing this with the total number of employed persons. Turnover was to be proxy for output, where output figure was not provided.

\[
\text{Productivity} = \frac{\text{Total output (Turnover)}}{\text{Total Number of Employees}}
\]
3.5.3 CAPITAL EMPLOYED

This is the stock of fixed capital which was provided in the financial reports.

It was computed as follows: Total Assets – Current Liabilities

3.5.4 SOLVENCY

(i) **Current Ratio.**

This compares total current assets to total liabilities. It was given

\[
\frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}
\]

(ii) **Acid Test Ratio**

This ratio compares current assets excluding stock to current liabilities. It was given by:

\[
\frac{\text{Current Assets – stock}}{\text{Current Liabilities}}
\]
CHAPTER FOUR

4.0 FINDINGS PRESENTATION AND DISCUSSION

4.1 INTRODUCTION

This chapter deals with presentation and interpretation of findings. The data collected was analysed using MS Excel and SPSS (Statistical Packages). The data was then summarized and presented in form of means, and tables. The study investigated the impact of the method (technique) of privatization on the company's financial performance. Only secondary data was used in this analysis. Of the 22 firms initially targeted for the study only 12 firms were studied (see appendices A and B). These firms were privatized on diverse dates between 1991 to 1996.

<table>
<thead>
<tr>
<th>Table 4A: Firms Studied</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of firms studied</td>
</tr>
<tr>
<td>7</td>
</tr>
<tr>
<td>5</td>
</tr>
</tbody>
</table>
Ratio analysis was employed in this study, this was found appropriate since all similar studies carried out in the past employed it (Odondi, 1998; Ogeto, 1996; Myers, 1991).

4.2 FINDINGS
This analysis was divided into two stages namely: comparing prior and post divestiture financial performance of each category (public share floatation and the competitive bidding) separately. The second stage involves comparing the post divestiture financial performance of the two groups or categories.

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Mean</th>
<th>df</th>
<th>t-value</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Prior</td>
<td>Post</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit after tax</td>
<td>446793107.11</td>
<td>786971396.34</td>
<td>6</td>
<td>-0.62</td>
</tr>
<tr>
<td>Return on assets</td>
<td>0.13411</td>
<td>0.197926</td>
<td>6</td>
<td>-2.11</td>
</tr>
<tr>
<td>Return on equity</td>
<td>0.246429</td>
<td>0.317139</td>
<td>6</td>
<td>-0.67</td>
</tr>
<tr>
<td>Earnings per share</td>
<td>2.8870</td>
<td>7.4507</td>
<td>6</td>
<td>-1.92</td>
</tr>
<tr>
<td>Current ratio</td>
<td>1.3</td>
<td>1.9</td>
<td>3</td>
<td>-1.56</td>
</tr>
<tr>
<td>Return on sales</td>
<td>0.0569</td>
<td>0.095525</td>
<td>6</td>
<td>-1.81</td>
</tr>
<tr>
<td>Capital employed</td>
<td>64923840.43</td>
<td>7139107240.3</td>
<td>6</td>
<td>-0.31</td>
</tr>
</tbody>
</table>
It is evident from the above table 4B that there was no significant change in the above ratios for the companies after divestiture. These results indicated that by and large public (listed) companies which were once owned by the government whether by minority or majority ownership experienced no significant impact as a result of Privatization. This was partly due to inclusion of extreme values like the huge figures for losses made by the two major banks in the recent years. Individual companies may have experienced significant changes in their financial performance but the results of the groups diluted that significant change. There was no data from six companies on the number of employees, output and turnover, hence productivity ratio was not tested in order to determine whether there was any significant change after Privatization.

TABLE 4C: FINANCIAL PERFORMANCE OF COMPANIES PRIVATIZED VIA COMPETITIVE BIDDING SALE

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Mean Prior</th>
<th>Mean Post</th>
<th>df</th>
<th>t-value</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit after tax</td>
<td>3314480</td>
<td>8784324.92</td>
<td>3</td>
<td>0.203</td>
<td>Not significant</td>
</tr>
<tr>
<td>Return on assets</td>
<td>0.181857</td>
<td>0.16805</td>
<td>2</td>
<td>0.19</td>
<td>Not significant</td>
</tr>
<tr>
<td>Return on sales</td>
<td>-0.020833</td>
<td>0.05485</td>
<td>3</td>
<td>-0.69</td>
<td>Not significant</td>
</tr>
<tr>
<td>Productivity</td>
<td>13977303.92</td>
<td>1631969.99</td>
<td>3</td>
<td>0.2</td>
<td>Not significant</td>
</tr>
</tbody>
</table>
From the above results indicated by Table 4C it is clear that there was no significant change in the following ratios after Privatization profit after tax, return on assets, return on sales and productivity.

Individual firms may have performed rather differently and some had significant changes in some variables. The following ratios could not be tested for significance change due to unavailability of data, return on equity, earnings per share, current ratio and capital employed.

The following specific data was missing from the financial reports available total equity, number of shares, current assets, fixed assets and current liabilities.
TABLE 4D  COMPARISON OF FINANCIAL PERFORMANCE BY RATIOS BETWEEN PUBLIC FLOATATION CATEGORY AND COMPETITIVE BIDDING GROUP.

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Period</th>
<th>Means</th>
<th>df</th>
<th>t-value</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Those privatized via public share floatation</td>
<td>Those prvitized via sale by competitive bidding</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit after tax</td>
<td>Prior</td>
<td>446793107</td>
<td>3314480</td>
<td>10</td>
<td>1.06</td>
</tr>
<tr>
<td>Profit after tax</td>
<td>Post</td>
<td>786973196</td>
<td>8784324.92</td>
<td>6</td>
<td>2.34</td>
</tr>
<tr>
<td>Return on assets</td>
<td>Prior</td>
<td>0.13411</td>
<td>0.18667</td>
<td>10</td>
<td>-.39</td>
</tr>
<tr>
<td>Return on assets</td>
<td>Post</td>
<td>0.197726</td>
<td>0.16805</td>
<td>8</td>
<td>0.32</td>
</tr>
<tr>
<td>Return on equity</td>
<td>Prior</td>
<td>0.246429</td>
<td>0.036136</td>
<td>10</td>
<td>1.12</td>
</tr>
<tr>
<td>Earnings per share</td>
<td>Prior</td>
<td>2.4663</td>
<td>-8.4504</td>
<td>4.07</td>
<td>1.12</td>
</tr>
<tr>
<td>Current ratio</td>
<td>Prior</td>
<td>1.2824</td>
<td>1.1794</td>
<td>8</td>
<td>0.29</td>
</tr>
<tr>
<td>Return on sales</td>
<td>Prior</td>
<td>0.056899</td>
<td>0.01983</td>
<td>8</td>
<td>0.46</td>
</tr>
<tr>
<td>Return on sales</td>
<td>Post</td>
<td>0.095525</td>
<td>0.054850</td>
<td>6</td>
<td>0.81</td>
</tr>
<tr>
<td>Capital employed</td>
<td>Post</td>
<td>649238407</td>
<td>13442500</td>
<td>10</td>
<td>0.99</td>
</tr>
</tbody>
</table>

The results in Table 4D above indicate that there was no significant difference for all the ratios above between the two categories (public floatation) and competitive bidding except for two. These are post-privatization profit after tax and earnings per share prior to Privatization.
There was no data available on the following ratios, return on equity, earnings per share, current ratio and productivity after Privatization for the competitive bidding group this made it impossible to compare performance of the two groups. Data on number of employees, output and turnover before and after Privatization for the public share floatation group was also unavailable and hence this ratio could not be analysed.

The terms equal and unequal under comments column in Table 4D above imply that the means of the two groups are not significantly different (Equal) and that the means are significantly different if the comment is (unequal). The results obtained in table 4D above indicate somewhat different opinions from that commonly held that large companies whether state owned or not do outperform small firms in the same category. These results are not in unique given that among both categories there are a number of former large scale public corporations such as Kenya Airways, Kenya Commercial Bank, African diatomite Milling Corporation that appear to have diluted the findings from the two categories. The percentage of governments participation in all the firms studied is indicated in the appendix B. Some of these SOEs recorded losses in their operations before
privatization, others after privatization due to other factors like increase in loan repayment default rate.

CONCLUSIONS AND RECOMMENDATIONS

6.1 CONCLUSIONS

This chapter presents a conclusion of the findings of this research project in light of the main objectives stated earlier on.

The first objective was to find out whether there is significant change in performance of GOEs after divestiture, this was to be achieved by comparing pre-merger and post-divestiture financial performance of any privatized firm. The results indicate that by and large there was no significant change in financial performance of the company studied after privatization as indicated by indexes highlighted in Tables 48 and 49. It is however worth noting that individual companies appeared to have had significant changes in some attributes. Despite of variation in the individual company returns some having increased while others decreased, the net change in group's performance was not significant.

The second objective was aimed at determining whether there was any significant difference in post-divestiture financial performance between the groups. These groups are based on the method of privatization used during their divestiture. The financial performance of the two groups of companies after privatization appear to have a weak relationship to the
CHAPTER FIVE

5.0 CONCLUSIONS AND RECOMMENDATIONS

5.1 CONCLUSIONS

This chapter presents a conclusion of the findings of this research project in light of the main objectives stated earlier on.

The first objective was to find out whether there is significant change in performance of SOEs after divestiture, this was to be achieved by comparing pre-divestiture and post-divestiture financial performance of the privatized firms. The results indicate that by and large there was no significant change in financial performance of the companies studied after privatization as indicated by results highlighted in Tables 4B and 4C. It is however worth noting that individual companies appeared to have had significant changes in some variables. Because of variations in the individual company results, some having increased while others decreased, the net change in group's performance was not significant.

The second objective was aimed at determining whether there was any significant difference in post-divestiture financial performance between the groups. These groups are based on the method of privatization used during their divestiture. The financial performance of the two groups of companies after privatization appear to have a weak relationship to the
method used to privatize them, this is evidenced by the fact that only one variable (profit after tax) of all other variables tested actually proved to be significant. These findings appear in Table 4D. The performance appears to vary when one looks at each individual company's performance. Therefore, based on the results obtained there appear to be no evidence to suggest that financial performance improved significantly after privatization of the studied groups of companies. Profits after tax, return on equity, return on assets, current ratio and productivity ratios did not differ significantly for the two periods studied. The inclusion of extreme values in the analysis, small number of firms studied, variability within companies' financial performance have made these results contradict previous study findings which covered many companies.

The third objective was to rank the firms' post divestiture financial performance based on the results obtained in the objective number 3 above. These two categories can only be ranked based on only one variable profit after tax, which is the only variable with unequal result (significantly different) between the two groups post divestiture. All other variables tested were equal as indicated in Table 4D and thus were not significantly different. Based on profit after tax ratio, group 1 (those SOEs privatized via public share floatation) outperformed those others that were privatized by competitive bidding. The way forward is for the government to look back to the records of previous privatizations with special regard to
the mode of divestiture and compare the relative benefit of each privatization. The Nairobi Stock Exchange offers a more reliable way of divestiture.

5.2 RECOMMENDATIONS

1. It is better for ESTU, (PRPC) to employ public share floatation method when privatizing SOEs since it appears to lead to higher after profit tax for the companies privatized.

2. In order to encourage participation of even the low income earners and farmers in the privatization process, special financing should be provided for Kenyans who have vested interests in the SOEs and are interested in investing in them. A good example is Mumias Sugar Company. This can be made possible if the SOEs are divested by public share floatation as opposed to competitive bidding process which does not appear transparent, fair and competitive to the public.

3. There is need to review the pre-emptive clause so as to allow and encourage the participation of Kenyans in the privatization process. This can be done by consultations with the remaining shareholders so as to convince them to renounce their pre-emptive rights. Further, a law should be passed so as to limit pre-emptive rights to a
certain percentage, this will allow other shareholders to buy shares in the company.

4. The ESTU, PRPC, should investigate the appropriateness of employing other methods when divesting from SOEs. An example is introduction of new private equity investment in an enterprise especially when it is under capitalized.

5. Privatize the SOEs currently classified as strategic for example, the Kenya Power and Lighting Company (KPLC). This may allow such enterprises to be more innovative and business oriented.

5.3 THE LIMITATIONS

The results obtained should be interpreted in the light of the following limitations:

1. The use of ratios to compare cross-sectional performance among firms is affected by the existence of variations in the market structures, regulations and technology of the enterprises analysed.

2. Time-series comparison of pre and post divestiture data do not address the effects of the counterfactual questions like business cycles and the threat of divestiture, thus it is difficult to associate all post-Privatization performance on Privatization only, other factors also affect performance.
3. The focus on historical data of which this study is based precludes the possibility of capturing the dynamic effects of divestiture which may accrue in the future.

4. This study was an econometric one and like all other econometric studies rich institutional details that emerge from intensive detailed case studies are missed.

5. Ratios used have been assumed to have the appropriate statistical properties for handling and summarising the data and this data was assumed to be normally distributed, though in reality this assumption may not hold.

6. The level of government participation in some enterprises was not large enough to warrant any conclusion be drawn from the post Privatization results, it is like there was no change in the organisation after divestiture.

7. Un-available data, some records for particular years and also of particular companies or SOE’S were lacking. Some of the data sources earmarked at the start of the study proved unhelpful for no data was got from them.
5.4 RECOMMENDATION FOR FURTHER RESEARCH

1. This study was restricted to only two methods or techniques of divestiture. There are other methods that have been used in Privatization such as sale by pre-emptive rights liquidations, receiverships and management/employee buy outs, future studies should encompass more methods so as to find out their impact on the firms financial performance.

2. The forms studied are assumed to have performed differently based on only one criteria or technique or method of divestiture, further studies should investigate the role of other factors that come into play, for example the company's size or age.

3. Future researchers should investigate whether the technique employed in divestiture affects the price(value) of the privatized SOE and the revenue raised by the government from its sale.

4. It may be worth investigating to what extent the method of Privatization affects the post divestiture composition of the company's management and how this change in management team impacts on the financial performance of the said companies.
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APPENDICES

APPENDIX A: COMPANIES (FORMER SOEs) EARMARKED FOR STUDY

Kenya Commercial Bank

African Diatomite Industries

CMC Holdings

Bamburi Portland Cement

Housing Finance Corporation of Kenya

Mepal Plastics

Milling Corporation of Kenya

Golf Hotel

Sunset Hotel

Mutually Investment Trust (Golden Beach Hotel)

ESA Bookshop

Kenya Flourspar Company Limited.

Uchumi Supermarkets

National Bank of Kenya.

Kenya Airways

Homa Bay Hotel

APPENDIX B:

LIST OF COMPANIES STUDIED IN THE PERCENTAGE OF GOVERNMENT SHARE OWNERSHIP BEFORE PRIVATIZATION

1. African Diatomite industries limited 100%
2. Bamburi Portland cement company limited 26%
3. CMC Holdings 20%
4. Housing finance company of Kenya 50%
5. Mepal plastics Kenya Limited 100%
6. Milling corporation of Kenya of Kenya 100%
7. National bank of Kenya 100%
8. Golf hotel 80%
9. Kenya airways 100%
10. Kenya Commercial bank 100%
11. Uchumi supermarkets 90%
12. Sunset hotel 95%
<table>
<thead>
<tr>
<th>Company Code</th>
<th>Profit after Tax</th>
<th>Capital Employed</th>
<th>Return on Assets %</th>
<th>Earnings per Share</th>
<th>Current Ratio</th>
<th>Return on Sales %</th>
<th>Productivity</th>
<th>Return on Equity %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Group 1</strong></td>
<td>Prior</td>
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APPENDIX D

DATA FACT SHEET.

NAME OF THE FIRM: 
DATE IT WAS PRIVATIZED:

<table>
<thead>
<tr>
<th>ITEMS</th>
<th>PRE-DIVESTITURE PERIOD</th>
<th>POST DIVESTITURE PERIOD</th>
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<tr>
<td></td>
<td>Yr 1</td>
<td>Yr 2</td>
</tr>
<tr>
<td>1 Profit before tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Profit after tax</td>
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<td></td>
</tr>
<tr>
<td>3 Total Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Total Sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 Total Output</td>
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</tr>
<tr>
<td>6 Average Equity</td>
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<td></td>
</tr>
<tr>
<td>7 No. Of ordinary shares in issue</td>
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<tr>
<td>8 Preference dividends</td>
<td></td>
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</tr>
<tr>
<td>9 Reserves</td>
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<tr>
<td>10 Share capital</td>
<td></td>
<td></td>
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<tr>
<td>11 Current Assets</td>
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<td></td>
</tr>
<tr>
<td>12 Current liabilities</td>
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</tr>
<tr>
<td>13 No. of employees</td>
<td></td>
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</tr>
<tr>
<td>14 Stocks</td>
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</table>
28 February 2000

TO WHOM IT MAY CONCERN

RESEARCH PROJECT BY D53/8241/98 – JOHN I. KAMUNG’A

The above named is a second year MBA student at the Faculty of Commerce.

He is carrying out a research project entitled "THE IMPACT OF THE METHOD OF PRIVATIZATION USED ON A FIRM’S FINANCIAL PERFORMANCE: A Study of Privatised Firms.

The information obtained in the course of this project will be used for academic purposes only and will be treated with utmost confidentiality.

Please provide him with the necessary assistance.

Thank you.

Yours faithfully,

[Signature]

G. K. AHERU
MBA CO-ORDINATOR
<table>
<thead>
<tr>
<th>ISSUER</th>
<th>SHARES FLOATED</th>
<th>ISSUE PRICE</th>
<th>TOTAL AMOUNT RAISED</th>
<th>SUBSCRIPTION RATE</th>
<th>GROSS VALUE OF APPLICATIONS (Over subscriptions)</th>
<th>CURRENT MARKET CAP. 31/01/2000</th>
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<td>56,430,000</td>
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<td>2nd Issue 1990</td>
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<td>4th Issue 1998</td>
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<td>1,823,250,000</td>
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<td>Uchumi 1992</td>
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<td>239,424,000</td>
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<td>BOC Kenya 1993</td>
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<td>42,472,080</td>
<td>100%</td>
<td>42,472,080</td>
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<td>CMC Holdings '93</td>
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<td>100%</td>
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<td>National Bank of Kenya (total issued)</td>
<td>80,000,000</td>
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<tr>
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<td>Issue 2 1996</td>
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<td>Kenya Airways 1996</td>
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<td>2,648,518,830</td>
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<td>TPS (Serena) 1997</td>
<td>12,893,000</td>
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<td>167,609,000</td>
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<td>670,436,000</td>
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<td>TOTALS (PRIVATISATION)</td>
<td>422,349,616</td>
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<td>6,466,849,910</td>
<td>231.48%</td>
<td>14,969,464,171</td>
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<tr>
<td>TOTAL MARKET</td>
<td>3,359,333,426</td>
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<td>9,633,924,910</td>
<td>191.26%</td>
<td>18,425,844,782</td>
<td>106,279,572,734</td>
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<td>PRIVATISATION % SHARE OF TOTAL MARKET</td>
<td>12.57%</td>
<td>73.35%</td>
<td>40.22%</td>
<td>81.24%</td>
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Source: NSE Library, 2000