During the 1980s, faced with disappointing results of the interventionist policies, many governments of developing countries started implementing two different but complementary reform policies: the liberalization and privatization policies with the aim of reducing government interference. The incentive structure that characterizes government ownership is such that there is no effective pressure for enterprise 'managers' to maximize profit. Given that government enterprises receive some regular budgetary allocation or bailed out when they make losses. In Kenya the State-owned enterprises have been criticized for inefficiency and mismanagement. They have been characterized by widespread misuse and embezzlement of funds due to lack of proper internal management and government interference. As a result of this some of the enterprises that the government considered non strategic were privatized or commercialized. The proponents of privatization have argued among others that privatization increase performance which leads to enhanced economic development. This study made an attempt to find out how privatization of the Kenya Tea Development Agency limited factories has affected the performance of the smallholders' tea industry. Specifically the study examined the effects of privatization on the performance of smallholders' tea industry. This was done by examining factors that influence performance in tea industry such as technological innovation, efficiency, decision quality, profits and legal regulations. The conclusion is that KTDA has increased performance since privatization. Before privatization KTDA faced challenges such as technology innovation, reduced profits and long decision making processes but after the privatization it’s efficient due to increased automation and faster decision making processes which has led to increased profits. Privatization has led to growth of factories due to development of new product hence increased production which has eventually led to a very good general performance of the factories. The recommendations are that efficient legal regulation should be put in place so as to ensure the operations of the KTDA run well and maintain independency. Also there should be restructuring of the board of directors so as to ensure that there is faster decision making processes and to avoid bureaucracy with KTDA.