



Effect of privatization on selected Privatized Public Enterprises: pre and post privatization performance analysis

(Targeting industries located in Addis Ababa and its periphery)

“A thesis submitted to School of Graduate Studies of Addis Ababa University in partial fulfillment of the requirements for the Degree of Master Of Business Administration (MBA) degree”

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Declaration

I, the undersigned, declare that this thesis is my original work and has not been presented for a degree in any other university, and that all sources of materials used for the thesis have been duly acknowledged.

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Certification

This is to certify that Alemayehu W/yohannes has done the study on the topic of "Effect of Privatization on Selected Privatized Public Enterprises: pre- and post privatization performance Analysis." Therefore; the study is original and has not been done before by any other researcher at the same topic.

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ABSTRACT

In this paper, the Effect of privatization on selected Public Enterprises in Ethiopia is analyzed by comparing the same subjects with before and after privatization.

The study aimed to examine the operational performance changes due to the intervention of privatization of the newly privatized enterprises. The indicators examined are profitability, operating efficiency, capacity utilization, capital investment, and employment level.

The data were analyzed using non-parametric test, namely Wilcoxon matched-paired test to test for the significance of the difference between pre and post privatization performance indicators.

However, the percentages points in examined indicators show increases after privatization but these increments are not significant, as a result the effect of privatization on performance change is negligible, Out of the three surveyed enterprises in this study, only one sample showed significant difference between pre and post privatization performance indicators.

It should be well stressed that in order to have effective business institutions following privatization it requires the establishment of basic stock exchange, an institution who always keen to reducing capital shocks, and also other government institutions' assistance should be accompanied by strong rules and regulations as to well-developed private sector institutions, and capable secure business institutions. It is also recommended that it is wise to acknowledge the collaboration of other stake holder as important component for inherently to realize privatization program in Ethiopia. Furthermore, if insightful of attention given to those newly privatized firms, intensify them as organizations go through major changes in technology in place, and other complementary changes and this in turn boosts investor's confidence for more investment following privatization.

Key word: Privatization performance.

ACRONOMYS

Br	Ethiopian Currency
CEO	Chief Executive Officer
EBIT	Earnings before interest and Tax
GDP	Gross Domestic Product
MPED	Ministry of planning and Economic Development
PKt	Packet
PLC	Private limited Company
PPESA	Privatization and Public Enterprises Supervising Agency
ROA	Return On Assets
ROS	Return On Sales
S.C	Share Company
SOEs	State owned Enterprises
UNDP	United Nation Development Program
USA	United State United
IMF	International Monetary Fund

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CHAPTER ONE: INTRODUCTION

1.1. Back ground of the study

This research seeks to evaluate whether operating and financial performance of newly privatized enterprises improve after they are privatized in Ethiopia by comparing pre- and post-privatization performance. Before the brief discussion of privatization in Ethiopia, however, an overall view is undertaken.

With regard to privatization, Megginson et al. (2001) stated privatization as deliberate sale by a government of State Owned Enterprises(SOEs) to private economic agents. They argued that since it was introduced in Europe, it has implemented internationally as an accepted and reliable policy for restructuring. Nowadays, privatization is a common tool that is used by markets to allocate resources. Most countries implemented privatization hopes that it would boost the profit of their companies.

Other researchers Nash et al.(1998) have also analyzed on the economic consequences of privatization on a firm's performance, in particular, their financial and operating performance based on the model developed by own on large scale, comprehensive study, which compares the pre- and post-privatization performance of industries that experienced full or partial privatization through public share offerings in developed and developing countries from 1961 to 1990. Another study conducted by Boubakri and Cosset (1998) followed the same methodology to examine the financial and operating performance of privatized, firms in developing countries during the period from 1980 to 1992.

In Ethiopian context, the objective of privatization is to reduce losses of public enterprises and government subsidies and to make them efficient and profitable and thus, stimulate economic growth. As most evidence indicates that most public enterprises either do not contribute strongly to development or perform their public service functions effectively (Dannis A, 2005). Policy makers engage in continuing debates over whether or not state-owned corporations contribute to economic and social development, why so many have failed to deliver effectively the services for which they were created, and how their management can be improved. These issues will become more crucial as governments in developing and emerging market countries consider how best to achieve economic and social development in an age of globalization, how to spread more widely the benefits and mitigate the potential negative impacts of international economic interaction, and how to alleviate poverty so that larger numbers of people can participate effectively in productive activities and gain access to social services essential for human development.

Hoeven and Sziranczki(1997) argued that privatization is widely expected to promote productivity and efficiency. However, this largely depends on whether an environment exists in which privatized firms can operate efficiently and, even if it does not exist, on how efficiently individual firms operate, they took the case studies show a rather varied picture. A case in point, the public enterprises of the Republic of Korea displayed mixed performance. Out of the total 50 % of firms after privatization didn't benefit from the reform. While the rest showed not significant and very few of them were efficient.

According to Yarrow (1986), over the past 50 years governments around the world established large numbers of public enterprises to accomplish development objectives, among the most important of which were to provide services and infrastructure that could not easily be extended by conventional departments and agencies of the State or by a weak or fledgling private sector. In many countries, however, state-owned enterprises took on a life of their own.

Many pursued their objectives independently of government development policy or failed to perform efficiently and effectively functions for which they were created. Privatization emerged as a major issue for policy discussion in the second half of the 1970s due to the convergence of a number of factors (Cook and Kirkpatrick 1988). First is the election of governments in a number of developed countries, most notably United Kingdom and United States that were ideologically committed to greater use of the market in securing economic objectives.

Politicians have used it as an instrument to attain their political objectives. The Thatcher government, the pioneer of privatization, started privatization by privatizing British Airways and British Telecom. The purpose of privatizing companies in British was to allow others compete freely, to improve their efficiency and effectiveness and profitability, and to minimize the labor party influence in the whole economy when it took power (Jackson and prince, C1994).

Boubakri and Cosset (1998) in their study on privatization argued that public sector institutions have not been run efficiently due to incompetence and it also cost the government so much to sustain those state-owned enterprises. They reviewed the before and after performance of 79 privatized firms in 21 developing countries mostly middle income countries and conclude that on average the firms indicated significant increases in profitability, operating efficiency, capital investment spending, output and employment and a decline in leverage and an increase in dividend.

Similarly, professor Mahammed(2002) did a research on a privatization as a solution to problems of public enterprises in Saudi by drawing on the privatization experiences of various countries as unit of analysis. Based on the findings of this study, it is concluded that most public enterprises failed to play the strategic role in industrialization that governments had hoped for.

Contrary to these and other arguments, some argue that the objective of privatization is not fully achieved. For example, Nitri (2010) conducted a research to compare the financial and operating performance of privatized firms and post privatization in Ghana by measuring the change in the performance indicators(i.e profitability, operating efficiency, capital investment, employment, leverage and dividend) via comparing its average value for five years comparing its average value for five years before and after privatization. Based on the findings of the study, the researcher conclude that over almost two decades of privatization process in Ghana no significance changes resulted in financial and operating performance in achieving the objectives of privatization in Ghana.

In Ethiopian context, a study conducted by Mokonnen(2009) on public enterprises in their economic and socio-political objectives. He stated that a major part of the Ethiopian public enterprises problems were not of their own making-it was externally imposed such as foreign exchange constraints. The author argued that like their own counterparts in other developing countries had not got the chance to operate in a normal economic environment.

So from this perspective, public enterprises could perform well in terms of profitability, employment generation, investment, product diversity, etc if the external and government intervention minimal. They should not be always condemned as loss makers. At the same time most of private owned enterprises are running their business more profitable, on the contrary, there are privatized enterprises which made continuous loses, fire employees, generate less revenue than they used to generate when they were in the hands of the government. In general, it is necessary to prove technically that privatization has a significant change on the operating efficiency of public enterprises.

In line with the trend worldwide, Ethiopia, especially during Derg years, public enterprises have an important role in the economy as they had a dominant position in building national economy. Their establishments during the period are to mobilize resources and control over the major means of production and distribution, and accordingly they made considerable contribution to capable building and modernize the economic sectors. But gradually their important constrained by lack of inputs, among other reasons, and these led them to use their capacity below 40 % (Mokonnen M, 2009). With declining capacity utilization and low out puts levels, loss of the public enterprises have been increasing which has led to increased pressure on the budget and financial system

In the early years of the current ruling government of Ethiopia, its economy reforms was designed to correct the sever imbalances built over the Derg regime.

To this end, among adjustment measures have taken -the new investment, labor and public enterprise laws have been introduced to create new legal and regulatory frame work consistent with the objective of moving towards a market economy. Along with these economic reforms, public enterprises are expected to compete with the private sector and their performance will be judged by profitability.

To end this, privatization is implemented as one means to revive the economic recovery.

Since the reform under taken starting 1995, the companies earmarked for privatization and divested were close to 300 and the government has earned about US \$ 1 billion from the privatization of entities (Beyene, 2014).

According to 2013/14 PPESA annual report of the Privatization and Public Enterprises Supervising Agency, which has mandate taking all necessary measures to publicize the privatization program and its implementation, and the government eased its financial burden and the amount could be used to meet some *sorely* needed social and economic problems.

More equally important on how efficiently individual privatized firms operate, and whether the employment opportunity in the enterprises to be privatized firms potentially generated or not after privatization do also weigh in.

The aim of this paper is to assert the operational effects of privatized public enterprises technically by scientifically research and to see if it is in line with in achieving the objectives of privatization in Ethiopia.

1.2. Statement of the problem

Ethiopia is currently in the way to set for middle-income economy. Since the privatization process starts in Ethiopia and government over seeing the entities towards improving their performance following privatization.

There are inconsistencies in empirical results related to the performance change due to the intervention of privatization in Ethiopia; there are always significant controversies between for and against whether privatized firms perform better after privatization or not in Ethiopia. In this respect, Hishe Hailu(2005) showed that the government excludes all the stake holder that are categorically affected by privatization. He continued his argument that the discrepancies the government of Ethiopia had committed what is written and practiced are also observed. Another study conducted by surafel(2010) on

impact of privatization on the financial and operating performance of State Owned Enterprises (SOEs) in the Leather sub sector using pre/post test research design and his result revealed that

privatization did not seriously affect privatized enterprises operating performance and profitability, it led to increased investments, and a decline in overstaffing.

Following the same methodology, on the contrary, those arguing in favor of privatization present the affirmative side, i.e private enterprises tend to be more efficient than their public counterparts, and hence this ultimately lead to the human resource more focused on jobs, less corruption, and quicker delivery services. Therefore; public enterprises are doing well when privatized, among other reasons, rather than under state owned and hence there will be improvements in the operational performance they have delivered and this can enable them contributing meaningful to the growth of the economy, moreover emphasized their argument that public enterprises are inefficient because they are often required to perform non commercial roles such as hiring extra staff or setting up a plant in a particular area to promote regional development. But those arguing against privatization present the opposite views. They present public enterprises cure monopoly and externality problems caused by private firm. They also argued that the government should stand ,above all, with the real interest of the socio economic benefits than earnings proceeds from sale, Privatization for the sake of privatizing does not helpful unless it brings socio economic change in the society. Above all, the SOEs by making them competitive rather than transferring it to private ownership whose main goal are to maximize profit. There is an important question asked whether transferred of SOEs to private ownership in Ethiopia are more likely operating on towards improving their operational performance following privatization. There is a question about the performance of those enterprises after privatization whether efficiency has increased, how about employment generation, and does really the privatization program in Ethiopia helps them improving their performance?

To the extent of the knowledge of the researcher, no attempt has been made to study the impact of privatization on the economic benefit and as well their proceeds exert pressure on performance changes. In the light of this, the paper aims to address to tests the performance changes in SOEs following privatization, and also indicates where thorough researches should be done undertaken to indentify the determinant factors and their changes.

To this end, the following research tests of hypotheses are employed.

1.3. Objectives

1.3.1 General objectives

The central research objective of this study tests the performance changes in SOEs following privatization and by how far from what would be expected by chance, and also to find out if the critics of privatization are true that, suggest to contemplate some alternating policy measure to address such critics.

1.3.2. Specific objectives

The specific objectives of this research are:-

- A) To test whether privatized firms perform better after privatization,
- B) To analyze whether privatized firms are viable and profitable,
- C) To examine the significance changes observed between pre- and post in performance

1.4. Study objectives

To assess whether there is a difference in profitability before & after privatization

H₀: Privatization doesn't lead to a significant improvement in profitability.

H_a: Privatization leads to a significant improvement in profitability.

2. To test whether privatization improve operating efficiency or not

H₀: Privatization does not result in operating efficiency improvements

H_a: Privatization result in operating efficiency improvements

3. To test whether Privatization increases capital investment or not

H₀: Privatization doesn't increase capital investment of the enterprise.

H_a: Privatization increases capital investment of the enterprise

4. To test whether Privatization leads to employment reduction or not

H₀: There is no a significant change of employment level due to the intervention of privatization

H_a: There is a significant change of employment level due to the intervention of privatization

5. To show whether privatization effect can increase capacity utilization or not

H₀: capacity utilization percentage did not increase after privatization

H_a: capacity utilization percentage increased after privatization

1.5. Rationale of this Study

It is noteworthy that the companies earmarked for privatization and divested were close to 303 and worth 19.8 billion birr (Beyene, Dce.2014, pp.39). So far, many enterprises have been privatized but the

reason behind privatization in the country is based on the experience of other countries positive result over privatization. In view of this fact, this study informs stakeholders about the real picture of the Ethiopian Privatization by analyzing the effect of privatization on the operational performance of SOEs. The study will give stress on:

- To provide an empirical evidence on the impact of privatization
- To test the significance changes in operational performance resulted in how far from what would be expected by chance

This study will also give stress on the magnitude of performance changes whether the improvement increases substantially in these indicators or not. There are no previous well documented studies on this entitled topic with regard to impact of privatization on operating performance in Ethiopia. By doing this the study will contribute to the literature of the subject under study and has important professional implications for assessing on impact of privatization on related studies. Most importantly, it initiates the case SOEs to reassess its existing situation with a view to reconsider the possible reforms. More specifically this study will serve as a spring board for further study on **the issue**.

Furthermore, the study also reveals main constraints and gaps that the field has faced which help to come up with issues for dialogue and actions for improvement.

1.6. Scope of the Research

The Scope study attempts to address to measure the impact of privatization in terms that look at the performance of enterprise following privatization. For the reasons indicated in the limitation of the study section, privileges provided to the industry sector and more specifically it examines the impact of privatization on the operational performance of firms in the industry sector. The data set for this study obtains from privatized firms that had been privatized in the manufacturing sector and have at least 5 years of both pre- and post- privatization data.

1.7. Limitation of the study

The first problem that confronted the researcher will be the conditions under which the study is being conducted i.e. access to the internal data of the organization is always remains not possible because mainly the organization avoid to give information about the internal operations in the name of privacy. While access to internal data in privatized enterprises like manufacturing sector is always considers

sensitive issue and the un-cooperative behavior of the executives usually are considered a challenge in conducting a research. To take the sample for the study, the following was considered as a challenge:

- i. At the beginning of the privatization program in Ethiopia, some of SOEs which had small amount of transaction like retailing shops, pharmacy, dairy farms, stores of the main branch and the like were privatized for employees and management who were working in those public enterprises (PPESA News, 2004).
- ii. Some of SOEs were transferred to either regional governments or federal institutions.
- iii. About twenty five enterprises gave back to owners through restitution.
- iv. Fifty two of the firms were excluded, because they were privatized after 2010 which was not within the targeted range

Finally, the time available for completion of the study is also considered as limit of the study.

1.8. Organization of the Report

This study is organized into five chapters. Apart from this introduction, the second chapter discusses the literature review about the subject matter. In chapter three the research methodologies are presented.

In chapter four results and discussion of the study are presented and finally the paper concludes with a summary and suggestions.

CHAPTER TWO: REVIEW OF RELATED LITERATURE

Under this section, an attempt is made to revise and find out theories, experiences, and findings related to the research problems.

2.1. State-Owned Enterprises and the Privatization

Mwandenga A.M. (2000) has suggested a legal entity that was created by the government in order to par takes in commercial activities on the government's behalf. The author tried to assess by taking the African context, public enterprises have appeared in three forms. The first one is public utilities like railway, telecommunication, ports, roads, and electricity. The second category is related to corporations, which embrace commercial or industrial activities on behalf of the state. The third one is related to state corporations. These divergent forms have complicated the definition of public enterprises. To solve this uncertainty, scholars in 1980 gave the following comprehensive definition.

An enterprise is public when the state or any other national, regional or local authority holds at least 50% of the capital; it is under state control and reports to the state; its objectives are of public and multidimensional nature. This aspect presupposes financial investments, the marketing of products and services, financial returns, a system of business accounts and a social return, which the enterprises must account for. In sum, the above definitions have common points in that the public enterprises are related to a majority or full control of the state.

Other researcher Khalaf Al-Taani (2013) has also analyzed in his study that aimed at investigating the potential impact of privatization on the financial and operating performance of the Jordanian Cement Factories Company as an attempt to contribute to the debate on how the privatization of public enterprises may affect the financial and operational performance of these enterprises. The data used were obtained from the annual reports of Jordanian Cement Factories Company for five years before and five years after privatization. He compared performance criteria were calculated and compared to determine whether there are significant differences among them in the pre- and post-privatization periods. Another study by using the statistics of Jordanian Cement Factories Company's share performance were further compared with the market and industry indicators. The result of the findings revealed that while privatization did not seriously affect Jordanian Cement Factories Company's operating performance and profit, it led to liquidity improvement, debt reduction, improved investments, and a decline in overstaffing.

Another research by Stephen (2014) showed that SOEs corporatization without privatization. He found that corporatization has had a significantly positive impact on SOE performance. This author further showed that the sources of efficiency engendered by corporatization can be traced to the reform of the internal governance structure of these firms. The results indicate that, even without privatization, corporate governance reform is potentially an effective way of improving the performance of SOEs; such reforms represent a policy alternative for countries seeking to restructure SOEs without massive privatization. The results also suggest that it may be optimal for governments to carry out corporatization of SOEs before eventual privatization.

2.2 Background to Public Enterprises

Public enterprises were created in most countries to accelerate economic and social development. China's state-owned enterprises (SOEs) have a long history. At various times, since World War II, most countries, particularly developing countries, have attempted to use public enterprises to achieve their economic and social objectives (Road, S., (1997). And also Field, M., (1995) stated that public enterprises were created in Africa for much the same reasons as in most countries-to correct market failures, providing public goods, control natural monopoly and seize the commanding heights of the economy.

In these regards Professor Gang (2013) stated on his academic research on the role of state owned enterprises in the Chinese economy, as he explained his state owned enterprises have long history. When the People's Republic of China was established in 1949, the country had been devastated by a long period of war and underdevelopment. As there was neither private wealth nor any organized structure to take on the huge task at hand, it was the state enterprises that gradually undertook all the nation-building tasks. In addition to their historical function of rebuilding the country, they have been playing an important role in providing for the livelihood of many people. SOEs provide not just employment, but also a range of social services, education, medical care and healthcare and retirement protection.

Despite successive reforms undertaken in the country, china's state owned enterprises still have become a source of friction between china and some of its trading partners.

Palley (2003) expressed that their establishment was political and economic though their proliferation was related to the end of the Second World War.

On the aftermath of the Great Depression and the total humiliation of Europe, social protection and the basic needs provision were demanded. As unemployment was too sensitive an issue, the Public Enterprises were believed to have a great contribution in alleviating this vice. And hence their establishment for the stabilization of the then European context was beyond any question (Palley, 2003).

Nellis and Shirley (2000) also stressed that they maintained the strategic sectors and filled the “entrepreneurial gap”. Thus their economic aspect was related to the control of the decisive aspects of the economy like the public defense industries and public transport enterprises.

Similarly, they were also conceived as means of having the power in the economy, which meant a lot. Many states also considered the public enterprises as national symbols and prides.

The lack of private investment to be involved in the undertaking of large-scale activities especially in the poorer countries was another concern. This could be justified by the thin capital of the private sector and absence of willingness to be engaged in areas that could produce results in the long run. Besides, Hoeven and Sziracki (1997) argued that equity considerations and the fear of a private monopoly situation were also considered to be averted by the mushrooming of public enterprises. Furthermore, the public enterprises were seen as the main stay of economic development though disillusionments have cropped up since 1980s (Balassa, 1993).

Cuong Due (2013) in his study on Financial Performance of Privatized State Owned Enterprises (SOE) in Vietnam, his study was based on a sample of SOEs that had been privatized SOEs during the period from 2000 to 2012. The study investigates the changes by comparing the financial performance of firms one year before privatizing with the years after privatizing. The result found that privatization did not guarantee improvement in financial performance in firms. Specifically, after privatizing firms exhibit universal increase in ROA and ROE caused by saving of selling and administrative expenses and hence an increase in net sales by lengthening credit terms. The analysis also indicated that former SOEs have lower debt and leverage, lower asset usage efficiency caused mainly by inefficient management of current assets.

2.3 Objectives of Public Enterprises

Many writers have mentioned varied objectives of the public enterprises. As World Bank (2001) has explained, the reasons why public enterprises were created for national security, that is public defense industries and public transport enterprises have often been created for this reason. Another reason has been to ease revenue rising- product procurement and marketing boards have often served this end, esp. in cases where tax collection would be difficult or impossible. The economic control and self-reliance have been another important motive behind the creation of public enterprises.

Rondinelli(2005) also argued that over the past 50 years governments around the world established large numbers of public enterprises to accomplish development objectives, among the most important of which were to provide services and infrastructure that could not easily be extended by conventional

departments and agencies of the State or by a weak or fledgling private sector. In many countries, however, state-owned enterprises took on a life of their own. Many pursued their objectives independently of government development policy or failed to perform efficiently and effectively functions for which they were created.

In this regard William L. Megginson et al (2000) state that, the Depression, World War II, and the final breakup of colonial empires pushed government into a more active role, including ownership of production and provision of all types of goods and services, in much of the world. In Western Europe, governments debated how deeply involved the national government should be in regulating the national economy and which industrial sectors should be reserved exclusively for state ownership. Until the Thatcher government came to power in 1979, the answer to this debate in the U.K and elsewhere was that the government should at least own the telecommunications and postal services, electric and gas utilities, and most forms of non-road transportation (especially airlines and railroads). Many politicians also believed the state should control certain “strategic” manufacturing industries, such as steel and defense production. In many countries, state-owned banks were also given either monopoly or protected positions, as discussed in La Porta, Lopez-de-Silanes and Shleifer (2000).

Rondinelli and Iacono (1996) argue that government ownership grew in the developing world for slightly different reasons, primarily that government ownership was perceived as necessary to promote growth. In the post-colonial countries of Asia, Africa, and Latin America, governments sought rapid growth through heavy investment in physical facilities.

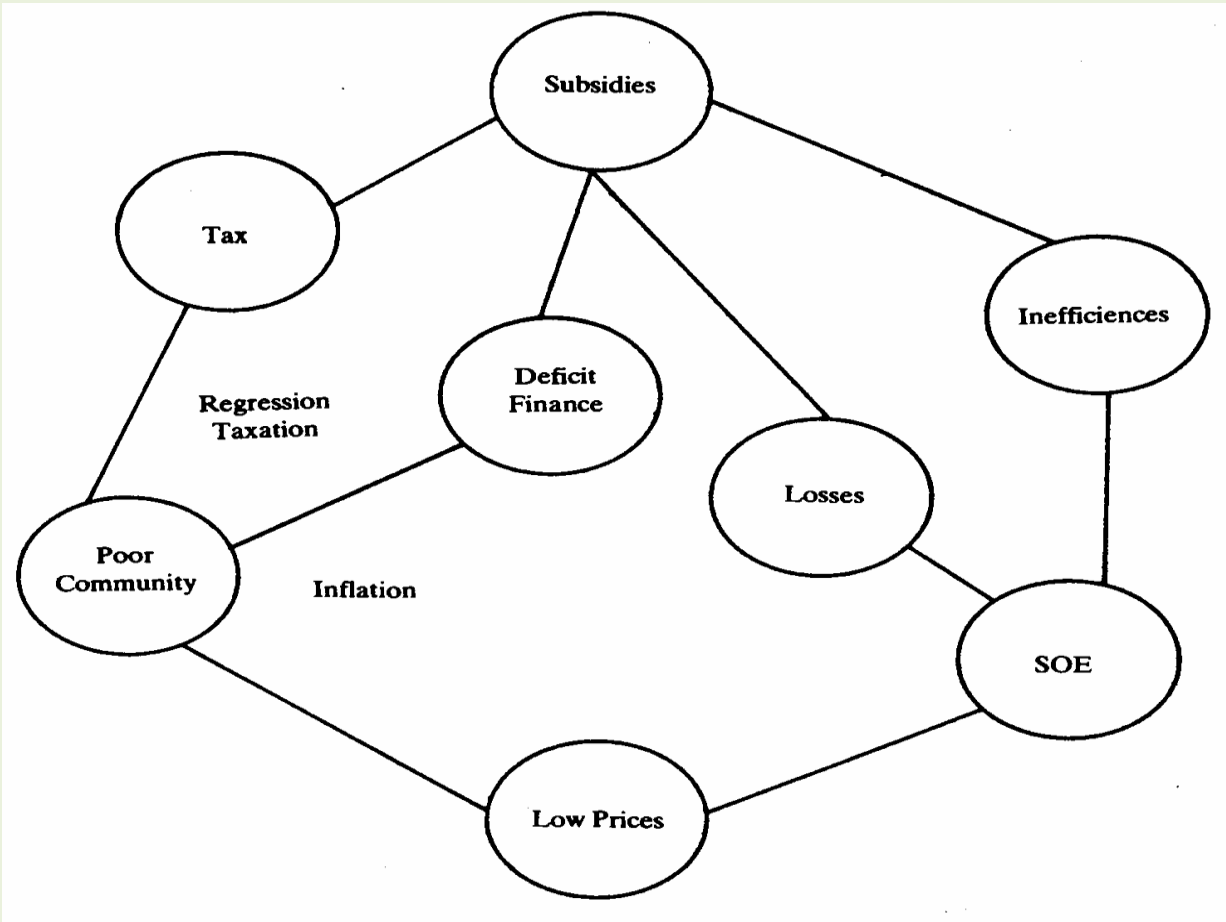
The study by (Sziraczki et al, 2005) probably the most comprehensive description on the importance of public enterprises presented that the lack of private investment for undertaking large-scale activities has been a powerful incentives for the creations have frequently played a role in the establishment of public enterprises, in the taking over by the public sector of private enterprises which are not often resulted in the establishment of public enterprises, which it was assumed would use the monopoly revenues in the public interest. Before the collapse of communism, governments in most command economies exercised tight control over prices and output, setting both through detailed state planning. They also prohibited private enterprises from operating in most sectors of the economy, severely restricted direct investment by foreign enterprise, and limited international trade. Many social democratic governments after World War II nationalized private companies in certain industries, transforming them into state-owned enterprises to be run for the “public good rather than private profit (Adda 1992).

There were many reasons have been adduced as justification for creating SOEs. As stated by (Nwoye, www.globalizacija.com, 2001) some of them were:

- A). when the investment required for establishing business is enormous and the return period is very long, private business man may not be capable and less interested, for instance, hydroelectricity-generating and water scheme for large urban center.
- B). in many developing countries providing social service is one of the basic requirements of the good government. To satisfy the demand of the people and to win election providing such kind of service is crucial.
- C). some goods and services should be provided for the community permanently. Because of geographic or financial constraints individuals can't do that.
- D). Protect consumers need is not private business priority objective. In many countries, government intervenes in the provision of education to protect children who are incapable of making important decisions.
- E). indivisibility of goods and services are invited government intervention. Facilities like bridges, tunnels, roads, streetlights, and waste disposal cannot be divided or partially provided.

SOEs evolve mainly from three sources. The first one is response to ad-hoc economic crises, a specific shortage flagrant abuse of monopoly power by private producers, economic bottlenecks and scarcities, etc, the second one is the process of carefully planned body of ideas and the third one is nationalization (Nwoye www.com, April, 2015). In different situation governments have been nationalized enterprises by providing justification, that is, for the good of the people. In the past fifty years countries those follow socialist ideology had nationalized a lot of private business and established new SOEs though their efficiency and effectiveness fall under question especially in 1970 and 80s. The inefficiency of SOEs invited privatization as a mechanism to mitigate the problem. World Bank (1983) again argues public enterprises are frequently expected to contribute to the broader goals of government policy but the consequences could be behaving unreasonable way. For instance, public enterprises ,prices may be controlled to benefit the poor or to assist counter inflationary policies. But these firms' consumers are often large industrial users or wealthy people, so they-not the poor-benefit most. It is estimated that three-quarters of the energy and food subsidies in Egypt went to the relatively more affluent urban areas and about two-thirds of these went to the richer half of the urban population. There is what we call "a circular flow of effects of inefficiency of state-owned

enterprises", as demonstrated in Fig.(1) below. As the chart depicted by world Bank(1991) further confirms the gains to the poor in terms of low prices are paid for by the poor themselves either directly through taxation or indirectly through inflation. This is because the costs of subsidies are shifted from the consumer to the taxpayer or, if the deficit is financed through inflationary monetary expansion, to the public at large. Given the regressive nature of taxes in many developing countries and the impact of inflation on the poor, the net result may be a worsening position of the poor and an increase in income inequalities. Fig.(1).The circular flow of inefficiency of state-owned Enterprises.



Source: World Bank report (1991), Figure 1 the circular flow of inefficiency of SOES.

2.4. Definition of privatization

It has been noted that:

The countries that have announced their intention of launching some kind of privatization program allow for the possibility of private ownership of the means of production and for the operation of markets as an essential feature of the economy's functioning (R.Vernon 1988).

Sometimes construed very narrowly to mean just the sale and legal transfer of the ownership of public enterprises to private entrepreneurs, and sometimes more broadly to include the legal transfer of just the control of public enterprises and services but not outright ownership. Jeswald Salacuse describes privatization as the „... transfer of assets from the public sector to the private sector, from the domain of public ordering to that of private ordering“, which appears to fit more into the narrower view of the term(JW Salacuse, 1999) On the other hand, Paul Starr defines the term as „(1) Any shift of activities or functions from the state to the private sector; and more specifically, (2) any shift of the production of goods and services from public to private (P Starr,1988) , which would fit more into the broader view of the term noted above. This is also the case with the definition by Stuart Butler who sees privatization as „The shifting of a function, either in whole or in part, from the public sector to the private sector (S Butler, 1991).

Lynch (2000) also defined privatization to be the selling of an organization's shares into private ownership but the World Bank defined privatization as “a transaction or transactions utilizing one or more of the methods resulting in either the sale to private parties of a controlling interest in the share capital of a public enterprise or of a substantial part of its assets or the transfer to private parties of operational control of a public enterprise or a substantial part of its assets”.

For the purpose of this thesis, privatization is defined as the sale of the whole part of the shares of a state-owned enterprise by the government to private investors to reduce government expenditure and improve the efficiency of those enterprises.

2.5. Reasons for embarking on privatization

Privatization provides a basis for changing of the relationship between the state and the private sector, with the private sector assuming a greater role in the economic affairs of a country, of which some of the problems that have been associated with public ownership and control in some countries have been influential in this shift (Johnson, 1995).

Since the objective of any privatization program is to increase the ability of firms to achieve their goals, it is expected that privatization will increase profitability, operating efficiency, capital expenditure, and output. Moreover, privatization might affect the level of employment and leverage. From selected literature, in particular Megginson et al. (1994), Boubakri and Cosset (1998), and D'Souza and Megginson (1999), initial checklists of possible variables, together with hypothesized increases or decreases in key variables, as to review however, some key benefits have given emphasis which attributes to privatization including the benefit of privatization to the public sector, and its benefit to the privatized enterprises as well as foreign investment inflow.

As Robinson (2003) stated in his analysis on expected benefits of privatization the following issues are presented as follows:

2.5.1 Benefit to the public sector

The argument here is that in many countries, the government is weighed down by too many tasks and privatization will play a crucial role in reducing the government's role in the economy and limiting the size and reach of the public sector, paving way for a smaller, leaner and more effective government that will be able to devote greater attention to deprived social sectors like education, health, housing, transportation, water, sanitation and rural infrastructure (Sanders, 2000).

2.5.2. Benefit to the Enterprise

According to (Walsh, 1985) on the benefits of privatization reality of an enterprise, there is an argument on privatization would pave way for profit-driven private investors to takeover and significantly improve the performance of privatized enterprises. Under public ownership, public sector managers do not have necessary motivation to improve enterprise performance because any resulting cost savings or profits would go to the state while the managers would simply continue to earn their normal salaries. Further, they do not usually fear losing their jobs where the enterprises are sustaining growing losses, owing to the fact that public enterprises, unlike private ones, do not face the threat of corporate takeover (Shirley, 2007).

According to Shirley (1995) the effects of public enterprises out with budgetary allocations and subsidies, of which the resulting moral hazard could make such managers to be even less cost conscious. Additionally, Badcoe (1995) stated that privatization would benefit the enterprises in a number of ways. It would galvanize private sector investments by competent local and foreign investors and irreversibly place the enterprises on the path of reform. According to Kekerri and Nellis (2004), given the new

ownership structure, improvements in enterprise performance would be more sustainable than was the case under public ownership when backsliding on such reforms could occur.

According to (Nellis, 1999) privatization has generally proved its worth in Central and Eastern Europe and (Dzakpasu, 2000) also believes that the fundamental thrust of most privatization programs is to increase efficiency of the economy, reduce government budgetary costs, broaden direct ownership of productive assets, and reduce and reorient the role of government to concentrate on the provision of social and economic infrastructure. Contrary to these studies, using survey data from Ukraine, Estrin and Rosevear (1999) refute the hypothesis that private ownership per se is associated with improved performance as they find the private ownership dummy to be insignificant in regressions explaining sales, employment or profits.

Being this is the case and though there are a multiple of studies in the under studied thesis, there is still evidence presented by the empirical cross-sectional literature on whether privatized firms are more efficient is mixed.

LaPorta and López-de-Silanes (1997) also indicated that tests whether the performance of a sample of 218 Mexican SOEs privatized through June 1992 improves after divestiture. The authors compare the profitability, employment, and efficiency levels of the privatized firms to an industry-matched control group, and find that the former SOEs rapidly close the yawning performance gap that had existed prior to divestment. Output increases 54.3 percent (in spite of a reduced level of investment spending), sales per employee roughly doubles, and privatized firms reduce blue and white-collar employment by half.

In case of Ethiopia and most African government mainly, besides other reasons, the reasons why governments invite private sector to be involved in building a better economy is capital.

According to Sarbib Jean-Louis (1997), privatization in Africa is not only bringing about a change of ownership or management control; it is also encouraging much needed new investment in these businesses. He mentioned some clear signs that Africa is becoming the new frontier for foreign direct investment and privatization is spearheading that movement with greater efforts, which are underway to stimulate private sector investment. In Ghana, the government has been organizing joint trade missions of government officials and businessmen overseas, often led by the President. One such trip to Malaysia in 1995 resulted in significant investments by Malaysian investors in joint ventures with Ghanaian entrepreneurs in areas as diverse as banking, communications, palm oil and real estate. Also in Madagascar, the Government is funding a matchmaking scheme, which sends groups of businessmen on targeted investment promotion to Asia. It is estimated that since the 1980s, about 4000 privatization transactions have been completed in Africa with a combined sale of over US\$10

billion with an estimate of over US\$14 billion of Public-Private Partnership transactions were undertaken in Africa between the 1990-1998 (Enweze, 2001). These sales were as a result of its failure in boosting wealth creation due to poor management/sporadic maintenance, high operational costs, inefficiency, heavy losses due to low productivity, multiple and conflicting objectives determined by politicians, lack of residual claimant to profits amongst others. The issue of privatization then rotates on financial principle that suggests the government striving towards providing services without creating an undue burden on taxpayers and another principle that suggests free market process offering benefits that are not easily identified within the public sector.

To this end, privatization program is an ambitious attempt to unlock the economic potential of Ethiopia by financial and technology to be put to the best use and by increasing efficiency to achieve better living standards for all. The government of Ethiopia believed that privatization program is intended to reduce the public sector burden and to improve the performance of SOEs by mobilizing private sector management and capital. This will reduce the financial and managerial burden on government, which will then be able more efficiently to manage the business of government, using the proceeds from the sale of SOEs to improve infrastructure, health service and education. The Ethiopian government started diluting its equity in public enterprises from early 1991s in a phased manner. Following this phase the privatization process started in 1995 and the government has made giant strides (Beyene, December 2014 pp.39). Before then, Ethiopia had a command economy which affects private investment in flow.

According to Beyene (2014) stated that the companies earmarked for privatization and divested were close to 300 and worth 20 billion birr. More than 60% of the entities were loss making at start. Currently, only 7.4% is loss making, while the rest profitable. Government is not privatizing strategic importance public enterprises like Ethiopia Telecome and Ethiopia Electric Power Corporation due to their economic importance. Such similar sectors are termed strategic to government operations and in tested hands to manage; it is not privatization and instead is to make such companies competitive, efficient, modern and viable on sustained basis.

2.6. Research results on privatization

The evidence presented, on the effects of privatization on firm efficiency, by the empirical cross-sectional literature on whether privatized firms are more efficient is mixed.

Using data from U.K., Cragg and Dyck (1999) find that privatized firms with at least four years in the private sector, like established publicly traded firms, exhibit a significant negative relationship between improved performance and the probability of resignation whereas state owned firms show no such relationship. Contrary to these studies, using survey data from Egypt (2002) found that privatized firms

performance measured to evaluate the performance of newly privatized Egyptian firms versus the performance of SOEs. The result shows significant improvements in profitability, efficiency, and dividends, and insignificant decreases in leverage, employment, and risk, whereas capital expenditure and output show insignificant decreases following privatization.

The “before-after” studies seem to find a more robust positive relationship between privatization and increased efficiency. Eckel et al. (1997), find that stock prices of U.S. competitors and airfares in markets served by British Airways fell significantly upon privatization.

As also, Villalonga (2000) examines 24 Spanish firms from different industries and find that privatization does not increase efficiency—defined as rate of return on assets. He argues that political factors such as the business cycle during which the firm is privatized and foreign ownership are important determinants of firm efficiency.

La Porta and Lopez-De-Silanes (1999), in their “before and after” type of study of 233 privatized Mexican firms, find that ratio of investment to sales and investment to fixed assets significantly increases after privatization while employment significantly decreases. Furthermore, they present results from a survey of 74 of these firms where their CEOs were asked to rate the importance of twelve factors—that are listed in the survey—as explanations for the gains in profitability. In that survey, half of the respondents assign the maximum score to the introduction of new production processes.

Privatization cases studied most times show higher level of efficiency but such claims cannot be substantiated always. Megginson et al. (1994) researched into sixty organizations revealed that a substantially improved performance in 75% of the cases studied. It shows that about 25% were not improved in terms of performance.

Contrary to these studies, according to the IMF:

Appropriately designed and regulated divestiture should improve efficiency, reduce burdens on the budget, eliminate political interference in decision-making, and provide incentives for more innovation and dynamism (IMF, December 2000).

Another study also indicates that ten large loss making manufacturing firms privatized in Bangladesh returned to profitability, showing increases in output, sales, capacity utilization, labor productivity, and declining unit cost (Dowlah, 1996). Megginson and Netter (2001) 15 privatized firm studies also show that firms perform better after privatization.

Uzochukwu S (2003) conducted a research to insight the performance after privatization exercise in Nigeria by measuring in the services of some performance indicators such as profitability, operating

efficiency, capital investment, leverage and employment to determine whether productivity had improved after privatization.

The study revealed a significant improvement in productivity while efficiency is still at the back door. From the study also, other indicators were showing mixed effect depending on the firm in question. Similarly, a research conducted by African Economic Research Consortium (Jerome, February 2008) in Nigeria by taking specific indicators examined (i.e profitability, productivity efficiency, employment capital investment, output and prices) by considering its average value of five years value before and five years after privatization. Based on the findings of this study the researcher concluded that the results, albeit mixed, show significant increases in these indicators. Privatization is also associated with increase in technical efficiency in the affected enterprises. Reduction of politically motivated resource allocation has unquestionably been the principal benefit of privatization in Nigeria.

Similarly, a research was undertaken by Omaran (2002) to compare the critical accounting measures performance changes in SOEs following privatization in Egypt using performance indicators (that is profitability, operating efficiency, capital expenditure, and dividends, and a significant decrease in employment, leverage, and risk) whereas output shows an insignificant decrease following privatization.

It is important to note that in the same way privatization has different meanings to different people, who also have different views regarding the benefits of privatization, there would also be different views as to how to attain the ends of privatization.

There are other reasons for privatization which cannot be defended - One of the reasons why governments invite private sector to be involved in building a better economy is capital resources. The private sector can supply capital in return for a profit opportunity. To fill such gap, privatization policy of the 1990 was implemented in transition countries taken to be the best option, as it was believed to provide an engine for economic growth. The second reason as Preston (1993) stated that in developing countries, privatization is done as a result of external pressures from International aid agencies, the World Bank and the IMF, rather than the ideological belief that the state role in the economy should be reduced. The IMF and the World Bank have made the privatization of state-owned enterprises and the reduction of employee sizes as a major requirement needed to be fulfilled by countries especially in the developing world as a criterion for qualifying for loans and grants.

2.7. Public enterprise in Ethiopia

As has been rightly observed, the public-enterprise sector lies at the heart of the privatization debate (Cook and Kirkpatrick 1998). Attention has been focused on public-enterprise sector; perhaps fairly or unfairly, in terms of its rationale, objectives, economic performance and contribution to the development process, particularly in the developing countries.

Nellis and Kikeri (1989) report that worldwide, at the beginning of the 1980s, public enterprises were estimated to have accounted for an average of 10 % of GDP at factor cost. Public enterprises have been important in industrialized as well as centrally planned economies, accounting for significant proportions of GDP, employment and gross fixed capital formation. Developing countries are considered as typically having relied more on SOEs than industrial countries did in a bid to achieve economic and social objectives (Kikeri, et al 1994). In similarly manner in Ethiopia, public enterprises during 1986-1988 the total residual surplus paid by enterprises was equivalent to about 87% of domestic savings, 18 of central government total revenues and 265 of tax revenue (MPED, 1993).

As Mekonnen (2009) suggested that it is important to note that public enterprises in Ethiopia had been operating in an essentially war economy. They were made to meet economic and socio-political objectives that are usually conflicting. A major part of the problem was not of their own making-it was externally imposed-such as foreign exchange constraint. They had not got the chance to operate in normal economic environment.

So far also, public enterprises have an important role in the Ethiopian economy as they had a dominant position during the Dergue years resulting from the policy of building a socialist economy (PPESA News, 1993).

To align the performance of SOEs with the political economic policy of the socialist government ideology, government had organized them in various ways. Firstly they organized in their respective ministries, in another time in one ministry and finally they organized in different corporations. Each enterprise annual production, investment requirement, recruitment, selling price, finance source, distribution, etc had planned at corporation level. General Managers of each respective enterprise were doing just what was ordered at the center and when they faced problems, instead of solving the problem by themselves, they report to the corporation. They were not actually managers, rather they were controllers. Such kind of SOE management system concluded in 1991 when the socialist government kicked off and power took over by new government.

The new government has taken different measures to stabilize the economy of the country. One of the areas which required government's involvement was the SOEs.

Basically the government of Ethiopia has no interest having SOEs indefinitely rather it wants to privatize them step by step but until they privatized government will be responsible for managing and overseeing the entities towards improving their performance. With these efforts 60% of the entities were loss- making at start. Currently, only 7.4% are loss making, while the rest are profitable (PPESA news, 2013).

2.8. Privatization in Ethiopia

The privatization process started in 1995 in Ethiopia. Before then, Ethiopia had a command economy which affected private investment inflow. However, there came about a turn around, a policy change from a command economy to one determined by market forces.

In this regard, Mekonnen(2009) stated due to structural adjustment measures have been taken since 1992 public enterprise law has been involved to create new legal and regulatory frame work consistent with the objectives of moving towards a market economy. As the result of this reform, public enterprises are expected to operate on a competitive basis.

Public enterprises in Ethiopia have made considerable contribution to domestic capacity building in air sea transport, energy and telecommunication, construction, and thus their fiscal contribution is quite significant.

All these point to the fact that the state of public enterprises is an important variable for the performance of the economy. Towards the end of the 1980s and early 1990s their situation has deteriorated as did the overall economy (Mekonnen, 2009).

Public enterprises were generally constrained the following factors: lack of management autonomy, foreign exchange shortage, and lack of inputs (PPESA,2004). These have seriously constrained capacity utilization of enterprises, even though the effects of the problems vary from enterprise to enterprise. Capacity utilization of industrial enterprises, for example declined from an average of 82% in 1988 to about 41% in 1992(Ministry of planning, 1993).

As Mekonnen(2009) confirmed with declining capacity utilization and low outputs levels, losses of the public enterprises had been increased which has led to increased pressure on the budget and financial system, intensifying the crisis in this area. Their outstanding debt has been increasing leading to deterioration in their debt to asset ratio.

The new policy stipulates that public enterprises will have full autonomy and their performance will be judged by profitability. They are expected to compete with the private sector and they will not be awarded special privileges. This is a major policy shift (PPESA, 2005). Some enterprises will remain within the state sectors i.e government which is not privatizing some enterprises for now due to their

strategic to the Ethiopian economy and government is using some enterprises to develop the rural areas and the country at large importance, instead they are made to be competitive, efficient, modern and viable on sustained basis (Beyene, 2014 pp.40) while others will be privatized.

Privatization is not an easy task especially in Ethiopian context (Eshetu, 1992). The domestic private sector is, for all practical purposes, in its infancy. The problems of implementation and absence of developed financial sector do impacts on privatization in Ethiopia.

The experience of other countries shows that the progress is modest. During the 1980-1991 period about 7000 public enterprises were privatized, the major part,(4500) is in the former east Germany(UNDP, 1993). As far as developing countries are concerned, the record shows about 1400 privatized enterprises. From 1974-1991 Ethiopia had a command economy which affected private investment inflow and private investors were considered those commit unfair practice of transaction and exploiter of the society at large.

To address this problem, the new government changed the economic policy of the country from command economy into free market economy. Thus, to bring back the private sector quickly to the business arena, privatization was chosen as one of economic reforms.

In the new economy policy, determine the role of the government and the private sector in the national economy becomes mandatory because it helps to speed up the economic growth of the nation as fast as possible; government has got enough time to focus on basic infrastructure development and strategic economic activities.

Based on this belief, the Privatization program started in 1995 and PPESA is the responsible organization to fulfill its mandates of initiating and supervising Ethiopia's privatization process.

PPESA has been able to successfully privatize a lot of companies in the textile, leather, chemical, food processing, paper converting, mining, and agriculture and service sectors.

The following table 2.1 presented the number of privatized public enterprises since 1995 in details.

Table 2.1: Number of privatized SOEs in Ethiopia

Year of privatization	Number of SOEs privatized	Percentage share	Sales revenue in million Birr	Revenue share of each year sales
1995	5	1.35	4.60	0.02
1996	126	34.05	472.84	2.38
1997	28	7.57	1,430.30	7.22
1998	17	4.59	576.86	2.95
1999	14	3.78	239.1	1.21
2000	20	5.42	374.12	1.89
2001	7	1.89	15.9	0.08
2002	3	0.81	14.09	0.07
2003	3	0.81	4.84	0.01
2004	4	1.08	14.01	0.07
2005	12	3.24	67.73	0.34
2006	13	3.54	316.44	1.60
2007	13	4.53	166.27	3.56
2008	13	3.54	316.44	1.60
2009	19	5.14	267.96	1.35
2010	22	5.95	956.6	4.82
2011	22	5.95	3451.5	17.4
2012	16	4.32	5168.72	26.06
2013	5	1.35	1691.70	8.53
2014	15	4.05	4524.83	22.81
sum	370	100	19 831.56	100

Source: PPESA, 1995-2014

As it can be seen from table, small and retail shops which had been sold in the first half of 1990s with a least price where as from 2011- 2014 only 15.7 % of share enterprises among the total privatized worth 75 % sale of price of the total.

As the process of privatization began, most SOEs had been sold for those who offer better price, however, when it was seen that three enterprises bankrupt to liquidate after privatization, the privatization process and the requirement criteria of the bidders were amended (PPESA, 2005). Among the additional requirements, business plan (mandatory requirement) was also included to assure compliance of investors to their obligation and help to maintain a high level commitment at all levels after handover of the privatized enterprise.

2.9. Debate on privatization in Ethiopia

One of the most critical and difficult issues in the process of transforming socialist, centrally planned economy to a market economy with greater involvement of the private actors is that of privatization.

Half of all industrial establishments were State-owned. However, these establishments were quite large and employed over 90 per cent of all industrial employees (*Solomon, 2001*). Thus, as intent of this paper, in Ethiopia privatization of industrial establishments is a reform that affects nearly everyone in the industrial and agricultural sectors. Employment effects of privatization and the consequences for industrial production should have been given due consideration by the government when deciding upon the strategy of privatization.

The fact that privatization, as a rule, is a complicated issue of reform and thus takes quite time to implement is noted by Glebe (1993) who concludes, from empirical and theoretical evidence, that the process and ownership restructuring is likely to be relatively slow. One reason is that there is still much to be learnt from the experience of countries that have implemented ownership reforms even if it must be remembered that every country and sector has its own characteristics and problems in this respect also stimulating and attracting new private domestic and foreign investments, for instance through the introduction of various market liberalization policies and strengthening of property rights can develop the private sector. In the implementation of structural adjustment reforms and economic system reform programs the issue of denationalization or privatization is one of the most critical components and also one of the most difficult from the point of view of politics, economics and mal administration. As a rule, too much emphasis seems to be placed on the issue of denationalization in the early stages of reform (PPESA, 2007). Even if, as in the case of Ethiopia, it has been declared clearly that the private sector should increase and come to dominate the economy, and even if a number of changes have been introduced in order to stimulate such a development, a frequent criticism has been that the process of transferring ownership to the private sector moves too slowly. However, even if one Objective of

privatization is to increase efficiency in production and to improve allocative efficiency, it is important to stress that privatization per se does not necessarily lead to an achievement of these objectives. It is as important, to eliminate monopoly power and thus increase competition based on free entry and exit.

The first, and also the most important issue to deal with in the process of increasing the role of the private sector are to introduce changes in the economic system so that markets become competitive. The government of Ethiopia has introduced and begun to complement a number of deregulation proclamations. Thus, the first and perhaps most critical step towards a market economy and a more efficient allocation of resources have already been taken. There is, however, still need for changes in the commercial law to support the economic actors in the deregulated market (Solomon D.2001).

As defined Privatization from the context of Ethiopia, it is transferring public enterprises to the private sector by applying various modalities (PPSEA news, 2007). It is also aimed at strengthening the private sector and alleviates the government's budget deficit and stop budgetary subsidy to various sectors of the government. Moreover, it is also aimed at improving the performance of enterprises and also to balance wealth allocation and distribution (PPSEA, 2008). On this belief, privatization has been taking place with full momentum in the last five decades in the world. Since World Bank and other donating governments, many countries started conducting privatization programs (PPESA, 2008). So it is accepted by most states, it is become one of the tools for the economic reforms. As Ethiopia started to adopt the market-led economic policy, privatization of public enterprises was put in to effect starting from 1995(PPESA, 2007). But what also others share the researcher and have some people's opinion that it has been slow. The Ethiopian PPESA is accountable to the Ministry of Industry and has a mandate to supervise enterprises slated by government for privatization and ensure they are doing well (Beyene, 2014) . To this end, the Agency has been given strong power and duties in addition to handling the privatization of enterprises per se.

These are to:

- Taking the all necessary measures to publicize the privatization program and its implementation; and advising government on entities to be privatized;
- Engaging in post privatization monitoring to ensure compliance of investors to their obligation;
- Undertaking impact assessment of gamut of the privatization program and maintain high level commitment and support at all levels;
- Manage weak enterprises and put them up for sale when they become viable;
- Does feasibility study on some strategic projects and; set road map for enterprises that are of strategic importance to government?

In the Ethiopian context, 370 state-owned enterprises were „privatized“ from 1995 up to January 2014 by different modalities practiced. The following table presented the details.

Table 2.2: Privatized Enterprises by different modalities.

S/no	Modalities	Number of SOEs	Remarks
1	Transferred to investors, regional governments, other federal institutions	279	Including those transferred from leases, joint venture, and accountable to relevance institution
2	For management and employees	45	Transport, small retail shops, hotels ,etc
3	Joint venture	13	Gradually 4 enterprises transferred
4	Concession	1	Legendenbi gold
5	Management contract	1	Gradually transferred
6	Lease	6	Gradually 3 transferred
7	Restitution	25	For primarily owners

Source: PPESA, 1995-2014.

2.10. Strengths and Constraints of Privatization

Privatization process is quite intricate. It was a new idea to the Government and was not simple to get acquainted themselves with the process. First and for most market economy was a complete turnaround from state controlled economic system. The market and book values of the enterprises were not known. Implications of privatization on workers that would follow from selling the enterprises were also unknown.

International multilateral and bilateral institutions were pressing on the government to liberalize the economy without proper detailed study before acting. The government was unable to buy time to take breath and think because the treasury was empty and needed donation and loan to fill it (Solomon, 2001).

Privatization in Ethiopia has gained both opponents and proponents. Proponents go to the extent of saying that state owned enterprises should be privatized at any cost. This comes from the hatred they

developed for the preceding system. On the other hand, opponents express their views that errors do not correct errors. Privatization for the sake of privatizing does not help unless it brings socio economic change in the society.

At the same time they admit that privatization cannot be carried out flawlessly. However, its contribution to development could have been maximized if genuinely done.

Major points of departure are the following:-

1. Most of the action plans and guidelines of privatization were not discussed by the public at large: - They were designed and implemented behind closed doors. In this exercise, many express their fears that interests of certain individuals might have been served rather than the benefit of the stake holders in general (Solomon, 2001).

2. Detailed study and broad participation should have been conducted to determine the exact mode of selling publicly owned enterprises:-

Most of the enterprises were old and above all, they were operating in distorted market environment. On top of this essential information was not disseminated to the public on time (PPESA, 1997).

3. Many employees were made jobless by the investors due to the fact that they did not want to employ the services of ‘inefficient workers’

Furthermore, the new owners wanted to restructure the enterprises they purchased. Profit being their motive, the social aspect of the workers was neglected. In fact some of the enterprises are temporarily closed down for innovation purposes. Development efforts in a given economy aim at achieving two major economic objectives: employment creation and income generation.

Privatization efforts in Ethiopia, many people contend, did not achieve much on these lines (Solomon, 2001).

4. Privatization failed to take into consideration tough competition between domestic production and imports of consumable goods- such as leather, textile, food, beverages, tobacco, steel, chemicals, furniture, stationeries etc. On the other hand smuggling of consumable goods and services seem to be taking toll from time to time. There is a high resentment by most investors on privatized enterprises for what they say that there is no equal playing field for both domestic and imported goods to compete in the domestic market (Eshete, 2010).

To conclude; theories and research findings indicate us that three distinct approaches help to make successful business management. The first argument is if business manages by government, besides enhancing development and growth, it can help to secure equity and increase participation of the general public, socially desirable things gets desirable attention. When resources managed by government

creates conducive condition to create a just economic system. Transfer the ownership and control of wealth producing assets from the private to the public sector is help, among others, to revolutionize industrial societies.

According to Solomon (2001) argument second radical view is the involvement of government in economic activities, leads the business in inefficiency and less profitability. According to his views government's interference only prevents the free flow of goods, services, and incentives government operation as meddling, causing waste, extravagance, and proliferation of bureaucracy.

The third view is after taking privatization as an important measure to bring efficiency in enterprises, government should play its vital roles through its regulatory and supportive mechanism (Solomon, 2001).

As roughly indicated on the literature of the justification of establishing SOEs, public enterprises has established to provide goods and services which can solve the basic problem of the society without segregation. The origin of the idea to establish SOEs were not principally productivity and efficiency, these were secondary objectives, rather the main or primary objective were producing and distributing goods and services for the citizen at fair price and better quality. This means that enterprises established by government are to satisfy society's demand regardless of its cost. In effect they have become continuously loss makers, government subsidies does not safeguard them from bankruptcy indefinitely. Therefore, to make them efficiently provide goods and services within the objectives they evolved, most countries have employed privatization and have been exercising it.

As long as the researcher's knowledge concerned, the benefits and importance of privatization has get better acceptance. Whereas, the way and the scope of implementation of privatization is the point of argument, that is, as discussed in the literature, promoters of neo-liberal theory argue that the cause of inefficiency of SOEs is the intervention of government. The best solution for that is ownership transfer from public to private can solve the problem. On the other hand, SOEs have been established to serve the society, this should not be aborted. Privatizing an organization that holds assets of the tax payer, employees, generate tax for the government needs especial attention. Privatized SOEs have not expected to meet only financial success but social performance also mandatory. Therefore to attain these double objectives, beside private owners, government participates through its regulatory system is crucial.

Among the above three arguments, the researcher supports the regulatory theory. Because, unlike developed countries, developing countries lacks social and legal infrastructures those protect the

society from unfair business practices. Thus as long as the developing countries corporate governance at infant level, as long as institutions who can save the society from wrong doing at infant stage, and as long as the private sector gives due attention only profit, etc, unregulated privatization add fuel on the social and economic problem of developing countries. Thus, regulated privatization believed to bring better result for the nation than leave everything to the market.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Introduction

This research seeks to find out whether the operating performance of privatized enterprises improves after privatization and also to ensure that the observed changes are related to privatization impact or a part of other than privatization.

3.2. Research Approach

The information for this study had been collected through mixed research approach and employed for addressing the research objectives. To collect the secondary data, the methods employed and applied by, particularly, Megginson et al. (1994), Boubakri and Cosset (1998) approaches were used as the checklists of instruments.

3.3. Research Design

With regard to the techniques of the research design, Claire Sellitiz (1962) stated the research design is a blueprint for the collection, measurement and analysis of data.

The study consisted of descriptive and explanatory research designed in an attempt to empirically determine the operating performance changes between the pre- and post privatization periods. More over observation performed via field trips to the enterprises. This research strategy was used to measure the effect of privatization on performance and enabled to compare what was hoped for with a practical situation, and implementation. This is the most appropriate method towards effectively addressing the research objectives. Data was collected across of the three surveyed enterprises.

As to meet the objective of the paper, the pre-test/post- test design strategy also was used to compare a result of the paired nature of the performance of the subjects under discussed. To fulfill this, a “before and after” design is considered variables to allow for comparison basically profitability, operating capacity utilization, capital expenditure, and the level of employment. To measure the effects of privatization on firm performance, performance measures for every firm are calculated for the years before (years -5 to -1) and after privatization (years +1 to +5).

3.3.1. Primary data source

To get the required information and data for this study, Primary data collected from under surveyed enterprises through well structured questionnaire that distributed to 120 respondents which included

staff managements, labor union and key informants of the three under studied enterprises and who purposively selected key informants. The information gathered through informal discussion and observations used primarily for the study recommendation.

3.3.2. Secondary data source

Secondary data were collected and used from annual reports, audited financial reports, periodical performance reports.

With regard to comparison measure, Barber and Lyon (1996) recommended in their study that privatization year was considered as the base year for each firm (year 0). And hence, this study was not used for comparison purpose.

An extensive of literatures were reviewed for the theoretical basis of the study which included journals, research thesis, dissertations, and other documents regarding privatization in Ethiopia.

3.4. Population

Since 1995 around 370 state owned enterprises in various sectors have been transferred by privatization program (PPSEA, 2014). The population of this research comprises SOEs that had been 100 % privatized to private investor since the first public enterprise transferred to private investors by Ethiopia.

For the purpose of this study, the list of privatized firms was compiled around 1995 to 2009. The list compiled by PPESA news shows that about 71.6 % of the state owned enterprises privatized data could not be compared using before and after privatization data.

Since the population was limited to those fully privatized to private investors through a competitive public tender process, there were only 105 enterprises suitable for this study purpose.

3.5. Sample size

Taking the time and finance limitation into account, the size of the sample is purposively determined to be three based on personal judgment. Among the list of population, three firms will be selected as follows; where $N=105$ and the sample size=3.

The study used a combination of purposive and stratified and then simple random sampling method.

Based on these data, the distribution to each subsectors based on their respective proportion as follows:

Table -3.1: Sample size of the study

Sub sector	No of enterprise	Expected(n)	Percentage (%)
Manufacturing and agro processing	69	$\frac{69 * 3}{105} = 2$	67
Services	36	$\frac{36 * 3}{105} = 1.03$	33
Sum	105	3	100

The Sampling frame for the sample of the study was taken from Addis Ababa and its periphery only.

3.6. Sample Selection Methods

Both primary and secondary data were sourced and utilized for purposes of addressing the research objectives. Secondary data was gathered from annual reports and other documents. The research work was conducted mainly based on financial and operational performance data. To select the sample, a two-stage sample selection method is employed. Firstly, the sample was stratified the population into manufacturing, agro-processing, and Service sectors and then three firms were selected based on their proportion. Secondly, accordingly respondents were selected from the under study sampled firms with equal proportion. And then, based on the given data from table 3.1 above, three firms were selected randomly.

These firms are:

- (i) . Yekatit paper printing enterprise – from manufacturing sector
- (ii). Addis Ababa Tannery – from agro processing sector, and
- (iii) Ethiopia Hotel enterprise – from service sector

3.6. Data Analysis

The Statistical Package for the Social Sciences (SPSS) version 20 used to facilitate this analysis. To address the study objectives, the paired sample *t*-test analysis technique and descriptive and inferential statistics were employed. For quantitative data as Kothari, (2004) stated , in various research situations in the context of two-related samples (i.e., case of where some subjects are studied in context of before-

after experiment), to determine the magnitude difference between paired-values, it is important to use paired sample *t*-test to assess the significance change of performance each parameters.

To meet the objectives of the study, an attempt was also made to share the analysis with related literature and the experience of other scholars.

Since the sample is small, like many researchers used to test the operational performance of privatized enterprises, Wilcoxon on Sum Rank Test as the test of significance used as a tool for the change in mean value for assessment of performance parameters. The Wilcoxon tests which can be obtained from corresponding tests and the estimation and simultaneous inferences procedures based on upon these tests.

According to Megginson et al. (1994), Boubakri and Cosset (1998) stated the empirical proxies and the predicted relationship of the various enterprises" characteristics before and after privatization are presented as follows:-

Profitability

This is measured by several proxies including return on sales (ROS) i.e operating profit to sales, and Return on Assets (ROA) {Net income divided by total assets}. All these indicators are expected to increase significantly after privatization. Moreover, this ratio indicates how well the enterprise has used the resources of owners.

Operating Efficiency

It is referred to sales per employee and determined by sales efficiency, and income efficiency which refer to sales per employee, and EBIT per employee respectively.

As quoted by Getachew (2003), following the transfer of ownership from public to private investors, firms should employ their human, financial and technological resources more efficiently because of a greater stress on profit goals and a reduction of government subsidies.

Capital Investment

Capital investment spending is expected to improve after privatization. In their survey article, Megginson and Netter (2001), report that almost all of the twenty-two studies from non-transition economies that they review find that capital investment spending increases significantly as firms are privatized. Once privatized, the firm should also increase its capital expenditures because it has greater access to private debt and equity markets and it will have more incentives to invest in growth

opportunities (Megginson, Nash and Van Randenborgh, 1994). To test whether the newly privatized firm to increase its capital investment spending increasing or not, it is computed the ratio of capital expenditure to sales.

Employment

Governments expect the level of employment to decline once the SOEs which are usually overstaffed turn out private and no longer receive government subsidies. However, in growing sectors, the newly privatized firm could absorb surplus labor through new capital investment and more productive use of existing assets (Kikeri, S. and Perault, M. 2010).

Capacity utilization

There is general agreement among economist that capacity is an output based measure. Capacity utilization is extent or level to which the productive capacity of a plant is being used in generation of goods and services. Expressed usually as a percentage, it is computed by dividing the total capacity with the portion being utilized. i.e. capacity utilization is calculated using this formula:

$$\text{Capacity Utilized} = \frac{\text{Actual level of out}}{\text{Maximum possible out put}} \times 100$$

Following this assumption, the mean of each measure is computed for each firm over the pre-privatization (years -5 to -1) and post-privatization (years +1 to +5) periods. The year of privatization was eliminated from the analysis because it includes both public and private ownership. Regarding the data collected through questionnaires were analyzed by descriptive distribution and cross tabulation of frequency and ratios were developed.

3.7. Ethical considerations

While conducting this study, respondents were informed in advance that the data collection process could be proceeds whenever they were willing to cooperate. In addition to this, any information collected via the instruments would be never be used for any other purpose other than for its academic intent, that is, the data would be kept confidential. They were also made to know before it is publicized; the copy of the research findings could be offered.

3.8. Study Validity and Reliability

To ensure high validity and reliability of the collected data triangulation method was applied for this study. Triangulation in research refers to the combination of two or more data sources, methods or theories in one study of a single phenomenon to converge on a single construct.

As mentioned Robson, C (2003) produced a very detailed list of types of triangulation as follows:

- Time triangulation: collect data at different points in time,
- More than one data collection
- Person triangulation: collect data from more than one level of persons: individual, groups or collectives.

Thus, the study used both data and person triangulation formats. Data triangulation is used since there are three types of data collecting methods used in this study, i.e. questionnaire, secondary data and field visits. Person triangulation was also used since the physical presence and informal discussion on issues to get first hand and basically to have know how the challenges for under consideration enterprises.

CHAPTER FOUR :RESULTS AND DISCUSSION

This chapter deals with presentations, discussion and interpretation of the data collected through secondary and survey (questionnaires).

The results organized and analyzed from the primary resources of the studied enterprises and the empirical findings of the statistical analysis for the performance changes in variables described.

4.1. The Background of the selected Enterprises

As mentioned earlier, this study involves three enterprises, Addis Ababa Tannery S.C., Yekatit paper converting works factory, now known as Yekatit paper converting PLC and Ethiopia Hotels Enterprise, now known as Ethiopia Hotel enterprise. These companies represent major the manufacturing, agriculture and service sectors of the Ethiopian economy. These enterprises represent agriculture, manufacture and service sectors of the national economy. The major sector of the economy is agriculture sector represented by Addis Ababa Tannery S.C, manufacturing sector in which printing can be found represented by Yekatit paper converting PLC, and Service sector represented by Ethiopia Hotel Enterprise. Each enterprise also has a reasonable picture of substantial market share, an important role in the Ethiopian economy as they have dominant positions of these days resulting from the policy of building a country's economy.

4.1.1. Ethiopia Hotel Enterprise

Ethiopia Hotel was established in 1963 to give full hotel service with a total working capital of 2.81 million birr. The hotel was controlled by "Society Hotelier De Tourism Share Company" up to 1974. In 1976, the share structure of the company was reorganizing to supervise nine medium hotels and one restaurant for the offers and the hotel became a public company. And Ethiopia hotel's Administration was transferred to the control of National Hotel's corporation which lasted up to December 1991.

By legislation in 1991, the Government of Ethiopia increased its interest to its previous responsibility.

The Hotel is well known for its:

- Tastefully furnished rooms & Well-equipped laundry
- The multi-purpose halls are used for conferences and meetings
- The Ethiopia hotel offers 110 different types of newly refurbished rooms standardized accommodation facilities

- The bars are relaxing spots for people to meet for both pleasure and business

The location of the hotel is in the centre of Addis Ababa. This is convenient for any type of business and visit. And also the hotel is equipped with all facilities such as telephone, Fax, computer and Multi channel TV services. At the end of 2011 the hotel was privatized to Ethiopian investor for an amount 92 million birr.

4.1.2. Addis Ababa Tannery S.C

Addis Ababa Tannery S.C is the oldest tannery in Ethiopia and Established in 1925. It is the oldest tannery in Ethiopia and privatized in 2006 for an amount 22.2 million birr. According to the key informant, the representative of share company, before privatization the company approximately 65% of tanned hides were exported and 90% of this tannery factory's problems was associated with problems raw materials, i.e hides and skins quality and shortage of raw materials. In order to encourage the local tanneries to process more value added products (semi and finished leather products), government of Ethiopia introduced an export tariff on raw hides. To this end, under the new ownership, Addis Ababa Tannery S.C decided to change its strategy to manufacture leather garments and hides for shoe uppers for the domestic market.

4.1.3. Yekatit Paper Converting PLC

It was first established in the year 1965 with a capital of birr 250,000. In 1975 it was nationalized. After nationalization the enterprise was operating under the former Printing Corporation until 1992.

The Enterprise was finally re-established as a public Enterprise by the council of Ministers Regulation No 28/1992 with an authorized and paid up Capital of Birr 3,520,000 out of which Birr 3,648,344.53 was paid up.

Objective of the Enterprise is to carry on the business of Paper Converting and Producing Exercise Books and its products are mainly exercise books, paper boxes, labels, toilet tissues and napkins.

4.1:Production Capacity of yekatit paper converting PLC.

	Exercise Books	Toilet Tissue	Napkins
Designed	34,423 Pcs	10,565 Roll	2,081 Pkt
Attainable	- Pcs	2,287 Roll	90 Pkt
Attained	3,754 Pcs	2,272 Roll	131 Pkt

Source: - Production capacity 1 shifts, 5 days per week (2015).

4.2. Research Findings and Discussion

In this section, observation of the actual conditions of the enterprises under the studied and the empirical results of the data collected on case by case basis using performance measures has been presented and interpreted. As per the intention of this paper is to test whether privatized SOEs perform better after privatization. To this effect, many variables to show for comparison between pre and post- privatization performance were considered. As noted in chapter one, in the Ethiopian context, the privatization objective is to switch, among other reasons, ownership to private sector in order to make the enterprises efficient and profitable and thus, stimulate economic growth. To resume such objectives, government of Ethiopia stated in its economic policy that the essential goal to be privatized to make the enterprises as priority list to become efficient and profitable than while operating in the hands of government. To this effect, as per the economic policy of the Ethiopian government, through privatization, public enterprises will be forced to compete on more equal terms with private enterprises and accordingly private enterprises are driven by the profit motive and fear of bankruptcy. Thus, the profit approach will enhance the rational and efficient use of resources in both public and private sectors of the economy and will ensure the increase in productivity. Furthermore, enable managers to take appropriate and timely decisions regarding the operations and activities of the enterprises. In short, management will be accountable for all its activities in carrying out its assigned responsibilities. Thus privatization will enhance an enabling environment the performance of enterprises and thereby ultimately increasing output, income and investment (Esthete , 2010).

From these assumption what is the practical performance of Ethiopian privatized enterprises in terms of their operational performance. For this purpose, first the descriptive analyses are presented and followed by inferential statistics which helps to provide base for estimate.

4.3. Descriptive statistics

Descriptive statistical analysis uses to summarize and processing data to transform into information. The data examine the difference between before and after privatization on operational performance on under discussed enterprises.

The descriptive statistics of mean values standard deviation and coefficient of variation of the understudy enterprises discussed in the consequent tables for each category.

Table 4.2. Summary measures of Descriptive Statistics

Measuring parameter	Yekatit paper Converting PLC						Addis Ababa Tannery S.C					
	Before privatization			After privatization			Before privatization			After privatization		
	μ	Sd.	CV	μ	Sd.	CV	μ	Sd.	CV	μ	Sd.	CV
ROA	0.12	0.165	>100%	0.288	0.7	28%	0.44	0.015	34%	0.044	0.019	44%
ROS	0.104	0.104	100%	0.484	0.073	15%	0.024	0.011	45%	0.044	0.019	44%
Capacity (%)	26.2	6.26	23%	55.2	13.88	25%	55.4	9.1	16%	73.4	4.6	63%
Operating ^a	0.06	0.01	15%	0.234	0.09	40%	0.102	0.024	23%	0.12	0.03	26%
Employment	292	43.9	15%	365	59.3	16%	332	19.56	6%	323	28.93	9%
Investment ^a	2.8	3.8	135%	24.2	33.1	136%	0	0	0	3.51	1.26	35%

Source: PPESA, operational performance report

Note: a=in million birr

ROA= Return On Asset

ROS= Return On Sales

Table 4:2(a): z-statistics value of Yekatit paper Converting PLC

Measuring parameter	Z-statistics	t-test
ROA after - ROA before	-2.023 ^b	0.021
ROS after - ROS before	-2.023 ^b	0.0215
capacity After - capacity before	-2.023 ^b	0.022
employment after - employment before	-2.023 ^b	0.02
Investment after – investment before	-2.023 ^b	0.022
operating after - operating before	-1.069 ^b	0.142

Source: own calculated data from secondary sources, 2015.

A z-test is any statistically test for which the distribution of the test statistics under the null hypothesis can be approximated by a normal distribution ([https:// en.m.wikipedia.org](https://en.m.wikipedia.org), June 20/201). In this study If z- value greater than 1.96 irrespective of the sign, then t-test has significant value changes where it considers. So from table 4.3 above, in all measured parameter taken except operating efficiency of all are values have a significant changes observed following privatization.

Table 4.3. Summary Descriptive Statistics of Ethiopia Hotel Enterprise

Measuring parameter	Ethiopia Hotel Enterprise					
	Before privatization			After privatization		
	μ	Sd.	CV	μ	Sd.	CV
ROA	0.322	0.101	31 %	0.39	0.37	9%
ROS	0.310	0.07	22.5%	0.35	0.033	9%
Capacity (%)	53	8.8	16 %	56	8.42	15%
Operating ^a	0.038	0.003	8%	0.88	0.027	30%
Employment	267	11.7	4 %	227	19.7	9%
Investment ^a	0	0	0	2.12	0.045	2%

Source: PPESA, operational performance report

Note: a=in million birr

For comparison purpose, it is mostly used the coefficient of standard deviation or the coefficient of variation is multiplied by 100, the resulting figure is known as *coefficient of variation* (Saunders et .al 2007).

This measurement uses to show the degree of closeness the each value to their respective mean.

$$\text{Coefficient of variation} = \frac{sd}{\mu} \times 100\%$$

Where: μ= mean, Sd. = standard deviation

4.3.1. Profitability

Return on sales and return on asset are the indicators used to measure profitability.

As shown in Table 4.2 and 4.3 above summarized the profit performance of Ethiopia Hotel Enterprise, yekatit Paper converting PLC, and Addis Ababa Tannery S.C show a positive effect on return on sales and return on asset following privatization with mean values of ROA 0.39, 0.30.288, and .044, respectively. Even though profitability proxies' return on sales and return on asset have relatively show increment, Addis Ababa Tannery S.C has 0.44 sales ratio of ROA before and after privatization and also 34% and 44% of coefficient of variation before privatization and after privatization respectively. This indicates more inconsistency after privatization than before the reform, which implies that after the reform, Addis Ababa Tannery S.C has no change in profitability. As seen from the above table 4.2 and 4.3, the irregularity of performance of profitability is recorded after privatization. In case of ROS in all under studied enterprises has a change from 0.31 to 0.39, 0.104 to 0.484 and 0.24 to 0.44 in Ethiopia Hotel Enterprises, yekatit paper converting PLC and Addis Ababa Tannery S.C respectively.

Based on the above three enterprises in profitability indicators, the results show due to the intervention of privatization leads to profit increase in SOEs.

4.3.2. Operating Performance

This indicator is measured by sales efficiency and income efficiency.

Table 4.2 and 4.3 shows the mean values of operating performance indicators before and after privatization. Ethiopia Hotel Enterprises has positive changes with mean values increased from a mean value of 0.038 before privatization to 0.088 after privatization. Accordingly yekatit paper converting Private limited company's operating ratios increased from an average of 0.065 before privatization to 0.234 after privatization. In the same way, Addis Ababa Tannery S.C has also a positive change from its mean value 0.102 before privatization to 0.122 in the years of privatization for which this paper considered.

As indicated in table 4.2 and 4.3, in all under studied enterprises, their coefficient of variation (the degree of closeness between successive performances) after privatization is greater than before privatization. This implies that there was inconsistency operating performance results observed after the reform introduced. For instance, in Yekatit Paper Converting PLC the operating performance has coefficient variation 15% before privatization shifted to 40% of coefficient of variation after

privatization. This implies that there was more variability operating performance was obtained in the years of privatization than before privatization years.

Thus, from an operational performance perspective, the results partially supported by the empirical literature that the performance of firms following privatization led to improve operating performance.

4.3. 3. Capital Investment

Among the objectives of privatization is stimulating private savings towards long-term investments to strengthen the national economy.

In the light of the motivation to privatize SOEs, as policy objectives are stated in privatization programs by government of Ethiopia, generating new investment, including foreign investment, and enabling enterprises to access markets, capital and technology, as well as expose them to market discipline. Government of Ethiopia expects that following privatization a privatized firm is to increase its capital investment spending. As can be seen from Table 4.2 and 4.3 the result reveals that there is an increase in capital investment spending as expected. In Yekatit paper converting PLC, investment amount was 2.8 million birr during five years time before privatization. Whereas on average 24.2 million birr after privatization was invested within five years time. Similarly Addis Ababa Tannery S.C since its time of privatized from the table 4.2 above the mean value 3.5 million birr.. In this study, investment intensity is captured by Capital expenditure to Total assets. The results show increases in all cases. Moreover, in a situation where there are old and highly depreciated enterprises, an immediate initiative through investment injection would become imperative to coup up with a market competitive environment. Following privatization, often managers are forced to make necessary adjustments that may require change in product mix, improve efficiency and optimal allocation of resources through new capital spending.

4.3.4. Capacity utilized

Extent or level to which the productive capacity of a firm is being used in generation of goods and services. Expressed usually as a percentage, it is computed by dividing the total capacity with the portion being utilized (<http://www..com>, May 15,2015). The primary reason governments attempt to privatize SOEs is to improve the efficiency of these SOEs, and making the private sector responsible for needed enterprise investments (Nellis, 1991).

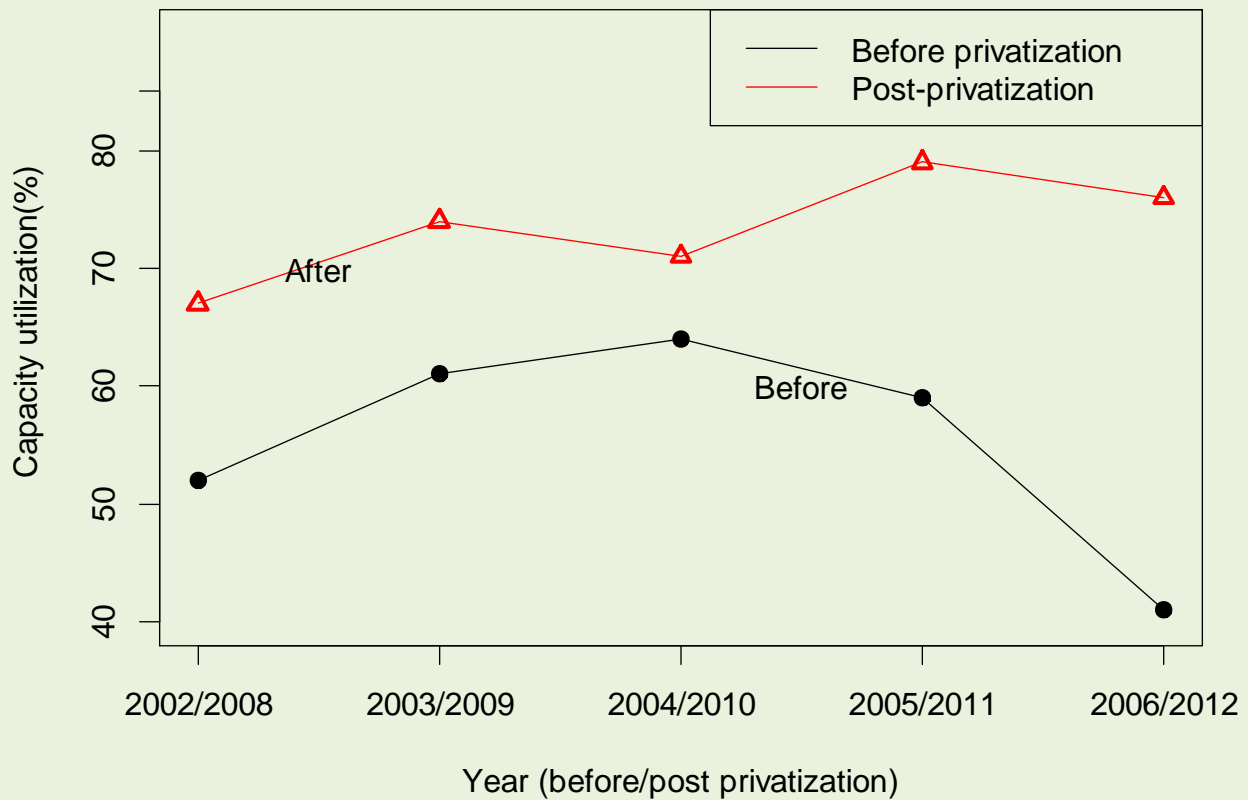
Table 4.4: the Results of capacity utilized percentage before and after Privatization

variables	Mean Before	Mean After	Mean change	% of Change	Change Description
Ethiopia Hotel Enterprise					
Capacity utilization (%)	53	56	3	5.6	positive
Addis Ababa Tannery S.C					
Capacity utilization (%)	55.4	73.4	18	32.5	positive
Yekatit Paper converting PLC					
Capacity utilization (%)	26.2	55.2	29	110	positive

Source: PPESA, 2015.

As it can be indicated in Table (4.4) above, shows that Ethiopia Hotel Enterprise capacity utilization percentage increased after privatization by 3 %, which a slight positive change has been observed on operating efficiency as its mean value increased from 53% before privatization to 56% in the years after privatization. *The capacity utilization in post privatization in all the three survey studied enterprises the mean change in percentage shows a positive change, similarly Addis Ababa Tannery S.C of capacity utilization with a positive change from 55.4 % to 73.4 % after privatization, which means that as empirically confirmed that the organizational performances are found to influence the estimated effects of privatization on capacity utilization. In these respect a study conducted by Dowlah(1996) confirmed that loss making manufacturing firms privatized in Bangladesh returned to profitability and showing increases in capacity utilization. The capacity utilization Addis Ababa Tannery S.C and Ethiopia Hotel Enterprise is presented in fig.2 as follow. Fig 2. Capacity utilization before and post-privatization for Addis tannery*

Addis Tannery S.C



As shown in the figure above, Addis Ababa Tannery S.C uses its idle capacity more as soon as privatization periods start but later slightly decreased. After privatization, a new investor made an effort to improve the overall factory capacity and thereby enabled the factory to come up with capable to increasing in its capacity utilization. Addis Ababa Tannery S.C is the one among public enterprises that was face difficulty as soon as transferred to a private investor. The prominent challenges were a domestic shortage and poor quality of raw materials used to produce leather products and as the same time imported leather products less expensive and better quality than domestically manufactured leather products. Due to a combination of these challenges, Addis Ababa Tannery S.C had low capacity utilization and thereby since privatization its capacity utilization is not by far promising.

Fig 3. Capacity utilization before and post-privatization for Ethiopia Hotel Enterprise



Similarly, Ethiopia hotel it sharply used its capacity at start of its privatization while decreases over a time. This is because of most government purchases were preferred to given to public enterprises without bidding since the higher purchaser and consumer is government in Ethiopia case, most of its market exposed for competition. As soon as SOEs transferred to private, in most case they lose their market share and consequently forced to start to compute with private business institutions.

As indicated in the above figure 4 above, after privatization its capacity utilization increased and this resulted in more benefited from privatization program than before.

Fig4. Capacity utilization before and post-privatization for Yekatit Paper Converting PLC

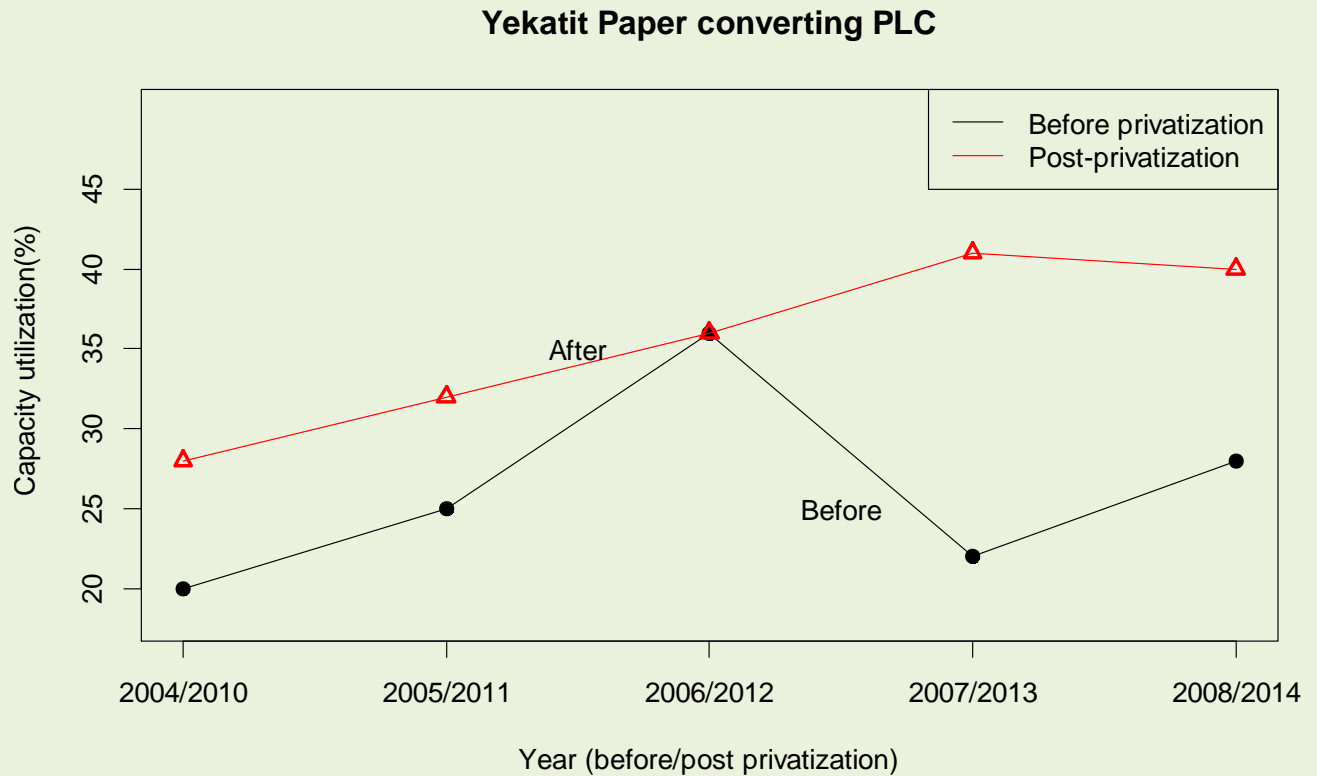


Fig 4. Capacity utilization before and post-privatization for Yekatit paper converting PLC

As it can be seen from the figure the capacity utilized increased sharply after privatization. This means, the intervention of privatization program allows Yekatit paper converting factory to better utilize its resources and to increase production volume of its products and productivity.

Before privatization, most SOEs are characterized by low capacity utilization, low productivity, large operating losses (or low profitability). Since a private investor acquires a public enterprise in order to earn a financial return, investment is made(source- own field survey, 2015) . The amount capital made in each year not less than 10 million birr in Yekatit paper Converting (Yekatit paper converting annual financial report, 2014). Before privatization, the enterprise had limited profit, if cash was available ,it was used for maintaining machineries and purchasing of inputs and spare parts. As a result, at the time of transfer the enterprise’s machineries and facilities were inefficient and not capable of working at full capacity. The capital investment made on Yekatit paper Converting PLC could definitely improve its productivity and with this result its capacity utilization is increased by large.

4.3.5. Employment level

Most of the pre- and post- privatized enterprises that were generating profit are reducing more of their employees. In the case of under studied enterprises, most employees preferred voluntary retrenchment before these enterprises were transferred to new owners.

According to the literature, the effect of privatization on employment is ambiguous. Some researchers (Boubakri and Cosset, 1998) reported an increase in employment after privatization while other authors (La Porta and López- De-Silanes, 1997) found a significant decline in the number of employees after privatization, in like manner, the results are mixed. As can be seen from the table 4.4, the employment level on average for five year periods before privatization and also five years following privatization, as evidence shows, the employment level decreases in Ethiopia Hotel Enterprise and Addis Ababa Tannery, while in Yekatit Paper Converting PLC, the average employment mean for the five year period after privatization increase from 292 before privatization to 365.

Table 4.5: performance indicators: Employment

Variables	Mean Before	Mean After privatization	Mean Change
Employment- Ethiopia Hotel Enterprise			
Number of employment	267	227	-40
Employment – Addis Ababa Tannery S.C			
Number of employment	332	218	-114
Employment –Yekatit Paper converting PLC			
Number of employment	292	365	73

Source: PPESA, 2015.

The data considered in this study (refer tables 4.2 and 4.3 above), which has before and after privatization in a paired nature, and hence, as a part of the data analysis paired t-test was tried. But the assumption for the paired test (i.e. the deference between before and after privatization data doesn't follow a normal distribution). In addition to this, the number of observations considered in this study is too small. As a result, a non- parametric test statistics was used in order to test the significance of the variables under consideration.

4.4. Inferential Statistics

Inferential statistics are also known as sampling statistics and are mainly concerned with two major types of problems:

- (i) the estimation of population parameters, and
- (ii) the testing of statistical hypotheses.

Inferential statistics is to make statements about a population by examining sample results.

Table 4.6: T -Test Output

Measuring parameter	Addis Ababa Tannery S.C		Yekatit paper converting PLC		Ethiopia Hotel Enterprise	
	Z statistics	p- value	Z	p-value	Z	p-value
ROA after - ROA before	-.368 ^b	.35	-2.023 ^b	.0215	-1.084 ^b	.13
ROS after - ROS before	-2.070 ^b	.019	-2.023 ^b	.0215	-1.084 ^b	.13
capacity After - capacity before	-0.674 ^b	.25	-2.023 ^b	.0215	-.365 ^b	.36
employment after - employment before	-.405 ^c	.343	-2.023 ^b	.0215	-2.023 ^b	.0215
Investment after – investment before	-2.023 ^b	.022	-2.023 ^b	.0215	-2.023 ^c	.0215
operating after - operating before	- 1.753 ^b	.04	-1.069 ^b	.142	-2.023 ^b	.0215

Source: PPESA, financial and operational performance report from 2002-2014

Note:

- Test- Statistics – SPSS calculates the results of t- statistics by assuming z- values i.e. Based on negative ranks and Wilcoxon signed Sum Ranks Test.
- If the Z- statistics if $Z > 1.96$ irrespective the sign, $p < 0.05 \Rightarrow$ there is statistically significance difference between after and before privatization parameters.
- Since SPSS by default reports the two sided test result, the result is divide by two to report as a one sided test.

Table 4.7: The critical values of T- test in the wilcoxon matched paired test

	The levels significance for one tailed test		
Critical values	0.025	0.01	0.005
In percent	2.5%	1%	0.5%

Source: *Critical Values of T in the Wilcoxon Matched Pairs Test (kotheri, 2004 pp384).*

Based on Tables 4.6 above T-test output information, the following hypotheses was tested and also decision will be made on the result whether the changes show any difference or not within the range of significance level. The decision is made for the performance changes in variables are using the p- test, and the Wilcoxon signed-rank test compared with critical values given in Table 4.7 whether the level of significance for one- tailed test in the range of assumed by the critical values.

A) profitability changes

Hypothesis 1

H_0 : Privatization doesn't lead to a significant improvement in profitability,

Step1 $H_0 =$ □ before □ □ after, no difference between pre and post privatization in profitability

H_a : Privatization leads to a significant improvement in profitability,

Note: difference = Before – After (If there is a value increment, $d < 0$.)

Step 2: Significance level, according to the critical values of T in the Wilcoxon Matched Pairs Test less than 0.05($P < 0.05$).

Step 3: Test statistics

➤ **Decision:** at ROA for Ethiopia Hotel (P-value=0.13), and Addis Ababa Tannery S.C (p-value=0.35) at

($p < 0.05$)

- H_0 **Accepted** since P-value is 13% which is not in the range of critical values for one tailed test.
- Both Ethiopia Hotel Enterprise and Addis Ababa Tannery S.C return on asset after privatization or their asset utilization is insignificant.
- No evidence supports that return from a unit amount of birr/ dollar is not by far differing from pre –privatization in both enterprises.
- ROA for Yekatit Paper Converting (YPC) PLC p-value=0.0215 at ($p < 0.05$)
 - Alternative hypothesis accepted, since P-value 2.15% in the ranges in critical values.
 - There is substantial difference in profitability between before and after privatization,

Why the reason the performance of Yekatit paper converting PLC was increased following privatization, as the enterprise privatized, the new owner focused on modernizing the manufacturing facilities and this resulting in improving capacity utilization (refer Table 4.4) and resulting in increasing production and so far this additional investment put on the enterprise to enhance productivity and thereafter the machineries were also producing a considerable output in their capacity.

- At ROS for Addis Ababa Tannery S.C, $p=0.019$, and Yekatit paper converting PLC, $p=0.0215$ at ($p<0.05$)
 - ***Ha Accepted.*** The result shows that return on sale value in these enterprises in the periods of privatization is highly higher than before privatization.
 - So there is enough evidence to conclude that the return on sale result changes witness that significant difference in performance changes.
- At Ethiopia Hotel $p=0.13$ at ($p<0.05$)
 - ***H0 Accepted.*** Since there are no significant improvements in profitability between before and after privatization (see table showing t-test for decisions).
 - Thus, hypothesis H_a is not substantiated.

Even though there seems a change in ROA and ROs show an increment, this performance changes in both ratios would be due to the changes of either the shift of a certain new management or an effort to reducing extra expenses rather than resulted in a significant change in performance by indicated parameters used in this study. As soon as this enterprise privatized, there was substantial of its market share shifts to other competitors since most of government meetings and occasion could not be held in the hotel as usual and which was considered as government enterprise no accountability to use without considering the competitive price, and this new challenge developed to get a market after privatization. For instance, most Ethiopia athletics federation, which was highly, consumed its facilities, occasions held in this hotel before privatization

B. Changes in Operating Efficiency

Hypothesis 2

H0: Privatization does not result in operating efficiency improvements

Ha: Privatization results in operating efficiency improvements

- **Decision:** at $p=0.4$ and $p=0.0215$ at ($p<0.05$) for both Addis Ababa Tannery S.C and Ethiopia Hotel respectively

- H_0 accepted for Addis Ababa Tannery S.C, since no significance difference achieved due to the intervention of privatization and,
- **H_a Accepted** for Ethiopia Hotel Enterprise, a difference change in operating efficiency following privatization by far more than before, thus there is significance difference b/n before and after privatization.

As result of Test statistics shows, it is expected that privatization will provide the best allocation of resources in order to improving operating efficiency as assumed following privatization for *Ethiopia Hotel Enterprise but not* in case of *Addis Ababa Tannery S.C.*

- The sales efficiency of Yekatiti Paper Converting PLC at $p= 0.142$ at ($p<0.05$)
 - **H_0 Accepted, due to** the change in operating efficiency per employee in the periods of after the privatization periods considered is insignificant.

The study outcome is inconsistent with mixed empirical results. This is not a typical case there is inconsistency result also was seen by the study conducted Martin and Parker(2001) on performance in terms of profitability and efficiency- for 11 privatized firms in the United Kingdom

C. Changes in Capital invested

Hypothesis 3

H_0 : Privatization doesn't increase capital expenditure spending of the enterprise.

H_a : Privatization increases capital expenditure spending of the enterprise

- **Decision:** at $p=0.02$, and $p=0.02$ at ($p<0.05$) in all assessment firms
 - The null hypothesis is rejected since there was significant changes observed after privatization, thus **H_a Accepted.**

As shown in Table 4.6 below, the result confirms that newly privatized public enterprises in order to enhance the efficiency of their enterprises try to make an improvement by doing a way that machineries, installations, and etc that could be used effectively after privatization by injecting new capital.

Based on the Wilcoxon test in table 4.2 and 4.6, Yekatiti Paper converting PLC which the mean value of capital expenditure to total asset has increased significantly from about 2.8 million birr to 24.2 million birr following privatization. Thus, at the level $\alpha = 0.05$ of significance, there is enough evidence to conclude that the changes in capital investment after privatization by all assessment firms improved their investment.

Table 4.7: Performance indicator: Capital Investment

Variables	Mean Before	Mean After	Mean Change	significance level
<i>Capital investment- Yekatit Paper converting PLC</i>				
Capital Expenditure /Total Assets	0.012	0.18	0.168	0.022
<i>Capital investment- Addis Ababa Tannery S.C</i>				
Capital Expenditure /Total Assets	0.065	0.096	0.031	0.011
<i>Capital investment- Ethiopia Hotel Enterprise</i>				
Capital Expenditure /Total Assets	0.104	0.278	0.174	0.02

Source: PPESA, financial and operational performance report from 2002-2014

D. Changes in Employment

One of the crucial issues in privatization is the effect on the employment level after firms move from government control to the private sector. Before discussing the statistical results of this variable, it is worth mentioning that there is neither a theoretical or empirical consensus with regard to the impact of privatization on the level of employment. On one hand, privatization might lead to an increase in the level of employment since privatized firms will target more growth and expand their investment spending; in turn, they will be able to produce more job openings. On the other hand, it is confirmed that most SOEs tend to be over-staffed for many social reasons; hence, extensive layoffs are expected to take place because of the style of new management.

Hypothesis 4

H₀: There is no a significant change of employment level due to the intervention of privatization. If there is a change either that considered to be positive, like additional employment opportunity or under natural circumstance rather not due to the intervention of privatization effect.

Ha: There is a significant change of employment level due to the intervention of privatization.

➤ **Decision:** at $p=0.02$ and $p=0.021$ at ($p<0.05$) for Ethiopia Hotel Enterprise and Yekatit Paper Converting PLC,

- There was significant change in employment, thus the null hypothesis rejected, thus Ha **Accepted.**

According to Kikeri et al(1992) stated that the newly privatized firm could absorb surplus labor through new capital investment and more productive use of existing assets. As seen from the table 4.6 above, the results are mixed. Based on the wilcoxon test result (refer the above table 4.6), the employment level on average for the five years before privatization (-5 to -1) and to one of in the years of privatization (+1 to +5) for Ethiopia Hotel Enterprise and Yekatit Paper Converting PLC reveals that employment increased. Especially in Yekati Paper converting increased from 292 to 365. The wilcoxon test shows a significant change for Ethiopia Hotel Enterprise and Yekatit Paper Converting PLC,

- But shows insignificant changes for Addis Ababa Tannery S.C. since it, in average employment, decreases in the five year period after privatization from 332 to 218(refer table 4.5)
- No significant changes observed between before and after privatization periods.

E). changes in capacity utilization

Hypothesis 5

H0: capacity utilization percentage did not increase after privatization

Ha: capacity utilization percentage increased after privatization

Table 4.8: The Result for the capacity utilization variable

The situation		mean value(μ)	Standard deviation	Significant level
Pre-privatization	Ethiopia Hotel	53	8.8	-
	Yekatit paper Converting	26.2	6.26	-
	Addis Ababa Tannery S.C	55.4	9.182	-
Post-privatization	Ethiopia Hotel	56	8.42	-
	Yekatit paper Converting	55.2	13.88	-
	Addis Ababa Tannery S.C	73.4	4.62	-
Mean Change	Ethiopia Hotel	3	-0.38	0.36
	Yekatit paper Converting	29	7.62	0.021
	Addis Ababa Tannery S.C	18	-4.56	0.25

Source: Descriptive statistics,2015

As indicated in the Table 4.8, these results clearly imply that the whether the claim is accepted on not at confidence significant level. That is, average of capacity utilized has been changed after the privatization.

➤ **Decision: at $p=0.25$ and 0.36 at ($p<0.05$) Addis Ababa Tannery S.C and Ethiopia hotel enterprise respectively.**

- No significant changes (see table showing t-test- for Mean results).
- Thus, hypothesis 1 is not substantiated. ***Ho Accepted.***
- Implies that the result observed are not far what would have been by chance.
- Whereas, the result clearly indicated by Yekatit Paper Converting PLC is accepted at 97.9 percent significant level.
- That is, capacity utilization has been increased after the privatization.
- Significance difference in capacity utilization percentage,
- Thus **Ha** accepted for Yekatit Paper converting PLC.

4.5. Analysis from structured questionnaires

Besides utilizing financial data, it was also used a primary information to conform whether the results were really reliable and feedback and insights was received from the assessment firms.

4.5.1. The Response Rate of respondents

A total of 135 questionnaires were distributed to the three surveyed sample of the study enterprises and key informants. Only 120 respondents were participating which consists of about 89% response rates.

4.5.2. Respondents profile

The participants who were respond were 120, out of these 110 (91.6%) were from the three organizations selected, 10 (8.4%) were key informants.

As per the data shown in the table below, of the total 120 respondents taken for the study, majority of the group are between 30 and 39 years age which accounts for 44.2% of the total. 16.7% are less than 30 years and 39.2% are between 30-39 years. In addition, most of these respondents were males (72%) and the females“ accounts for only 28%.

The sample that taken from under studied is the employees of sampled enterprises from managing directors, finance, operators, and others (includes key formant, sales forces, legal advisory, secretaries, accountants and labor union representative).

The majority of the respondents were grouped under the educational level of first degree covering 65% of the total respondents. The rest of the respondents were categorized under the educational level of masters, Diploma and certificate with covering 15.8%, 15.8% and 3.4% respondents respectively. When it considers the position of respondents, among the 120 respondents 2.5% (3) respondents were managing directors, 7.5% (9) respondents were finance personnel, 40 % (48) respondents were workers of operation of sampled enterprises and the rest 50% (60) respondents are staffs of understudy enterprises in different positions and key formants outside of the enterprises(table 4.4).

The salary paid to employees of 3.3% (4) respondents was below 1000 birr, 12.5% (15) respondents was between 1001-3000 birr salary income per month, 39.2% (17) respondents was between 3000 to 6000 birr salary paid staffs and the rest 45%(54) respondents got salary above 6000 birr per month. This shows that most of the respondents' salary was more than 6000 birr per month.

In general, the result of this study has shown, mixed results, a positive in the percentages of some points. However, these results increments are not significant while critical values of t statistically show insignificant based on Wilcoxon test at that has a significance level of below 0.05.

Table 4.9: Respondents characteristics

variables	Description	Frequency	percent	Cumulative Percent
Age	18-29	20	16.7	16.7
	30-39	53	44.2	60.8
	40-60	47	39.2	100.
sex	male	86	71.7	71.7
	female	34	28.3	100
Income Per Month (Br.)	≤1000	4	3.3	3.3
	1001-3000	15	12.5	15.8
	3001-6000	47	39.2	55
	Above 6000	54	45	100
Academic status	Certificate	4	3.4	3.3
	Diploma	19	15.8	19.2
	First degree	78	65	84.2
	Masters	19	15.8	100
Position of the respondent	Managing Directors	3	2.5	2.5
	Finance personnel	9	7.5	10
	Operators	48	40	50
	Others	60	50	50

Source: PPESA, financial and operational performance report from 2002-2014

4.5.3. Findings from the Respondents

The participants who were participated in responding were 120, out of these 10 (8.4%) were from non staff members (key informants include individuals taken from PPESA, consultants and from Ministry of Industry). Structured questionnaires that were responded by the participants are presented as follows.

Table 4.10: The private sector enables the enterprise became profitable

Responses	Frequency	Percentage (%)	Valid Percentage (%)
Yes (valid)	Yes	100	83.3
No (valid)	No	20	16.7
total	Total	120	100.0

Source: own survey, 2015

As analysis indicates that the respondent rate 100(83.3%) and 20 (16.7 %) was yes and no respectively. It implies that the enterprise was become profitability and the efficiency increased due to the switch ownership to the private sector than before. Moreover resources of the enterprises became controlled and employees started to orient themselves on job. Most respondents believe that the policy of privatization enabled the enterprises to become efficient and resources controlled and well managed.

But the conditions of those enterprises are being privatized, is it for an investor who financially strong or for whom who care for employees' rights? These questions must be addressed first. Otherwise most respondents were likely support what government is being done.

Table 4.11: Privatized enterprises can operate profitably than before privatization

Responses	Frequency	Percentage (%)	Valid Percentage (%)
Yes (valid)	112	93.3	93.3
No (valid)	8	6.7	6.7
total	120	100.0	100.0

Source: own survey, 2015

As it is presented on the above table, 112 (93.3 %) and 8(6.7 %) replay for yes and no for the rate respectively, this directly indicates that privatized enterprise have a capacity to operate profit than before privatization. During the data collection for this study purpose, what was understood that, most thought

that more operational activities were done within limited time than before, thus there is more of the enterprises capacity utilized and asset employment increased than before. Government has many objectives other than profit or shareholder-wealth maximization. That why private investors can significantly increases the efficiency of a firm's operations.

Table 4.12: Asked that whether privatization enables enterprises to be more Competitive

Responses	Frequency	Percentage (%)	Valid Percentage (%)
Yes (valid)	116	96.7	96.7
No (valid)	4	3.3	3.3
total	120	100.0	100.0

Source: own survey, 2015

As the above table describes 116(96.7%), and 4(3.3 %) of the respondents were responded that yes and no as respectively. Based on this response, the majority rates of the respondents believe that privatization is able to make the enterprise to be more competitive.

Table 4.13 the overall of operational performance better than before privatized

Responses	Frequency	Percentage (%)	Valid Percentage (%)
Yes (valid)	104	86.7	86.7
No (valid)	16	13.3	13.3
total	120	100.0	100.0

Source: own survey, 2015

As the above table describes 104(86.7%), and 16 (13.3 %) of the respondents were responded that yes and no for the stated request respectively .This implies that following privatizations performance is better than before privatization .

Table 4.14: Asked whether capacity utilized than before

Responses	Frequency	Percentage (%)	Valid Percentage (%)
Yes (valid)	106	88.3	88.3
No (valid)	14	11.7	11.7
total	120	100.0	100.0

Source: own survey, 2015

As shown in table, 106(88.3 %) and 14(11.7 %) responding for yes for large rate and no response for the less rate .this indicates that there is more capacity utilized for the performance is to being better . Those who said yes, they understood more products/services were provided with minimum cost of production.

Table4. 15: Asked whether more capital investment is spending than before privatization

Responses	Frequency	Percentage (%)	Valid Percentage (%)
Yes (valid)	115	95.8	95.8
No (valid)	5	4.2	4.2
total	120	100.0	100.0

Source: own survey, 2015

As the above table describes 115(95.8%), and 5 (4.2 %) of the respondents were responded that the same to replay yes and no respectively. Thus it indicates the following privatization spends more capital for the performance of its operation is better than before privatization.

Table 4.16.whether efforts are made to improve operational performance than while in the hands of the government

Responses	Frequency	Percentage (%)	Valid Percentage (%)
Yes (valid)	80	66.7	66.7
No (valid)	40	33.3	33.3
total	120	100.0	100.0

Source: own survey, 2015

As the above table describes 80(66.7%), and 40 (33.3 %) of the respondents were responded that yes for large rate of response and no for the next less rate of response . This implies that efforts are made for the best improvement of operational performance . governments can intervene in the operations of any firm, either public or private. However, the government’s transaction costs of intervening in production arrangements and other decisions of the firm are greater when firms are government owned. Thus, to the extent that government intervention has greater costs than benefits, that why private ownership is preferred to public ownership (Villalonga, 2000).

Table 4.17: The benefit of privatization to the economy, in particular the society

Responses	Frequency	Percentage (%)	Valid Percentage (%)
Yes (valid)	37	30.8	30.8
No (valid)	80	66.6	66.6
total	117	97.4	97.4

Source: own survey, 2015

As it can be seen in the Table 37(30.8 %), and 80(66.6 %) of the respondents were responded that yes and no respectively. As the statistics shows respondents believe that privatization will affect the society negatively.

Table 4.18: Asked whether more jobs opportunities.

Responses	Frequency	Percentage (%)	Valid Percentage (%)
Yes (valid)	78	65	65
No (valid)	42	35	35
total	120	100	100

Source: own survey,2015

As the above table describes 78(65%), and 42 (35 %) of the respondents were responded that yes and no respectively. This indicates that privatization benefits the economy in the area of creating more jobs.

Table 4.19: Privatization benefits in areas of goods/services

Responses	Frequency	Percentage (%)	Valid Percentage (%)
Yes (valid)	115	95.8	95.8
No (valid)	5	4.2	4.2
total	120	100	100

Source: own survey, 2015

As the above table describes 115(95.8%), and 5 (4.2 %) of the respondents were responded that that yes and no respectively. This indicates that privatization benefits the economy in the area of producing diversified goods and products.

Table 4.20: Privatization in areas of prices advantages

Responses	Frequency	Percentage (%)	Valid Percentage (%)
Yes (valid)	56	46.7	46.7
No (valid)	64	53.3	53.3
total	120	100	100.

Source: own survey, 2015

As presented in the above table, the respondents indicates that 46.7 % are responded as yes, which is privatization has a no affect on price benefits to the economy.

4.21: Challenges encountered after privatization

Responses	Frequency	Percentage (%)	Valid Percentage (%)
Yes (valid)	39	32.5	32.5
No (valid)	81	67.5	67.5
total	120	100.0	100.0

Source: own survey, 2015

As the above table describes 39(32.5 %), and 81(67.5 %) of the respondents were responded that yes and no respectively .This implies that even though there is challenges most respondents agree that no challenges face after privatization.

Table 4.22: Asked what challenges/cases

Responses		Frequency	Percentage (%)	Valid Percentage (%)
Yes (valid)	Breaking promise	58	48.3	48.3
	Work load	120	100	100
	Lay off	0	0	0
No (valid)	Breaking promise	62	51.7	51.7
	Work load	0	0	0
	Lay off	120	0	0

Source: own survey, 2015

As the data given in table, there is a common to break promises (51.7%) and of the respondents were responded that there is no challenge that they are faced after privatization in terms of breaking of promises. All the respondents agreed that there is a work load after privatization and no lay off as respondents answered. But while the visit is undergone some respondents said that it was at start of privatization.

Table 4.23: Asked whether the government has achieved its objective of privatization

Responses	Frequency	Percentage (%)	Valid Percentage (%)
Yes (valid)	38	31.6	31.6
No (valid)	82	68.4	68.4
total	120	100.	100.

Source: own survey, 2015

From Table 4: 22 (31.6%) of the respondents believe that government has achieved its objective of privatization because, it has raised the overall efficiency of the economy while 82 (68.4%) respondents

indicated that government has not achieved its objective. This result support those who against the privatization policy in Ethiopia. They thought that privatization policy is the World Bank and International Monetary Fund conditionality for those country involve to access loan from those organizations.

4.5.4. Level of privatization effect –employees and management perception

As per proposed methodology for this specific research questionnaires like likert also have been used. The question on privatization that has impact on operating efficiency has been included to know whether the privatization has really achieved its objectives or not. The summary of response is presented as follow. From the comparison of views, private and public firms 34.2 % and 31.7 % were responded as agree and strongly agree respectively. This directly indicates that private firms are more efficiently operate their business process than public firms.

Table 4.24: Private firms can operate efficiently than public firms

scale	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	8	6.7	6.7	6.7
Disagree	8	6.7	6.7	13.3
Neutral	25	20.8	20.8	34.2
Agree	41	34.2	34.2	68.3
Strongly Agree	38	31.7	31.7	100
Total	120	100	100	

Source: own survey, 2015

As presented the table above, from the comparison point of view private and public firms 34.2 % and 31.7 % were responded as agree and strongly agree respectively. Of course, as many argued to compare SOEs to privately owned firms, it is difficult, it possible, no more private owned in some sectors like printing sectors that this paper under studied. Thus, it is difficult to evaluate the effects of government ownership in cases where the ownership structure is itself endogenous to the system that includes both political and performance goals of country like us.

Table 4.25: Most firms increase in operating performance following Privatization than before privatization

scale	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	4	3.3	3.3	3.3
Disagree	12	10.0	10.0	13.3
Neutral	32	26.7	26.7	40.0
Agree	50	41.7	41.7	81.7
Strongly Agree	22	18.3	18.3	100.0
Total	120	100.0	100.0	

Source: own survey, 2015

As presented in table above, the analysis shown the rate of response on each of the scale as follows 41.7 % are agree, 18.3 % strongly agree and 26.7 % are were responded as neutral. This indicates that most of the firm improves their operating performance on following privatization than before privatization.

Table 4.26: As soon privatization process starts, workers begin to leaving their public enterprises' job voluntarily than unusual way

scale	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	4	3.3	3.3	3.3
Disagree	29	24.2	24.2	27.5
Neutral	54	45.0	45.0	72.5
Agree	13	10.8	10.8	83.3
Strongly Agree	20	16.7	16.7	100.0
Total	120	100.0	100.0	

Source: own survey, 2015

As presented above table, 24.2 % and 45.0 % were responded as disagree and neutral respectively, as this analysis shown as workers can't begin to consider leaving from public enterprise than unusual way.

Most respondents said private owned enterprises put pressure on individuals who will be forced to leave, that why most leave their job early as privatization process started. This will lead to unemployment and others.

Table 4.27: Privatization has a positive acceptance by society

scale	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	8	6.7	6.7	6.7
Disagree	32	26.7	26.7	33.3
Neutral	36	30.0	30.0	63.3
Agree	26	21.7	21.7	85.0
Strongly Agree	18	15.0	15.0	100.0
Total	120	100.0	100.0	

Source: own survey, 2015

As presented above table, 26.7 % and 30.0 % were responded as disagree and neutral respectively, this directly implies that they can't believe that privatization has a positive impact in respect of the society

Table 4.28: The Performance of State-Owned Enterprises improved when privatized

scale	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	8	6.7	6.7	6.7
Disagree	12	10.0	10.0	16.7
Neutral	28	23.3	23.3	40.0
Agree	40	33.3	33.3	73.3
Strongly Agree	32	26.7	26.7	100.0
Total	120	100.0	100.0	

Source: own survey, 2015

As above table presented, 33.3 % and 26.7 % were responded as agree and strongly agree respectively, this indicates as the performance of state owned enterprise is improved when it will be privatized.

To sum up: - the conclusions drawn in this study are primarily based on analysis of operating and financial data of the under discussed firms, informal discussions with management of under studied firms, key informants under taken for this study purpose and questionnaires output.

The findings of this research from respondents' views have several important issues to consider for practitioners. Primarily, the issues of privatization are serious concern not only for the country like Ethiopia, but for the entire world. In most African countries, privatization program is remain a headache to many governments of African and most of privatized SOEs incompetent and became inefficient and perform poorly than ever before privatization. But it is rather, the Ethiopian scenarios better than as compared from most African privatization.

As most respondents argued in this study, they believed that privatization has an important role in raising the private sector's participation and contribution to the economic development of the country. It offers ranges of investment opportunities for the private entrepreneurs to engage in one or another sector. Most think also gives confidence to the private entrepreneurs. Some believe that private ownership improves corporate performance and evidence found practically a change of performance by comparing the operating performance of the industry before and after privatization.

Others, contrary, dictate that privatization results in to burden of restructuring through layoffs and wage cuts. Thus, research finding showed that the respondents indicated that their factories show a private ownership will be more efficient than a public one. But the government follows up after privatization almost none and no one has asked for violation has made by employers, if any, which requires high cost. In Ethiopian case, the policy and objectives of privatization mainly focused on revenue generation putting aside the social aspect of privatization. still from the start, no impact assessment has been done so far and no one tested empirically the status of the privatized enterprises and no far tried to know the investors experiences and back ground(own survey respondent's suggestions,2015).

CHAPTER FIVE: Summary of findings, Conclusion, and Recommendation

5.1. Summary of the Findings

This study examined the impact of privatization on operating performance of the three survey public enterprises in the study in that could be represent the prominent Ethiopian economic sector by comparing pre-and post-privatization performance. The study measures the change in profitability, operating efficiency, capital investment, capacity utilization and employment level indicator of performance by comparing its average value five years before and five years after privatization.

The result is summarized as follows:

- To examine the performance of the three survey firms in the study, the study used the standard methodology of comparison used in the literature and empirical studies to compare the pre- and post privatization operating performance of under studied enterprises. To test the result for the significance changes between mean values between pre- and post-privatization periods the parametric test is used. However, the data is not convenient to test using descriptive analysis its significant with its p-value is employed to determine whether under considered enterprises experiencing changes is greater than what would be expected by chance.
- The study shows significant improvements in profitability, capacity utilization, investment, and employment level for Yekatit Paper converting PLC, in case of Ethiopia hotel in investment, operating efficiency and employment level parameters there is a significant changes , where as Addis Ababa Tannery S.C, the results show improvement in only investment and sales efficiency.

Comparatively the performance observed of the sampled enterprises showed a positive results than they had been under government ownership and then this doesn't mean the shifts is statistically significant

5.2. Conclusion

The results, albeit mixed, revealed that there were positive improvements in the performance of Yekatit Paper Converting PLC after privatization in all indicators considered for this study except in operating efficiency when compared to its performance before privatization. On the other hand, Out of the three surveyed enterprises in the study, Addis Ababa Tannery shows no significant performance difference was seen on indicators like investment, employment, capacity utilization, and ROA. Although there is

significant improvement in the performance indicator of sales efficiency per worker in Ethiopia Hotel, this improvement are either due to higher employment reduction and exchange rate from US dollar to Birr, since this enterprises was transacting its business in dollar, and also there was a difference exchange rate in the periods of before and after privatization which highly affects the sales efficiency per worker within the period of the study under consider. Overall, going by the results of this study, privatized public enterprises have continued to show improved performance and efficiency in the years after privatization. The international evidence on impact of privatization is mixed and was far from satisfactory. The result of the study revealed that there were positive improvements in the performance of SOEs after privatization in terms of all indicator parameters used in this paper except in employment parameters compared to its performance before privatization. In fact the probability of observing such values just by chance and as a result such improvements were not at the level of significance.

The study also confirmed that there was an increase in capital investment as per the results of the capital investment to capital expenditure to assets ratio where as employment was declined in Ethiopia Hotel and Addis Ababa Tannery S.C. Also from the study, the level of employment which is expected to decrease in the short run is observed to be contrary to the a priori expectation. In Yekatit paper Converting PLC, this was attributed to the increase in the number of employment due to rise in profitability and capital efficiency. This implies that with the rate of employment increase in the enterprises, in a long run much will be achieved in terms of employment opportunities. This will be positive towards the promotion of the private sector in carrying out what they are expected. In general the results go against the empirical literature that states privatization improves the performance of privatized companies in terms of profitability and operating efficiency and decreases in the number of employment in all cases.

In conclusion;

- privatization contributed positively to use the underutilized in all the assessed enterprises, with (before/after Privatization) percentage change values equivalent to about:
 - ✓ ETH @ an average = 5.6%
 - ✓ AAT @ an average =32.5%
 - ✓ YPC @ an average =110%
- But among these, Yekatit Paper converting plc only statistically shifts significant, what is more Significance difference b/n Pre/post privatization was found for YPC

- Because of improved utilization of capacity, the overall performance of Yekatit Paper Converting PLC shows in examined indicators more positively and by far significant in performance between pre and post privatization performance
- The empirical results from SPSS out shows for Ethiopia hotel and Addis Ababa Tannery S.C is not far what would be expected by chance
- The performance change results after privatization for Ethiopia Hotel & Addis Ababa Tannery S.C are not significant for inferential conclusions

Finally, after privatization firms may become profitable and efficient, but the probability of observing such values just happened just by chance. This means that privatization has no a significant effect on operating and financial performance when compared to its performance before privatization.

5.3. Recommendation

On the basis of the findings and conclusions reached, the following recommendations were made in order to improve the performance of SOEs following Privatization,

- ✚ PPESA has to continue the support at all levels in order to realize what the investor's compliance to their obligation. Because of these supporting, not only the government but also the investors are beneficiaries in which they can get equal opportunity to become profitable and viable industries.
- ✚ Help strengthen private sector management capacity, to have a knowhow aspect of the business line,
- ✚ Conducting impact assessment – to verify whether investors respect the agreement that dealing with PPESA at the time of acquiring the enterprises and also understand what is really happening. For instance, it enables PPESA whether the buyers are honoring their promises or not. This in turn enables the workers to have confidence in the process.
- ✚ Efforts should be given weight to initiating the capital market to overcome the shock of working capital which is very common

Privatization alone can't lead them significance difference in performance change.

To sum up: privatization alone can't lead the desired performance changes unless government qualify and play its role.

5.4. Recommendation for further Researches

It is suggested that there should be an intensive research to ascertain the financial and operating performance of privatized firms in Ethiopia.

Among others, mostly on:

- Study on comparative performance of public enterprises with private firms that identically engaged in the same sectors of activity
- In the areas of a correlation between privatization and economic growth

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APPENDIXES ONE- QUESTIONNAIRES

Note: kindly put a (√) mark with the option that reflects your level of agreement with the given statement.

1. Age: 18 – 29 30-39 40 – 60
2. Sex: Male Female
3. Income per month (ETB): below 1, 0000 1001-3000 3001-6000 above 6000
4. Academic status: certificate diploma first degree masters , if any, specify.....
5. The status of the respondent: Sole property Managing Director Finance Manager Operation Manager other

Part II: Basic Information

A- General questions

SECTION A: General information

Note: kindly **put** a (√) mark with the option that reflects your level of agreement with the given statement.

1. Age: 18 – 29 30-39 40 – 60
2. Sex: Male Female
3. Income per month (ETB): below 1,0000 1001-3000 3001-6000 , above 6000
4. Academic status: certificate diploma first degree masters , if any, specify.....
5. The status of the respondent: Sole property Managing Director Finance Manager Operation Manager other

SECTION B: Survey questions

1. Due to privatization in Ethiopia, do you believe that the switch ownership to the private sector the enterprise became efficient and profitable? Yes No
2. In your view, do privatized enterprises can operate profitably than before privatization? Yes No
3. Do you believe that privatization enables enterprises to be more competitive? Yes No
4. Currently where you are working in enterprise, following privatization, its operational performance better than before privatized. Yes No
5. If yes to 4, there is more capacity utilized than before Yes No
6. *If yes to 4, more capital investment is spending than before privatization* Yes No
7. In your current employer's firm, efforts are made to improve operational performance than while in the hands of the government Yes No
8. Following of privatization, your enterprise is ensuring adequate revenue. Yes No
9. Do you feel that privatization program has benefits the economy, in particular the society? Yes No
10. If yes to 9, in which area(s),
 - 10.1 more jobs were created Yes No
 - 10.2. More **diversified goods/services started to produced** Yes No
 - 10.3. In terms of prices advantages Yes No
11. From your enterprise's view, the enterprise improved its operational performance and could also have consistency profit.

Yes No
12. Have you encountered any challenges after privatization? Yes No

13. If yes to 12, in what cases

13.1 Breaking of promises Yes No

13.2. More Work load Yes No

13.3 Retrenchment Yes No , Others (specify) -----

14. Have you personally benefited because of the firm privatized?

Yes No

15. If YES, in which areas?

A. Better salary Yes No

B. The skill provided by new employer Yes No

C. Reducing the frequent external interference Yes No ,

16. In your view, does the government achieve the objectives of privatization in Ethiopia? Yes
No

B. Questions that seeks perception towards privatization

Please put 'X' in the space provided on the appropriate response category against each question where 1=strongly disagree, 2= disagree, 3= neutral, 4= agree and 5= strongly agree

	statements	1	2	3	4	5
1	Private firms can operate efficiently than public firms					
2	Most firms increase in operating performance following privatization than before privatization					
3	As soon privatization process starts, workers begin to consider leaving their public enterprises job voluntarily than unusual way					

4	Privatization have a positive acceptance by society					
5	The Performance of State-Owned Enterprises improved when privatized					

APPENDIXE TWO – STATISTICAL OUT PUT

1.Descriptive Statistics

	N	Mean	Std. Deviation	Minimum	Maximum
ROA before	5	.04400	.015166	.020	.060
ROS before	5	.02400	.011402	.010	.040
capacity before	5	55.40	9.182	41	64
employment before	5	332.00	19.558	312	359
investment	5	.0000	.00000	.00	.00
operating before	5	.101572	.0239256	.0737	.1269
Roa after	5	.04400	.019494	.010	.060
ROS after	5	.04000	.012247	.020	.050
capacity utilized	5	60.01	33.645	0	79
employment after	5	323.20	28.926	295	359
invetment after	5	3.51	1.260	2	5
operating after	5	.122528	.0326975	.0688	.1546

2. Ranks

	N	Mean Rank	Sum of Ranks
Roa after - ROA before	Negative Ranks	1 ^a	4.00
	Positive Ranks	3 ^b	2.00
	Ties	1 ^c	
	Total	5	
ROS after - ROS before	Negative Ranks	0 ^d	.00
	Positive Ranks	5 ^e	3.00
	Ties	0 ^f	
	Total	5	15.00

capacity utilized - capacity before	Negative Ranks	1 ^g	5.00	5.00
	Positive Ranks	4 ^h	2.50	10.00
	Ties	0 ⁱ		
	Total	5		
employment after - employment before	Negative Ranks	3 ^j	3.00	9.00
	Positive Ranks	2 ^k	3.00	6.00
	Ties	0 ^l		
	Total	5		
investment after - investment	Negative Ranks	0 ^m	.00	.00
	Positive Ranks	5 ⁿ	3.00	15.00
	Ties	0 ^o		
	Total	5		
operating after - operating before	Negative Ranks	1 ^p	1.00	1.00
	Positive Ranks	4 ^q	3.50	14.00
	Ties	0 ^r		
	Total	5		

3. t-statistics

a. Roa after < ROA before

b. Roa after > ROA before

c. Roa after = ROA before

t-statistics

	Roa after - ROA before	ROS after - ROS before	capac ity utiliz ed - capac ity befor e	employme nt after - employme nt before	invetment after - investment	operating after - operating before
Z	-.368 ^b	-2.070 ^b	-.674 ^b	-.405 ^c	-2.023 ^b	-1.753 ^b
Asymp . Sig. (2- tailed)	.713	.038	.500	.686	.043	.080

Ethiopia hotel

Descriptive Statistics

	N	Mean	Std. Deviation	Minimu m	Maximu m
ROA before	5	.32200	.100846	.220	.440
ROS before	5	.31000	.070000	.220	.380
capacityb	5	53.80	8.843	45	64
operatngb	5	.038800	.0027749	.0350	.0420
employment b	5	267.00	11.705	252	280
investmenb	5	.00	.000	0	0
ROAafter	5	.39000	.037417	.360	.440
RoS after	5	.35200	.032711	.320	.400
apacityA	5	56.00	8.426	45	67
operatingA	5	.088200	.0277615	.0440	.1200

employment A	5	227.80	19.715	207	260
investmentA	5	2.2196	.04551	2.19	2.30

		Ranks		
		N	Mean Rank	Sum of Ranks
ROAafter - ROA before	Negative Ranks	2 ^a	1.75	3.50
	Positive Ranks	3 ^b	3.83	11.50
	Ties	0 ^c		
	Total	5		
RoS after - ROS before	Negative Ranks	1 ^d	3.50	3.50
	Positive Ranks	4 ^e	2.88	11.50
	Ties	0 ^f		
	Total	5		
apacityA - capacityb	Negative Ranks	2 ^g	2.00	4.00
	Positive Ranks	2 ^h	3.00	6.00
	Ties	1 ⁱ		
	Total	5		
operatingA - operatngb	Negative Ranks	0 ^j	.00	.00
	Positive Ranks	5 ^k	3.00	15.00
	Ties	0 ^l		
	Total	5		
employmentA - employmentb	Negative Ranks	5 ^m	3.00	15.00
	Positive Ranks	0 ⁿ	.00	.00

investmentA - investmenb	Ties	0 ^o		
	Total	5		
	Negative Ranks	0 ^p	.00	.00
	Positive Ranks	5 ^q	3.00	15.00
	Ties	0 ^r		
	Total	5		

a. ROAafter < ROA before

b. ROAafter > ROA before

c. ROAafter = ROA before

T-statistics

	ROAaft er - ROA before	RoS after - ROS before	apacity A - capacity b	operatingA - operatngb	employment A - employment b	investmentA - investmenb
Z	-1.084 ^b	-1.084 ^b	-.365 ^b	-2.023 ^b	-2.023 ^c	-2.023 ^b
Asymp. Sig. (2- tailed)	.279	.279	.715	.043	.043	.043

Yekatit paper converting plc

Descriptive Statistics

	N	Mean	Std. Deviation	Minimu m	Maximu m
ROA before	5	.0120	.16498	-.25	.14
Ros before	5	.10400	.103586	-.050	.240
CapacityB	5	26.20	6.261	20	36

OperatB	5	.0652	.01006	.05	.07
Employment B	5	292.0000	44.93885	254.00	367.00
InvestB	5	2.8000	3.89872	.00	8.00
RoA after	5	.2882	.06860	.22	.36
Ros after	5	.4840	.07369	.40	.58
CapacityA	5	55.20	13.882	40	78
OperatingA	5	.2340	.09476	.13	.38
EmployA	5	365.2000	59.31020	270.00	425.00
InvestA	5	24.2000	35.89150	.00	80.00

	Ros after - ROA before	Ros after - Ros before	Capacity A - Capacity B	Operating A - OperatB	EmployA - EmploymentB	InvestA - InvestB
Z	-2.023 ^b	-2.023 ^b	-2.023 ^b	-2.023 ^b	-2.023 ^b	-1.069 ^b
Asymp. Sig. (2-tailed)	.043	.043	.043	.043	.043	.285

List of privatized public enterprises and amount of sale in each year

Year of privatized	Number of privatized enterprises	Rate of percentage (%)	Price of sale(in birr)	From the total amount of price the rate of the year (%)
1995	5	1.35	4,602,064.81	0.02
1996	126	34.05	472,835,943.41	2.38
1997	28	7.57	1,432,327,775.25	7.22
1998	17	4.59	585,578,999.75	2.95

1999	14	3.78	239,107,128.47	1.21
2000	20	5.41	374,636,908.63	1.89
2001	7	1.89	15,942,686.99	0.08
2002	3	0.81	14,069,762.42	0.07
2003	3	0.81	4,842,100.00	0.02
2004	4	1.08	14,011,529.09	0.07
2005	7	1.89	36,024,765.81	0.18
2006	12	3.24	67,732,373.31	0.34
2007	12	3.24	192,436,520.00	0.97
2008	13	3.51	316,439,827.00	1.60
2009	19	5.14	267,956,419.51	1.35
2010	22	5.95	956,601,316.63	4.82
2011	22	5.95	3,451,490,903.91	17.40
2012	16	4.32	5,168,721,543.92	26.06
2013	5	1.35	1,691,700,000.00	8.53
2014	15	4.05	4,524,527,030.00	22.81
Total Sum	370	100.00	19,831,585,598.91	100.00

Among the privatized enterprises that overviewed by PPESA

Summary of performance Business plan in 2012 /13 E.C

No	performance measurement	unit	Average Actual pre performance	2012/13 Actual performance		
				Plan	Post Actual performance	Actual(%)
1	Capacity utilization	%	61	65	51	78
2	Output production/service(Qty)	Tone/lt/qty/quintal...	26,669	67,615	57,672	85
3	Price of production/service	'000' birr	1,415,623	2,969,501	2,898,944	98
5	Sales price of production/service	'000' birr	2,374,473	7,981,471	6,699,736	84
6	Gross profit	'000' birr	317,305	1,082,241	396,668	37
7	Export	'000' USD		104,753	29,604	28
7	investment	'000' birr		5,129,619	3,347,619	65
8	Employment level	no	21,172		36,852	

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