

ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
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A Pre and Post Privatization Performance of State Owned Enterprises A Case Study of Privatized Firms in Addis Ababa

A Thesis Submitted to School of Graduate Studies of Addis Ababa University in Partial Fulfillment of the Requirements for the Degree of Master of Accounting and Finance

BY
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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.

Israel Birhanu

Signature: _____

Certification

This is to certify that Israel Birhanu has done the study on the topic of "**A Pre and Post Privatization Performance of State Owned Enterprises. A Case study of Privatized Firms in Addis Ababa**" Therefore; the study is original and has not been done before by any other researcher at the same topic.

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Acronyms and Abbreviations

AFDB	African Development Bank
Br	Ethiopian Currency
CEO	Chief Executive Officer
CPI	Consumer Price Index
EBIT	Earnings before interest and Tax
IMF	International Monetary Fund
GDP	Gross Domestic Product
IPO	Initial Public Offering
MPED	Ministry of planning and Economic Development
OECD	Organization of Economic Cooperation for Development
PKt.	Packet
PL	Private limited Company
PPESA	Privatization and Public Enterprises Supervising Agency
PEHAA	Public Enterprise Holding and Administration Agency
ROA	Return On Assets
ROE	Return On Equity
ROS	Return On Sales
S.C	Share Company
SOEs	State owned Enterprises
UNDP	United Nation Development Program
USA	United States of America

ABSTRACT

This study evaluates the financial and operating performance of 3 privatized Ethiopian firms, which were privatized during the period 2004-2015. The main objective of the study is to examine whether privatization does improve firms' performance. For that purpose, a wide range of accounting performance measures are used as proxies of performance, and the mean performance is calculated for both pre- and post-privatization periods. Data for this study comes from secondary sources; specifically published annual reports and financial statements of the privatized firms. The sampled firms are drawn from manufacturing, agro – processing sub-sectors of the Ethiopian economy. The period of analysis covers 5 years before, and 5 years after privatization. To test the predictions, the researcher follows the techniques of Megginson et al. (1994) in order to determine post privatization performance changes. The researcher calculate the mean value of each variable for each firm over the pre and post privatization periods, then use the T- test and the Wilcoxon sign rank test as principal methods of testing for significant changes in the variables. Results obtained from this study are mixed. Whereas some companies in the sample show improvements in some indicators, other companies have shown decline in some indicators after privatization. The empirical results of this study indicate that there is no significant increase in profitability after privatization at some sample, however, the results showed that there is a significant increase in operating efficiency, capital expenditures and output achieved by all privatized firms following privatization. Conversely, there is a significant decrease in employment while leverage has been decreased significantly following privatization for the two firms. However, in spite the mixed results, the overall picture shows improvement in performance indicators for all the firms in the sample. Overall, the study may conclude that the results provide positive empirical evidence that privatization has caused significant improvement by all indicators.

Keywords: Privatization, Firms Performance, State-Owned Enterprise, Ethiopia.

CHAPTER ONE

Introduction

1.1. Back Ground of the Study

The transfer of government owned shareholding in public enterprises to private shareholders is one of the revolutionary innovations in economic policies of both developed and developing countries (Chambers, 2008). Privatization, refers to all initiatives designed to increase the role of private entities for applying society resources to produce products and services by decreasing and restricting government or official's roles (Zanganeh, 2001). This study wants to investigate the operating and financial performance of newly privatized firms in Ethiopia after privatization by comparing pre and post privatization performance.

According to Yarrow (1986), to achieve development objectives of countries, the last 50 years countries throughout the globe organize large numbers of state owned enterprises, some of the most crucial of which were to give services and infrastructure that could not simply be provided by conventional departments and organization of the government or by a weak or fledgling private sector.

Researchers like Nash et al. (1998) examined the economic impact of privatization on company's performance, by comparing the before and after privatization performance of industries that undergo total or partial privatization in both developed and developing countries from 1961 to 1990.They find significant performance improvement following privatization.

According to Boubakri and Cosset (1998) claim that state owned enterprises have not been managed efficiently because of lack of competence and it also cost the government remarkably to maintain those public enterprises. They analyzed the pre and post-performance of 79 privatized enterprises in 21 developing nations predominantly from middle income nations and infer that on average the companies shows significant improvement in profitability, operating efficiency, capital investment spending, output and employment and a decrease in leverage and an improvement in dividend.

Contrary to these and other arguments, some insist that the aim or goal of privatization is not entirely accomplished. For instance, Nitri (2010) administer a study to analyze the financial and operating performance of privatized companies and post privatization in Ghana by evaluating the change in the performance measures (i.e. profitability, operating efficiency, capital investment, employment, leverage and dividend) by way of analyzing its average value for five years before and after privatization. Depend on the result of the research, the researcher indicated that almost two decades of privatization program in Ghana no significance changes appear in financial and operating performance in attaining the goals of privatization in Ghana.

After decades of socialist rule under the Derg regime, the Ethiopian People's Revolutionary Democratic Front (EPRDF) adopted market reforms including privatization of state owned enterprises (SoEs) in 1991. Ethiopia is a late starter in terms of privatization in Africa (Nellis, 2003). Privatization was facilitated through the sale of the SoEs, which were converted to share companies in some cases (Bennell, 1997).

The improvement in the privatized firms' financial and operating efficiency is one of the objectives that are more frequently associated with privatization processes. Though the above results of empirical studies on the pre and post-performance of the privatization of SOEs, are inconclusive.

The objective of this research paper is to argue the financial and operational impact of privatized state owned enterprises technically by scientific research and to see if it is in accordance with in attaining the objective of privatization in Ethiopia.

1.2. Statement of the Problem

There are usually significant arguments between for and against if privatized companies operate satisfactorily or effectively following privatization or not in Ethiopia. Aweke (2011) study on the performance of privatized public enterprises in Ethiopia; the case of hotel enterprise showed that privatization in Ethiopia does not meet its objectives due to poor implementation of the existing proclamations.

A study conducted by Surafel (2012) on Short-Term Impact of Privatization on Firm Performance in Ethiopia of State Owned Enterprises (SOEs) in the Leather sub sector using

pre/post research design, revealed that Privatization did not seriously affect privatized enterprises operating performance and profitability, it led to increased investments, and a decline in overstaffing and debt reduction.

Binyam (2015) study on a Comparative Analysis of Pre and Post Privatization Performances of State Owned Enterprises (SOEs), the case of Chemical Industry the findings showed a mixed impact of privatization over firms' performance i.e., the performance indicators as measured by changes in output, change in employment has on average showed a positive increment. The leverage, as expected as in the literature, resulted in a decline at industry level. The current ratio has also improved after privatization. Moreover, the results indicated an increase in production per employee.

Alemayehu (2015) study on Effect of privatization on selected Privatized Public Enterprises: pre and post privatization performance analysis, the result of performance indicators show increases after privatization but the increments are not significant, as a result the effect of privatization on performance change is negligible, Out of the three surveyed enterprises in his study, only one sample showed significant difference between pre and post privatization performance indicators.

There is a key question requested if change of State Owned Enterprises to private ownership in Ethiopia are also expected performing on towards increasing their operational performance after privatization. There is a question concerning the performance of those companies following privatization if operational efficiency has improved, 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, not enough endeavors have been done to survey the influence of privatization on the firm operating and financial performance. The study conducted in Ethiopia privatization context largely focuses case studies approach or partial analysis of one sector/industry with limited number parameters of efficiency. There is lack of consistencies in empirical results in relation to the performance change as a result of the involvement of privatization in Ethiopia; the results are also mixed, sometimes inconclusive. In light of these studies the researcher will compares the performance of SOE in Ethiopia pre and post privatization.

1.3. Objective of the Study

1.3.1 General Objectives

The overall objective is to compare the pre and post privatization operating and financial performance of privatized companies and determine there is significant performance change after privatization.

1.3.2. Specific Objectives

The specific objectives of this research are:-

- To assess whether there is a difference in profitability before & after privatization
- To test whether privatization improves operating efficiency or not.
- To test whether Privatization increases capital investment or not.
- To test whether Privatization leads to employment reduction or not.
- To test whether Privatization leads to reduce in firm's leverage
- To show whether Privatization has a positive impact on a firm's ability to generate revenue growth.

1.4. Hypothesis of the Study

The study will investigate empirically the general hypothesis that privatization performance improvements.

The specific hypotheses to be explored are as follows:

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

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

   Ha: Privatization leads to a significant improvement in profitability.

2. To test whether privatization improves operating efficiency or not.

   H0: Privatization does not result in operating efficiency improvements.

   Ha: 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.

   Ha: 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.

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

5. To test whether Privatization leads to reduce in firm's leverage

   HO: There is no a significant reduction in the firm's leverage.

   Ha: There is a significant reduction in the firm's leverage.

6. To show whether Privatization has a positive impact on a firm's ability to generate revenue growth.

   H0: To test a firm's ability to generate revenue did not increase after privatization.

   Ha: To test a firm's ability to generate revenue increase after privatization

1.5. Scope of the Research

The Scope of research tries to discuss and to evaluate the influence of privatization in regards that examine the performance of firms after privatization. More particularly it investigates the influence of privatization on the operational and financial performance of companies in the agro-processing and manufacturing sector. The data put for this research secure from privatized companies that had been privatized in the manufacturing and the agro -processing sector and have at least 5 years of both before and after privatization data. The period of privatization year included are from 2004 to 2015.The base to select the sample is accessibility of data in sector base. The method of research is quantitative method.

1.6. Limitation of the Study

The first problem that confronted the researcher are availability and access to information. It is normally difficult to access data in developing countries like Ethiopia. The government offices and firms consider it as sensitive issue in releasing information to outsiders.

Some of the documentary records of the organizations when they were privatized could not be found which was attributed to the restructuring that came with the privatization, and also the authenticity of the information collected cannot be assured which can affect the result of the study. This study exclude Dividend from the indicator list because of non-availability of data.

The study also limited to manufacturing and agro processing sector because of lack of data. The study limited to country specific not multi-country study, and the number of samples are small when compared with other international privatization studies.

Finally, too much time was wasted to get available data.

1.7. Organization of the Paper

This study is organized into five chapters. Apart from this introduction, the second chapter discusses the literature review about the research topic. 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 Recommendations.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

In this chapter of the research, an effort is made to review and learn theories, experiences and findings associated with the research problems.

2.1 Theoretical and Conceptual Frame work

2.1.1 Background to Public Enterprises

Public enterprises were organized in large parts of the world is to foster economic and social development. China's state-owned enterprises (SOEs) have a prolonged history. At different periods, since World War II, most countries, especially developing nations, have tries to employ public enterprises to reach their economic and social goals (Road, 1997).

And also Field (1995) argued that public enterprises were established in Africa for similar sense as in most nations to fix or adjust market failures, to give public goods, control natural monopoly and seize the commanding heights of the economy. According to Gang (2013) when the People's Republic of China was established in 1949, the country had been destroyed by a prolonged period of war and lack of development. At that time there was neither private wealth nor any organized structure to perform on the huge duty at hand, it was the public companies that continuously handle all the nation building responsibility. In the past, State owned enterprises helps in rebuilding the country, they also playing an important part in providing for the income of numerous people, by giving not just employment, but also a variety of social services, education, medical care and healthcare and retirement protection.

Palley (2003) disclosed that public enterprise organization or formation was political and economic though, their growth was linked with the completion of the World War Two. After the coming of the Great Depression and the total humiliation of Europe, social protection and the basic needs supplying were needed. As lack of employment was extremely sensitive an issue, the Public Enterprises were assumed to have a great benefit in reducing this ill. And thus their formation for the stabilization of the subsequent European situation was above any question.

Hoeven and Sziracki (1997) claim that equity consideration and the likelihood of a private monopoly condition were also considered to be impeded by the development of public enterprises. Additionally, the public enterprises were regard as the corner stone of economic

development though disappointment have emanate from 1980's (Balassa, 1993).

Nellis and Shirley (2000) also emphasize that they keep the strategic sectors and filled the "entrepreneurial gap". Hence their economic part was linked to the control of the critical side of the economy, such as, the public defense industries and public transport companies. Likewise, they were also perceived as way of possessing the power in the economy, which imply a lot. Many governments also view the state owned enterprises as national symbols and prides.

The absence of private equity to be invested in the undertaking of large-scale activities especially in the developing nations was another worry. This could be substantiated by the thin capital of the private sector and lack of readiness to be committed in sector that could produce out come in the long period of time.

Cuong Due (2013) in his research on Financial Performance of Privatized public Enterprises in Vietnam, his research was rely on a sample of public enterprises that had been privatized from 2000 to 2012. The research examines the changes by comparing the financial performance of companies' one period pre privatizing with the period post privatizing. The outcome reveals that privatization did not guarantee development in financial performance in companies. Particularly, following privatizing companies show universal improvement in ROA and ROE caused by reduction of selling and administrative expenses and thus an improvement in net sales by lengthening credit terms. The analysis also shows that previous public enterprises have lower debt and leverage, lower asset usage efficiency caused predominantly by inefficient management of current assets.

2.1.2 Objectives of Public Enterprises

Numerous writers have specified various objectives of the state owned enterprises. As World Bank (2001) has made clear that, the reasons why state owned enterprises were established for national security, that is public defense industries and public transport enterprises. The economic control and self-reliance have been another essential purpose behind the establishment of state owned enterprises.

Rondinelli (2005) discussed that in the last 50 years governments throughout the world organized considerable numbers of state owned enterprises to carry out development goals, among the most crucial of which were to give services and infrastructure that could not readily

be provided by ordinary departments and agencies of the State or by a weak or fledgling private sector.

William L. Megginson et.al (2000) describe that, the Depression, the Second World War, and the final dismantle of colonial territory forced government into a more active role, comprising ownership of production and providing of all kinds of products and services, in large parts of the world. In Western Europe, governments argue how widely participate the national government should be in controlling the national economy and which industrial areas should be hold solely for government ownership.

Just before the Thatcher government appears to power in 1979, the response to this debate in the U.K and abroad was that the government should at least possess the telecommunications and postal services, electric and gas utilities, and most forms of non-road transportation (especially airlines and railroads). Most politicians also think the government should seize some "strategic" production industries, like steel and defense production. In several countries, government-owned banks were too given either monopoly or protected positions, as analyzed in La Porta, Lopez-de-Silanes and Shleifer (2000).

Rondinelli and Iacono (1996) added that government holding increase in the developing nation for somewhat various reasons, basically that government possessions was seen as important to improve growth. In the post-colonial countries of Asia, Africa, and Latin America, governments desired fast development by huge investment in infrastructure.

The research by (Sziraczki etal, 2005) presumably the most general explanation on the significance of state owned enterprises shows that the absence of private equity for undertaking large-scale businesses has been a powerful motivation for the establishment of public enterprises, in the taking over by the public sector of private firms which are not usually resulted in the organization of state owned enterprises, which it was believed would utilize the monopoly revenues in the public interest.

Over the down fall of communism, states in most mixed economies apply tight control over prices and output, place both by way of detailed state planning. They too had forbidden private companies from performing in large part of the economy, seriously limited direct investment by foreign enterprise, and restricted international trade. Many social democratic states after World

War II confiscate or appropriate private enterprises in some industries, changing them into government- owned companies to be administered for the "public good rather than private profit (Adda 1992).

Nwoye (2011), mentioned some of the objectives of public enterprises as follow:

A.)When the capital needed for starting business is large and the payback period is very long, private enterprise may not competent and less concerned, for example, hydroelectricity- Generating plant and water treatment plant scheme for large urban center, telecommunication, transport and energy. It is only clear that a proper engagement with all role players in this sphere of government is key as public enterprises are often the catalyst for economic growth (Bouwman, 2010).

B.)Political considerations influence governmental involvement in the provision of certain social and economic services. In many African countries, development is closely associated with the provision of social services; consequently, the performance of the government, in many of these countries, is evaluated on the basis of its ability to provide different types of public services in areas where such services do not exist. In various developing nations delivering social service is one of the necessary conditions of the capable government.so the objective of public enterprise is provide such service.

C.) The third reason for governmental intervention in the provision and management of goods and services in many parts of the world is the fact that no person should be permanently deprived of the access to such facilities because of lack of finance or by reason of geographical location. Deliver certain products and services to the society permanently are the objective of public enterprises. Because of geographic or financial challenges individuals cannot do that.

D.)Safeguards consumers demand is not particular business priority goal. In large countries, government involves in the delivery of education to protect children who are inadequate of making important decisions.

E.) Indivisibility of goods and services are calling government interference. Infrastructures like bridges, tunnels, roads, streetlights, and waste disposal cannot be split or partially delivered. Thus, government takes this as an objective of public enterprise.

F.) Macroeconomics: SOEs were at various times called upon to engage in counter-cyclical spending to maintain employment during recessionary periods in order to smooth the business cycles; to promote full employment by creating excess capacity and engaging in "make work" projects, and to help control inflation by instituting wage and price controls., Heath and Norman (2004).

G.) National Interest: SOEs were often expected to bolster national industry by subsidized good and services to domestic firms. In addition the state was meant to retain national ownership and control industries, information and productive technology that were regarded as essential to national security.

H.) Redistribution: SOEs played a significant role in helping the state to achieve the redistributive goals. Heath and Norman (2004) states that in Canada SOEs were also utilized to increase and enhance regional development.

I.) Model employer: the public enterprises were expected to serve as model corporate citizens, in order to put pressure on private firms to follow suit. This led to the expectation that the public enterprises would hire more women, or people from previously disadvantaged individuals.

2.1.3 Definition of Privatization

The nation that have declared their goal of initiate some kind of privatization program grant for the likelihood of private ownership of the means of production and for the operation of markets as an important characteristics of the economy's operating (Vernon, 1988).

Sometimes explain quite narrowly to signify just the sale and legal change of holding of state owned companies to private entrepreneurs, and sometimes more broadly to involve the legal shift of possession of just the control of state owned enterprises and services but not full possession. Salacuse (1999) define privatization as the "... change of assets from the public sector to the private sector, from the realm of public ordering to that of private ordering". In addition , Paul (1989) describe the word as (1) Any change of functions from the government to the private sector; and more particularly, (2) any transfer of the production of product and services from government to private, which would belong more into the broader view of the term cited above. This is the same with the explanation by Stuart Butler who view privatization as "The transfer of

a function, either in total or in partial, from the public sector to the private sector" (Butler, 1991).

Lynch (2000) also stated privatization to be the act of sale of the company shares into private property but the World Bank describe privatization as "a transaction or transactions employing one or more of the approach resulting in either the sale to private parties of a controlling interest in the share capital of a state owned enterprise or of a large portion of its assets or the shift to private companies of operational control of a state owned enterprise or a considerable portion of its assets".

For the objective 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 owners to cut down government expenditure and increase the efficiency of those companies.

2.1.4 Reasons for Embarking on Privatization

Privatization give a starting point for changing of the link between the public and the private sector, with the private sector take a substantial role in the economic concern of a nation, of which certain of the challenge that have been linked with government ownership and control in certain nations have been dominant in this shift (Johnson, 1995).

Yet the aim of any privatization program is to boost the capacity of firms to accomplish their objective, it is assumed that privatization will boost profitability, operating efficiency, capital expenditure, and output. Furthermore, privatization might influence the position of employment and leverage. From the chosen study, specifically Megginson et al. (1994), Boubakri and Cosset (1998), and D'Souza and Megginson (1999), initial lists of possible variables, along with hypothesized increases or decreases in basic variables, as to review nevertheless, some fundamental advantage have given emphasis which ascribe to privatization including the benefit of privatization to the state owned enterprise, and its benefit to the privatized companies as well as foreign capital inflow.

As Robinson (2003) declared in his investigation on assumed benefits of privatization the subsequent points are described below:

2.1.4.1 Benefit to the Public Sector

The debate here is that in different nations, the state is over burden by too many duties and privatization will perform an important task in minimizing the states' duty in the economy and reducing the magnitude and reach of the state owned enterprises, give way for a smaller, leaner and more effective government that will be able to devoted higher consideration to under privileged social sectors like education, health, housing, transportation, water, sanitation and rural infrastructure (Sanders, 2000).

2.1.4.2. Benefit to the Privatized Companies

As stated in (Walsh, 1985) on the advantage of privatization of companies, there is debate on privatization which would open way for profit-driven private companies to purchase and greatly increase the performance of privatized companies. Under state possession, public sector managers do not have essential motivation to boost company's performance, since any following cost savings or profit increase would move to the government while the boss would easily remain to obtain their regular salaries. In addition, they do not frequently worry about losing their jobs where the companies are maintaining increasing losses, following the fact that state owned enterprises, unlike private ones, do not confront the threat of corporate takeover (Shirley, 2007).

Furthermore, Badcoe (1995) declared that privatization would help the companies in a number of directions. It would stimulate private sector investments by qualified and capable local and overseas investors and inevitably put the companies on the direction of reform. As specified by Kekeri and Nellis (2004), provided the new ownership structure, increase in company performance would be more continuous than was the case under government ownership when relapsing on such reforms could occur. Further studies also testified the benefit of privatization to the country.

As stated in (Nellis, 1999) privatization has widely confirmed its value in Central and Eastern Europe and (Dzakpasu, 2000) also think that the basic meaning of most privatization scheme is to improve efficiency of the economy, decrease states budgetary costs, widen direct possession of productive assets, and decrease and reorient the duties of government to focus on providing of social and economic infrastructure. Against to these research, a sample data from Ukraine, Estrin and Rosevear (1999) disprove the hypothesis that private possession essentially is linked with increased performance as they discover the private ownership dummy to be insignificant in

regressions clarifying sales, employment or profits. Even if this is the case and how ever there are various research in the under studied thesis, there is still proof given by the practical cross-sectional article on whether privatized companies are more efficient is mixed.

LaPorta and López-de-Silanes (1997) also showed that examine if the performance of a sample of 218 Mexican public enterprises divested through June 1992 become better after divestiture. The researcher analyzed the profitability, employment, and efficiency levels of the divested firms to an industry-matched control group, and discover that the previous public enterprises immediately close the expand performance gap that had happen before to privatization. Output improves 54.3 percent (despite of a decreased level of investment), sales per employee approximately twofold, and privatized companies decrease blue and white-collar employment partially.

A research conducted by Jean-Louis (1997), privatization in Africa is not only getting a shift of ownership or management control; it is also fostering desired new investment in these businesses. He specified some obvious evidence that Africa is suitable for the new boundary for foreign direct investment and privatization is initiate that movement with greater efforts, which are undertaken to motivate private sector investment. In Ghana, the state has been establishing joint trade missions of state officials and businessmen abroad, which attend by the President. One such tour to Malaysia in 1995 following in meaningful investments by Malaysian investors in joint ventures with Ghanaian entrepreneurs in fields as different as banking, communications, palm oil and real estate. Just like Ghana initiation to privatization Madagascar continued its own privatization programme.

Likewise in Madagascar, the state is financing a matchmaking programme, which delegates a number of businessperson on focused business area promotion to Asia. It is predicted that from the 1980s, around 4000 privatization transactions have been finished in Africa with a total sale of over $10 billion for an approximately of over $14 billion of Public-Private Partnership transactions were initiated in Africa between the 1990-1998 (Enweze, 2001). These sales were outcome of its decline in increasing wealth formation as a result of weak management, huge operational costs, inefficiency, massive losses besides of low productivity, multiple and conflicting goals driven by politicians, absence of left over claimant to profits amongst others. The topic of privatization then revolve on financial principle that propose the state attempt

towards given services without forming unnecessary burden on taxpayers and the other principle that recommend free market process offering benefits that are not simply determined under the public sector.

To the end, privatization schedule is an energetic effort to open the economic potential of Ethiopia by financial and technology to be place to the perfect use and by improving efficiency to accomplish superior living standards for all. The Ethiopian government thinks that privatization initiation is aspire to decrease the public sector hardship or load and to increase the performance of public enterprises by organizing private sector management and capital. This will decrease the financial and managerial load on state, which will then be able more efficiently to manage the business of government, using the income from the sale of public enterprises to improve infrastructure, health service and education. The Ethiopian government beginning decreasing its investments in state owned enterprises from early 1991s in a step by step manner. Subsequent to this the privatization programme beginning in 1995 and the government has done big steps (Beyene, 2014). Before that, Ethiopia had a mixed economy which influences private equity in flow.

2.1.5 Forms of Privatization

According to Nitri (2010), there are many forms of privatization. All these entail some form of private sector participation in product or service delivery. The most common once are:

i. **Sale of Assets:** this is the process of selling off the assets of SOEs to a private organization or an individual. This method tends to create negative public perception. Governments generally tend to be accused of selling off public assets at giveaway prices in this form of privatization. This is usually done by auction sales.

ii. **Sale of Shares:** this is the process where the state sells it shares to a private organization or an individual. This usually happen when the enterprise already has some private sector investor. When it comes to sale of shares, the first option is giving to the private investor already in the organization before outsiders are giving the chance.

iii. **Joint Venture:** This can take the form of a partnership between an existing public enterprise and a private investor. Sometimes the government and a private investor

established new organization and take over all assets or part of an existing SOE and transfer into the newly formed venture enterprise.

iv. **Lease:** This occurs when, a private firm takes the responsibility of operating and maintaining the assets of a public owned firm. The government retains the ownership as well as responsibility for financing capital investments. Because the new operator has strong incentive to reduce cost and improve efficiency, government will benefit from the efficiency gains that arise as a result as well as dividends where relevant.

v. **Liquidation:** This is the process of taking a business assets and turning them into cash, which may be used to pay off debt or to reap revenue. This normally happen when the organization is not in operation and the government decides to liquidate the organization.

vi. **Restitution:** This is a return of assets or shares to former owners from whom they had been acquired by the government through nationalization or confiscation without adequate compensation. It is normally regarded as full privatization.

vii. **Management contracts:** These place a public enterprise under private management for a specific period of time, during which the contractor is paid a fee. Such a fee may partly be based on performance. Ownership of assets remains with the enterprise and ownership of shares remains unchanged. This method is often used in situations where there is a need to turn around a company in readiness for eventual privatization (Oliver and Bhatia, 1998; ROK, 1996a; Vuylsteke, 1988; Leeds, 1991; Nicos and Katsoulacos, 1993; Berg, 1994; AfDB, 1995, 1997; Nankani, 1993).

In summary, each method of privatization has its own advantages and disadvantages which should be considered before privatization implementation. The method is selected based on the nature of enterprises, capital markets, and main objectives set for privatization. Maximizing net value of proceeds (after subtracting cost of privatization) which is considered by most governments is one of the top objectives set for privatization. For instance, while the Commonwealth of Australia considers "how the privatization method may impact on the ongoing viability of the entity and/or industry", the Korean government is more likely to consider the "long-term development strategy of the privatized company" (OECD, 2009).

In the Ethiopian situation, 374 public enterprises were privatized from 1995 up to September 2018 by various Methods practiced. (PPHAA News, 2018)

2.1.6 Public Enterprise in Ethiopia

As has been exactly noticed, the state owned enterprise is situated at the central part of the privatization discussion (Cook and Kirkpatrick 1998). Study has been concentrated on public-enterprise sector; can be fairly or unfairly, in relation to its rationale, goals, economic achievement and addition to the advancement process, specifically in the developing world.

Nellis and Kikeri (1989) note that globally, at the onset of the 1980s, public enterprises were approximated for an average of 10 % of GDP at factor cost. Public enterprises have been decisive in developed as well as socialist economies, amounting for meaningful percentage of GDP, employment and gross fixed capital generation. Developing nations are treated as normally having depended largely on public enterprise than developed nation perform in an endeavor to accomplish economic and social goals (Kikeri, et al 1994). In the same way in Ethiopia, state owned enterprise in the time of 1986-1988 the entire residual surplus paid by companies was proportionate to around 87% of domestic savings, 18% of central government total revenues and 265% of tax revenue(MPED,1993).

In relation to the challenge in PE in Ethiopia Mekonnen (2009) proposed that state owned enterprises in Ethiopia had been running in a typically war economy. They were made to encounter economic and socio-political goals that are generally contradictory. A main component of the challenge or obstacle was not of their own created-it was outside imposed-for example lack of hard currency. They are not performing in regular economic environment. Furthermore, state owned enterprises have a crucial part in the Ethiopian economy as they had a leading role at time of the Dergue time come from the policy of constructing a socialist economy (PPESA News, 1993).

To bring to agreement the performance of public enterprises with the political economic policy of the socialist government ideology, states had arranged or systematizes them in different manner. Primarily they established in their specific ministries, in other period in one ministry and lastly they regulate in distinct corporations. Each company yearly production, capital requirement, recruitment, selling price, finance source, distribution, etc. had prepared at corporation status. General Managers of individual specific company were performing merely what was commanded at the top and when they encounter challenges, in spite of resolving the challenge by themselves, they communicate to the corporation. They were not indeed managers,

instead they were controllers. This type of public enterprise management system ended up in 1991 during the socialist government defeated and power seize by new established government. The new government has taken various actions to maintain the economy of the nation. One of the operations which needed government's involvement was the public enterprise.

2.1.7 Privatization in Ethiopia

The privatization programme begins in 1995 in Ethiopia. Before that, Ethiopia had a command economy which influences private capital inflow. Though, there came about a U-turn, a policy shift against a mixed economy to one governed by market players.

In this respect, Mekonnen (2009) describe as a result of structural adjustment action have been determined from 1992 state owned enterprise legislation has been included to establish new legal and regulatory structure uniform with the goal of moving in to a market economy. As a consequence of this reform, state owned enterprises are required to perform on a competitive basis.

State owned enterprises in Ethiopia have created important contribution to the nation capacity building in air sea transport, energy and telecommunication, construction, and thus their financial contribution is really significant.

All these indicate the fact that the state owned enterprises is essential variable for the performance of the economy. To the end of the 1980s and beginning of 1990s their status has run down as did the total economy (Mekonnen, 2009).

State owned enterprises were mainly challenged by the subsequent reasons: absence of management autonomy, severe foreign exchange shortage, and absence of inputs and supplies (Mekonnen, 2009). All these have critically challenged capacity utilization of companies; still the consequence of the problems different from company to company. Capacity utilization of industrial enterprises, for instance decreased from an average of 82% in 1988 to about 41% in 1992 (Ministry of planning, 1993).

While Mekonnen (2009) asserted for low capacity utilization and decreased outputs levels, losses of the state owned enterprises had been raised which has forced to high burden on the budget and financial system, aggravate the trouble in this area. Their outstanding debt has been raised cause

to decline in their debt to asset ratio.

The latest government policy requires that stated owned enterprises will have complete independence and their performance will be evaluated by profitability. They are assumed to contest with the private sector and they will not be rewarded exclusive rights or advantages. This is an important policy change (PPESA, 2005).

Privatization is not simple duties particularly in Ethiopian situation (Eshetu, 1992). The nation private sector is, for all realistic purposes, in its outset. The challenge of implementation and lack of grown financial sector have effect on privatization in the country.

The practice of another nation indicates that the improvement is moderate. At the time of the 1980-1991 years around 7000 state owned enterprises were privatized, the main part, (4500) is in the previous East Germany (UNDP, 1993). In regard to developing nations concerned, the report indicates that around 1400 privatized companies were privatized. Since1974-1991 Ethiopia had a mixed economy which influenced private sector investment inflow and private investors were treated as performing unfair or unjust practice of transaction and blood sucker of the society at large.

To solve this problem, the newly established Ethiopian People Revolutionary Democratic Front led government transforms the economic policy of the nation from mixed economy into free competition. So, to get back the private enterprise immediately to the business field, privatization was selected as one of economic transformations.

In the newly established economy policy, demonstrate the responsibility of the state and the private sector in the nationwide economy emerge as obligatory because it assists to accelerate the economic advancement of the countries as rapid as possible; government has bring sufficient time to concentrate on basic infrastructure improvement, strategic economic activities and human rights issues.

Depend on this idea, the Privatization plan initiated in 1995 and currently public enterprise holding and administration agency is the chargeable government office to accomplish its authority of initiating and administering and supervising the nation privatization program.

Table 2.1 shows the number and sales revenue of privatized state owned enterprises from 1995 to 2018 in details.

Year of Privatization	Number of SOEs Privatized	Percentage share	Sales revenue in million Birr	Revenue share of each year sales
1995	3	0.80	3,502,064.81	0.007
1996	167	44.65	473,335,944.40	0.96
1997	26	6.95	1,431,600,254	2.91
1998	16	4.27	581,854,780.4	1.18
1999	8	2.14	96,689,620.99	1.19
2000	16	4.27	369,117,187.7	0.75
2001	5	1.33	13,132,898.6	0.02
2002	2	0.53	9,701,100	0.02
2003	3	0.80	4,842,100	0.009
2004	3	0.80	13,863,400	0.03
2005	1	0.26	6,950,000	0.01
2006	12	3.20	67,768,373.31	0.14
2007	9	2.40	172,531,091.2	0.35
2008	12	3.21	312,939,827	0.64
2009	13	3.47	264,056,419.50	0.54
2010	19	5.08	956,404,274.20	1.94
2011	13	3.47	3,406,107,653.64	6.92
2012	12	3.21	5,158,676,255	10.48
2013	5	1.34	1,240,655,289	2.52
2014	8	2.14	3,124,593,619	6.35
2015	8	2.14	2,187,679,213	4.45
2016	5	1.34	2,129,032,936	4.33
2017	6	1.60	1,249,290,517	2.54
2018	2	0.53	25,917,873,673	52.68
Sum	374		49,192,198,491.64	

***Source**: PEHAA, 1995-2018*

The above table shows that Ethiopia has privatized 374 public enterprises/projects during the past two decades from small retailer shops up to huge manufacturing industries like the National Tobacco Factory. The total price of the privatized enterprises and companies so far was 49.1 billion Birr and 86 percent of the enterprises/projects were transferred for local investors. The privatization process in all these enterprises was held through bid. And the National Tobacco

Enterprise, National Alcohol & Liquor Factory and Metta Brewery are the biggest privatized projects in terms of price valued over 3.5 billion Birr.

The public enterprises holding and administrative Agency stated that although the privatization was started in 1995, the process of privatization during that time was very slow and only few small projects were privatized. In 2003, a research was held to evaluate the privatization process, as the finding indicates, the process was weak. Therefore, the government set new policy directions on privatization to solve capital shortage of investors and structural change of the service institutions by merging privatization agency and public holding enterprise.

According to the agency the system of payment for investors was the turning point on the privatization history in Ethiopia. The new policy set 35 percent initial payment and the remaining 65 percent set to pay in five years based on the banks' interest calculated for local investors. On the other hand, the system is currently working on 50 percent immediate payment for foreign investors and the remaining 50 percent will be paid in three years' time limit.

Among the new revised requirements, business plan (mandatory requirement) was also added to confirm compliance of private firms to their agreement and aid to sustain a serious level obligation at all levels after delivery of the privatized companies.

2.1.8 Debate on Privatization in Ethiopia

One of the most important and challenging topic in the process of altering socialist, command economy to a free market economy with higher participation of the private players is that of privatization.

Fifty percent of the total industrial organizations were public enterprises. Moreover, these organizations were very large and hired more than 90 per cent of all industrial employees (*Solomon, 2001)***.**So, as intention or purpose of this study, in Ethiopia privatization of industrial organization is a transformation that influences almost everybody in the industrial and agricultural sectors. Employment impact of privatization and the result for industrial operation should have been provided appropriate attention by the government when determining upon the strategy of privatization.

The reality that privatization, usually, is a difficult topic of transformation and hence consume some time to implement is cited by Glebe (1993) who decides, from empirical and theoretical proof, that the process and ownership reform is seems to be relatively slow. One argument is that there is yet a lot to be study from the practices of countries that have materialize ownership reforms even though it must be thought of that each nation and sector has its unique feature and problem in this regard also motivating and draw attention of new private local and foreign investments, for example by the introduction of different market liberalization policies and enhancement of property rights can expand the private sector. In the implementation of structural adjustment transformation and economic system transformation programs the matter of privatization is one of the greatest important part and likewise one of the most challenging from the perspective of politics, economics and mal administration. On the whole, excessive importance looks to be put down on the issue of denationalization in the early stages of reform (PPESA, 2007). Although, as in the situation in Ethiopia, it has been stated openly that the private sector should improve and return to dominate the economy, and although a lot of changes have been launched in order to motivate such a development, a persistent criticism has been that the process of shifting ownership to the private sector carry out not quickly. Although, even if one goal of privatization is to improve efficiency in production and to increase allocative efficiency, it is crucial to emphasis that privatization in itself does not definitively guide to an attainment of these objectives. It is necessary, to avoid monopoly power and thus improve competition depend on free entry and exit.

The initial, and also the most significant matter to concern with in the process of improving the responsibility of the private sector are to establish reform in the economic system so that markets come to be competitive. The government of Ethiopia has launch and begun to accompany a number of deregulation proclamations. So, the primary and perhaps most important action towards a market economy and a better efficient allocation of resources have previously been taken. There is, although, still expected for make adjustment in the commercial law to help or assist the economic player in the deregulated market (Solomon, 2001).

As explained Privatization from the condition of Ethiopia, it is shifting state owned enterprises to the private sector by utilizing different modalities (PPESA news, 2007). It is further focus at build up the private sector and minimizes the government's budget shortage and cease budgetary

subsidy to different sectors of the government. Furthermore, it is also focused at increasing the performance of companies and additionally to balance wealth allocation and distribution (PPESA, 2008). On this perspective, privatization has been occurring with full strength in the past five decades in the globe.

The Ministry of Public Enterprises, which was upgraded from the PPESA in 2015.Following the policy directions announced June 2018, by Prime Minister Dr. Abiy Ahmed, the new agency formed that is Public Enterprises Holding and Administration Agency (PEHAA) to fully or partially privatize the remaining stated-owned companies, the government now, as promised, directs a new order to begin the privatization process. Currently Ethio - Telecom and selected sugar companies has been initially selected for the best approach for the entire partial privatization process. In addition, Ethiopian Airlines, the Ethiopian Shipping and Logistics Services, and new power generating projects are also selected for the partial privatization next to the Telecom sector. These four state owned enterprises are selected for partial privatization on which the government takes the lion's share. The big issue and the most time consuming task in the process of privatization is price valuation. But now, since all enterprises have internally and externally audited financial statement, the process of price valuation becomes easy and the process of privatization for one big enterprise can be finalized within a year (PEHAA, 2019).

2.1.9 Modalities of Privatized Enterprises in Ethiopia

According to Selvam et al. (2005) in Ethiopia 362 SoEs were privatized between 1994/5 and 2003/4 by different modalities. The recent 2019 data shows that 374 public enterprises privatized by different modalities.

Table 2.2: Privatized Enterprises by different modalities.

S/no	Modalities	Number of public enterprises	Remarks
1	Sale of Assets	8	
2	100% Share sale	54	
3	Management Employee Buy Out (MEBO)	45	
4	Concession	1	Midroc legedembi gold
5	Total Sale	241	
6	Restitution	25	
	Total	374	

Source: PEHAA, 1995-2018.

2.1.10 Pros and Cons of Privatization

As in theoretical and practical senses, privatization is an efficient technique to promote economic growth, market liberalization, and depolitization. On the other hand, this also raises a number of concerned issues such as natural monopoly, public interest losses, potential dividends, increasing inequality, reducing economies of scale, and employment losses. (Song Thuong, 2017).

Advantages of privatization

(1) Downsizing

During the 1970s, most of large state enterprises ran a dozen of business since governments would like to gain greater revenues through business diversification. However, those businesses which are not in core-businesses of enterprises were performed generally poor and inefficient performance. Governments had to face serious problematic issues arising from "conglomerate" corporation. Moreover, privatization will enforce to restructure these corporations, which should focus on its core functions and give non-core business to others who carry out it better.

(2) Fiscal relief

Governments around the world often face with large fiscal deficit. Therefore, privatizing SOEs can be a way to gain revenues to offset fiscal burden. Governments can add more revenues from taxes if privatized SOEs operate more efficiently and create more profits. Furthermore, in the case of privatizing loss-making SOEs, fiscal deficit will reduce as a result of elimination of subsidies.

(3) Improved efficiency

In empirical approaches, private enterprises have more incentives to reduce costs and improve its efficiency while state enterprises tend to have poor performance and to be inefficiency. Private enterprises are more interested in making its higher profits than public ones. As a result, product markets will be more competitive and prices will be more adequate with consumer choices. Thus, privatization process is considered as a method to achieve higher economic efficiency.

(4) Depoliticization

By transferring ownership from public to private sectors, government bureaucrats will be depoliticized, and privatized SOEs will run its business more efficiently. Basically, private firms have strong motivates to promote or recruit employees based on their performance. Private firms are not affected by any particular political relations while making decisions in SOEs is commonly influenced by political ideologies.

(5) Wider ownership

Privatization is an effective way to widespread ownership to the public. Through different methods of privatization as mentioned earlier, every citizen in both developing and developed countries have chances to involve in privatization process as they may hold shares of privatized firms. Spreading wider ownership leads to improvement of economic efficiency.

Disadvantages of Privatization

(1) Natural monopoly

Natural monopoly is one of the serious problems that can be generated from privatization process if governments sell its ownership shares of firms operating in natural monopoly industries such as gas, railways, electricity, to one or few investors. Competitive pressures are not generated; consequently, market failures are created. In some cases, having public monopoly might be better than having private monopoly because governments are more likely to protect consumers.

(2) Public interest

Profitability is not a primary objective of public industries such as education, health care, and public transportation. Nationalizing these industries is the first sight of public interest even though the quality of services is relatively poor and unprofitable. Privatization of those industries may lose public interest.

(3) Potential dividends

Governments may lose potential dividends if profitable SOEs are privatized. In other words, governments gain more revenue from operating wealthy state enterprises than privatizing them.

(4) Increasing inequality

Increasing inequality in wealth distribution is another disadvantage of privatization. Most population who are able to purchase state assets are quite wealthy. This makes redistribution of wealth is increasingly unequal. The gap between the poor and the rich has become larger and larger.

5) Economies of scale

Privatization causes losing economies of scale since large-sized SOEs normally partition into small-sized ones. Small-sized privatized SOEs are not able to take advantages of economies of scale, especially in public transportation industries.

(6) Employment losses

In short term, privatization may lead to reduce employment. In fact, newly privatized SOEs are more motivation to be efficient and profitable by reducing their costs. Cutting quantity of employment is a common way of reducing costs in the short-run. However, it is potential to create more jobs in the future when they appropriately enhance their business operation.

According to Alemayehu (2015) Privatization in Ethiopia has acquired both critics and support. Supporters go to the level of saying that public enterprises should be divested at all cost. This happen from the ill feeling they grow for the previous system. On the contrary, opponents disclose their beliefs that mistake do not correct mistake. Privatization for the sake of privatizing does not assist unless it creates socio economic difference in the country. Simultaneously, they accept that privatization cannot be carried out perfectly. But, its benefit to growth could have been expanded if honestly done.

Main areas of deviation are the following:-

1. **Majority of course of action and guidelines of privatization were not debated by the community at large**: - They were designed and put in to action behind closed doors. In the process, many reveal their concern that benefit of some people might have been addressed instead of the benefit of the stake holders in general (Solomon, 2001).

2. **Comprehensive study and big engagement should have been performed to decide the precise method of bidding of state owned enterprises:-**

Most of the companies were aged obsolete and especially, they were performing in distorted market environment. In addition of this, important information was not disseminated to the community on time (PPESA, 1997).

3. **Many workers becoming unemployed by the investors because of the reality that they did not desire to hire the use of 'ineffective and in competent worker'.**

Moreover, the new owners desired to reorganize the company they acquire. Profit being their motivation, the social side of the employees was not receiving proper attention. Actually some of the companies are for the time being shut down for innovation reason. Development endeavor in a given economy focus at reaching dual economic goals: employment creation and income generation.

Privatization attempt in Ethiopia, most individual assert, did not attain most on these lines (Solomon, 2001).

4. **Privatization decline to get into attention strong competition between locally manufacturing and produced from foreign countries of consumable goods-** such as leather, textile, food, beverages, tobacco, steel, chemicals, furniture, stationeries etc. In addition illegally imported product and services appear to be getting huge from day to day. There is a big dissatisfaction by most investors on privatized firms for what they indicate that there is no balanced or uniform playing ground for both locally produced and imported products to contest in the local market (Eshete, 2010).

To summarize; theories and empirical results shows that three clear cut point of view aid to formulate successful business management. The initial belief is business conduct by government, in addition escalates development and growth, it can assist to obtain equity and improve involvement of the general public, socially advantageous things acquire important consideration.

While resources administer by government make favorable situation to generate a just economic system. Shift the possession and control of wealth creating assets from the private to the public sector is assist, among others, to revolutionize industrial societies.

As stated to Solomon (2001) reasoning second fundamental perspective is the participation of government in economic undertaking, head the business in inefficiency and less profitability. As stated in his perspective government's intervention only hamper the free flow of product, services, and motivate government activity as interference, create waste, extravagance, and growth of bureaucracy.

The third perspective is behind taking privatization as a key action to get efficiency in companies; government must act its main part by its regulatory and supportive way (Solomon, 2001).

As simply shown on the study of the rational of organizing, a public enterprise has to supply goods and services which can resolve the fundamental difficulty of the society without segregation. The origin of the purpose to create public enterprises were not primarily productivity and efficiency, these were secondary goal, and instead the primary goal were producing and distributing goods and services for the people at fair price and better quality. It means companies organized by state are to achieve society's need disregarding of its cost. As a result they have come to be usually loss makers; government allowance does not prevent them from insolvency and liquidation indefinitely. Hence, to make them efficiently deliver goods and services inside the objectives they developed, most nations have involve privatization and have been apply it.

As long as the writer's understanding concerned, the advantage and significance of privatization has acquire greater approval. While, the approach and the extent or the range of implementation of privatization is the focus of argument, that is, as discussed in the studies, advocate or supporter of neo-liberal theory argue that the reason or justification of inefficiency of public enterprises is the involvement of government. The top or principal answer for that is ownership shift from public to private can settle the problem. In addition, public enterprises have been organized to work for the society, this should not be terminate or end. Privatizing companies that possess assets of the tax payer, employees, generate tax for the government requires particular consideration. Privatized public enterprises have not assumed encountering only financial success but social performance also required. Hence to achieve these two fold goals, in addition to private owners, government be involved by its regulatory system is mandatory.

From the previous stated three arguments, the researcher advocates the regulatory theory. Because, contrary to developed nations, non- developed countries need social and legal infrastructures to safeguard the society from biased business practices. So, because the developing nation corporate governance at emerging level, because regulatory and other institutions who can safeguard the society from mal practice and corruption at infant stage, and because as the private sector provides big concentration only for profit, etc., unregulated privatization drop fuel on the social and economic challenge of developing nations. Therefore, regulated privatization assumed to get better solution for the developing countries than abandon everything to free market or liberal economy.

2.2 Empirical Results on Privatization

Impact evaluation of privatization has drawn attention of many scholars and policy makers around the world. Some of scholars examine the effect of privatization on fiscal and macroeconomic performance, market competitiveness, and market liberalization. Regarding the relationship between economic growth and privatization, the estimation results are contradictory among empirical researches. While Plane (1997) and Barnett (2000) point out that this relationship is significantly positive in developing countries over the 1984-1992 period, Cook and Uchida (2003) show a robust result of the negative effect of privatization on economic growth.

Employing data from U.K., Cragg and Dyck (1999) discover that privatized companies with at least four years in the private sector, such as organized publicly traded companies, show a paramount negative association among increased performance and the probability of resignation while public enterprises indicate no such relationship. Opposite to these researches, by employing survey data from Egypt (2002) asses the performance of newly privatized Egyptian companies against the performance of public enterprises. The outcome indicates meaningful or significant increase in profitability, efficiency, and dividends, and insignificant reduction in leverage, employment, and risk, in addition capital expenditure and output indicate insignificant reduction after privatization.

Juliet D'Souza and William Megginson (1999) compare the pre- and post-privatization financial and operating performance of 85 companies from 28 countries (15 industrialized and 13 non-industrialized) that experience full or partial privatization through public share offerings for the

period from 1990 through 1996. The study documents significant increases in profitability, output, operating efficiency, and dividend payments – and significant decreases in leverage ratios- for all the sampled firms after privatization and for most sub- samples examined. Capital expenditures increase significantly in absolute terms, but not relative to sales. Employment declines but insignificantly. By and large, findings from this study strongly suggest that privatization yields significant performance improvements.

Dewenter K. and P. Malatesta (1997) use regression and time series methods to compare the pre- versus post privatization performance of 63 large, high-information companies divested during the period 1981 to 1993. These authors examine performance changes over both short time frame around privatization, comparing events (-3 to -1) with (+1 to +3), as well as examining a longer period, comparing events years (-10 to -1) with (+1 to +5). They document significant post privatization increases in profitability (using net income) and significant decreases in leverage and labor intensity (employees/sales) over the period immediately after privatization. However they also find that operating profits increase prior to divestiture and may actually decrease somewhat afterward. Their results confirm the findings of Boardman and Vining (1989). The only difference is that they document profitability that is not only statistically significant but it is large. They also provide support for the view that government firms are less efficient than private firms at least to the extent that profitability and efficiency can be equated.

The "pre-post" investigation looks to find further strong positive association between privatization and increased efficiency. Eckel et al. (1997), discover that stock prices of U.S. competitors and airfares in markets served by British Airways reduce significantly upon privatization.

Likewise, Villalonga (2000) investigates 24 Spanish companies from various industries and identified that privatization does not improve efficiency–describe as rate of return on assets. He claims that political reason like the business cycle at the time which the company is privatized and foreign ownership are crucial reason of company efficiency.

La Porta and Lopez-De-Silanes (1999), in their "pre and post" kind of investigation of 233 divested Mexican companies, identified that ratio of investment to sales and investment to fixed assets remarkably improves after privatization in addition employment significantly reduced.

Privatization research for the most part indicates greater level of efficiency yet that request cannot be confirm or validate always. Megginson et al. (1994) studied into sixty company's show that a considerable increase in performance in 75% of the cases studied. It indicated that about 25% were not increased concerning performance.

In opposite to these researches, according to the IMF, Properly designed and regulated privatization should increase efficiency, decrease load on the budget, avoid political intervention in decision-making, and give motivation for more innovation and dynamism (IMF, December 2000).

Other study also show that ten big loss generating production companies privatized in Bangladesh restored to profitability, exhibit improvement in output, sales, capacity utilization, employment or labor productivity, and decrease unit cost (Dowlah, 1996). Other comprehensive surveys of this field are undertaken by Megginson and Netter (2001), Djankov and Murrell (2002), and Megginson (2005). They demonstrate that privatization has a significantly positive impact on enterprise performance in most of empirical studies. In addition, D'Souza and Megginson (1999) focus on evaluating post-privatization 17 performance of enterprises. The results also illustrate that there is a significant improvement of performance of newly privatized enterprises, particularly in terms of profitability, dividend payments, and operating efficiency.

Uzochukwu (2003) administer a study to observe or understand the performance following privatization work in Nigeria by evaluating the services of some performance measures like profitability, operating efficiency, capital investment, leverage and employment to demonstrate if productivity had increased following privatization. The research show a significant increase in productivity at the same time efficiency is still secret. From this survey also, other measures were indicating different effect contingent up on the company in investigation.

Likewise, a study administer by African Economic Research Consortium (Jerome, 2008) in Nigeria by taking various indicators investigated (i.e. profitability, productivity efficiency, employment, capital investment, output and prices) by taking in to account its average value of five years value before and five years following privatization. Depend on the result of this research the writer decided that the results, even if mixed, present significant improvement in these indicators. Privatization is also related with improvement in technical efficiency in the

concerned firms. Decrease of politically instigate resource allocation has absolutely been the principal advantage of privatization in Nigeria.

Uniformly , a study was conducted by Omaran (2002) to analyze the important accounting measures performance shift in public enterprises in subsequent privatization in Egypt using performance measures (i.e. significant improvement in profitability, operating efficiency, capital expenditure, dividends, and a significant reduction in employment, leverage, and risk) while output indicates an insignificant reduction subsequent to privatization.

There is another explanation for privatization which cannot be justify – the first of the argument why governments request private investment to be incorporate in establish improved economy is capital resources. The private investment can provide capital in response for a profit opportunity. The second argument as Preston (1993) describe that in developing nations, privatization is brought about because of foreign intervention from International aid agencies, the World Bank and the IMF, instead of the ideological perspective that the government task in the economy should be decreased. The IMF and the World Bank have made the privatization of public enterprises and the minimization of workers number as a great precondition desired to be realized by countries particularly in the developing nation as a basis for certifying for loans and grants.

From the above review, we have seen that privatization has produced mixed results, but most of the research conducted reveal strong performance improvements as a results of privatization. Only a few studies have indicated dismal performance after privatization. However, it is important to note that some of these successes are not achieved entirely as a result of privatization. As Dewenter and Malatesta (2001) have shown, governments efficiently restructure at least some firms before selling them. For example Japan National Railway reduced its workers its workforce by approximately 200,000 and was split into seven separate rail companies before any share was sold to investors. If government restructure firms and improve their performance before privatization, then improvements cannot be attributed to change in ownership. Rather, the political impetus behind privatization first impels governments firms to operate more efficiently. If this is the case, then what is the role of privatization? George Y. (1986) is of the view that while policy changes (in the form of restructuring) can improve performance of government owned enterprises; such improvements may dissipate overtime

without the added discipline of private ownership. There is therefore the need for privatization not only to achieve efficiency gains but to sustain them in the face of changing political, social and economic circumstances.

2.2.1 The Gap in the Literature

From an empirical perspective, many of the studies carried earlier that compared pre privatization to post privatization financial and operating performance shed light on the comparison with SOE performance. Megginson, W. L., Robert C., Matthias V., 1994; Boubakri, N. and Jean C., 1998; and D'Souza, J. and Megginson, W. L.., 1999 in their studies established that privatization transaction results in a significant improvement in profitability, efficiency, and capital investment spending, output, and dividend pay-out. Boubakri and Cosset (1998) study shows Privatized firms record significant increase in profitability, operating efficiency, capital investment spending, real sales, employment levels and dividends, but a decline in leverage.

Other comprehensive surveys of this field are undertaken by Megginson and Netter (2001), Djankov and Murrell (2002), and Megginson (2005). They demonstrate that privatization has a significantly positive impact on enterprise performance in most of empirical studies. In addition, D'Souza and Megginson (1999) focus on evaluating post-privatization 17 performance of enterprises. The results also illustrate that there is a significant improvement of performance of newly privatized enterprises, particularly in terms of profitability, dividend payments, and operating efficiency.

On the other hand, Boubakri and Cosset (2002) examined pre-versus post privatization performance of 16 African firms privatized during the period 1989-1996, the results showed an increase in capital spending but insignificant changes in profitability, efficiency, output and leverage. Boubakri, N. and Jean C. (2003) studied the change in performance due to privatization by comparing pre privatization performance to post privatization for 16 African companies privatized during the period from 1989 to 1996 though an IPO. They have used also Megginson, W. L., Robert C., Matthias V. methodology. The researchers discovered that there is a considerable increase capital expenditure and relatively no effect on profitability, efficiency, output, and leverage.

Shirley and Walsh (2000) conducted a comprehensive survey covering 52 major studies spanning the period from 1971 to 2000 and different market structures ranging from statutory

monopoly to competitive firms. They concluded that the ambiguity about ownership is more in theory than in the empirical literature. The results of the survey are decisively in favor of private and privatized firms in both developed and developing countries. Of the 52 studies, 32 confirm the superiority of private and privatized firms, 15 are ambiguous or find no significant relationship between ownership and performance, and only 5 conclude that publicly owned firms perform better than private firms. Given this ambiguity in the literature especially theoretical studies, it seems logical to appraise the performance of African privatization programmes and their contribution to the success of market-based reforms.

From the above review, those empirical studies made important contributions to the literature on privatization, what we have seen that the empirical result of privatization has produced mixed results, but most of the researches conducted reveal strong performance improvements as a result of privatization. Only a few studies have indicated dismal performance after privatization.

Given the large collection of published studies on impacts of privatization, this research mainly focuses on comparing privatized enterprises with pre privatization performance. Therefore, the chapter is documented to review the research domains of privatization which are comparing pre privatization with post privatization. This domain is the basic framework to serve my research objectives presented in the next chapters. So this research is trying to compare pre privatization with post privatization firm performance to see the improvement or dismal performance privatized firms of the selected firms.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

This purpose of this study is to compare the financial and operating performance of Ethiopian privatized companies' pre and post privatization and to test for the viability of privatization.

3.2. Research Approach

This quantitative aspect of the research method aimed to obtain data needed to explain the comparison between pre privatization with post privatization of privatized companies in Ethiopia. Hence, survey design (structured review of documents) was applied for this study. A survey design provides a quantitative or numeric description of trends, attitudes, or opinions of a population by studying a sample of that population. From sample results, the research generalizes or makes claims about the population (Creswell, 2009).

The data for this research had been collected by quantitative research method and utilized for addressing the research objectives. To collect the secondary data, the approach utilized and applied by, specially, Megginson et al. (1994), Boubakri and Cosset (1998) methods were utilized as the checklists of instruments.

3.3. Research Design

In regard to the approach of the research design, Claire Sellitiz (1962) express the research design is a blueprint for the collection, measurement and analysis of data.

The research involve descriptive and exploratory research designed in an aim to empirically figure out the operating and financial performance changes among the before and after privatization times. Furthermore, observation conducted by field trips to the companies. This research strategy was employ to evaluate the impact of privatization on performance and authorize to compare what was expected for with the actual situation, and implementation. This is the most suitable technique against effectively addressing the research objectives. Data was gathered over of the three researched companies. As to encounter the objective of the study, the pre-test /post- test design strategy too are utilize to measure the outcome of the paired nature of the performance of the under topic discussed. To accomplish this, a "before and after" method

was considered variables to enable for comparison essentially profitability, operating efficiency, output, capital expenditure, the level of employment and leverage. To compare the impact of privatization on firm performance, performance measures for every firm were calculated for the pre privatization period (years -5 to -1) and post privatization period (years +1 to +5).

3.3.1. Secondary Data Source

Secondary data were gathered and utilized from annual reports, audited financial statement, periodical performance reports. Because the year of privatization includes both public and private ownership phases for many firms, it is eliminated from the analyses. Concerning to comparison measure, Barber and Lyon (1996) proposed in their research that privatization year was regarded as the base year for each enterprises (year 0). An extensive of literatures were explore for the theoretical foundation of the research which incorporate journals, research thesis, dissertations, and other documents respecting privatization in Ethiopia.

The period of comparison for Kaliti Metal Products Factory were , from 2004 to 2014; Addis Ababa Bottle and Glass Share Company from 2005 to 2015; Fafa Food Share Company from 2004 to 2014 before 5 years of privatization and after 5 years from privatization year. Balance Sheet, Income Statement and Cash Flow statement data used in the research.

3.4. Population

From 1995 to 2019 approximately 374 public enterprises in different sectors have been moved by privatization program (PEHAA, 2018). The population of this study includes public enterprises that had been 100 percent privatized (full privatization) to private sector from the first state owned enterprise changed to private investors. For the aim of research, the lists of privatized enterprises are organized throughout 1995 to 2019. The sources of the list were PEHAA. The list organized by PEHAA shows that about 71% of the state owned enterprises privatized cannot be compared using before and after privatization data, because of the following reasons:

(i) Some of the organizations who have assets located in more than one region were privatized to different investors.
(ii) Most of the organizations were liquidated

(iii) Some of the organizations were privatized to existing companies (either merged or acquired)

(iv) Some of the organizations are not in operation

(v) Some of the organizations have small amount of transaction and non-availability of data.

Because of the reasons above, the selection was limited to those SOEs that are fully privatized to private investors through public tender process. This method of privatization generates post financial and accounting data that is directly comparable to pre-privatization data and also they are reliable data. So, the population was restricted to those fully privatized to private sector by a competitive public tender process, there were only 107 companies appropriate for this research purpose.

3.5. Sample Size

Take into account the time and finance restriction, the size of the sample was purposively decided to be three depend on personal judgment. From the list of population, three companies will be chosen as below; where N=107 and the sample size=3. The Sampling frame for the sample of the study was taken from Addis Ababa.

The selection of the three enterprises was non-random. The choice is predicated on several considerations. Paramount is the need to capture varied experiences with the execution programme and gain a better understanding of the sector-specific determinants of the outcome of privatization undertaken so far in Ethiopia. Thus, the researcher has selected three enterprises, two from manufacturing, one from the agro processing sectors in Ethiopia: the manufacturing, Agro processing sectors. In each sector, we have selected enterprises with substantial market share, significant government equity holding prior to privatization and sufficient post-divestiture history. The study chooses these privatized firms because they are quite successful and have transparent information which are important for this comparative analysis.

3.6. Sample Selection Methods

The secondary data are gathered or acquired and used for the aim of addressing the study objectives. Secondary data was collected from annual reports and other documents. The research work was performed predominantly build on financial and operational performance data. To determine the sample, a purposive sample selection approach was utilized. Primarily, the sample

grouped the population into- manufacturing and agro-processing, consequently three companies were chosen non - randomly. And then, depend on the reason specified above purposively the sample were selected as follow.

These companies are:

(i) Kaliti Metal Products Factory – from metal sector

(ii) Addis Ababa Bottle and Glass Share Company – from manufacturing sector

(iii) Fafa Food Share company – from agro-processing sector

3.7. Data Analysis

The Statistical Package for the Social Sciences (SPSS) version 20 utilized to ease this analysis. To address the research objectives, the paired sample *t-test* analysis technique and descriptive and inferential statistics were applied. For quantitative data as Kothari, (2004) express in different study situation 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 evaluate the significance change of performance of each parameters. To achieve the objective of the research, an effort was also made to share the analysis with associated literature and the skill, knowledge, and practice of other intellectuals. Because the sample is small, like others researchers apply to test the operational and financial performance of privatized firms, Wilcoxon Sum Rank Test as the test of significance utilized as a method for the change in mean value for evaluation of performance parameters. It is also applies to two samples designs involving repeated measures, matched pairs, or "before" and "after" measures. The Wilcoxon tests which can be acquired from corresponding tests and the estimation and simultaneous inferences procedures based on upon these tests. The data considered in this study (refer tables 4.1 and 4.2 below), 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 difference 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.

Also, it should be noted that most of the studies used the Megginson, W. L., Robert C., Matthias V. methodology. The researchers agreed to the fact that this methodology tends to examine and compare samples of companies from different industries, in different counties, and over different time periods. Further, the methodology is strong in examining the Initial Public Offerings and thus eliminates any selection bias for instance considering privatization cases where political influence is evident.

The researcher relies on six broad indicators of performance, including:-

Profitability

This is determined by various proxies involving return on sales (ROS) i.e. operating profit to sales, and Return on Assets (ROA) {Net income divided by total assets}. All these measures are assumed to improve significantly after privatization. However, this ratio shows how effectively the companies have utilized the resources of investors.

Operating Efficiency

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

As mentioned by Getachew (2003), subsequent to the change of ownership from public to private investors, companies should apply their organizational resources like human, financial and technological resources more efficiently by reason of a big stress on profit objective and a decrease of government subsidies.

Capital Investment

Capital investment spending is assumed to increase after privatization. In their research study, Megginson and Netter (2001), indicated that about each of the twenty-two work from non-transition economies that they examine discover that capital investment spending increases significantly as firms are privatized. When privatized, the enterprises should also increase its capital expenditures as a result of it has greater opportunity to private debt and equity markets and it will have more motivation to invest in growth opportunities (Megginson, Nash and Van

Randenborgh, 1994). To try if the newly privatized companies to increase its capital investment spending increasing or not, it is calculated the ratio of capital expenditure to sales.

Employment

Governments think the level of employment to decrease when the public enterprises which are frequently overstaffed changed to private and not get any more subsidies. Nevertheless, in developing sectors, the newly privatized companies could consume surplus labor by new capital investment and more productive use of existing assets (Kikeri, S. and Perault, M. 2010).

Output

The proxy used to calculate output in this research was a real sales which is sales divided by consumer price index (CPI).This CPI data was taken from Ethiopia Statistical Agency. This sales were inflation adjusted sales.

Leverage

The gearing level of any company is used to assess the financial risk associated with this business. The purpose of assessing the leverage of the privatized companies in this study was to investigate the movement of the debt financing from the state owned companies to the privatized companies and to spot any change in the capital structure of those companies as a result of the privatization. Also, the risk associated with the fund raising in the presence of the government backing the fund raising for the State Owed Companies. Therefore, the cost of borrowing for both companies might differ. Nevertheless, the private companies will be in a better position to approach the equity markets (Bradley, M. J. and Kim, H., 1984). Therefore, there is a high tendency that the debt ratio will decrease post privatization.

Therefore, to test the hypothesis two proxies will be used, the Total Debt to Total Assets and the Total Debt to Total Equity. The next section will shed light on the results of the tests used.

As stated by Megginson et al. (1994), Boubakri and Cosset (1998) , the empirical proxies and the predicted relationship of the different companies' characteristics pre and post privatization are indicated as follows:-

Table 3.1. The indicators to be used to test the hypotheses

Characteristics	Proxies	Predicted Relationship
P (1) Profitability	Return on Sales (ROS) = Net Income ÷ Sales Return on Assets (ROA) = Net Income ÷ Total Assets Return on Equity (ROE) = Net Income ÷ Equity	ROSA > ROSB ROAA > ROAB ROSA > ROSB
P(2) Operating Efficiency	Sales Efficiency (SALEFF) = Sales ÷ Number of Employees Net Income Efficiency (NIEFF) = Net Income ÷ Number of Employees	SALEFFA > SALEFFB NIEFFA > NIEFFB
P (3) Capital Investment	Capital Expenditure to Sales (CESA) = Capital Expenditure ÷ Sales Capital Expenditures to Assets (CETA) = Capital Expenditures ÷ Total Assets	CESAA > CESAB CETAA > CETAB
P (4) Output	Real Sales (SAL) = Nominal Sales ÷ Consumer Price Index	SALA > SALB
P (5) Employment	Total Employment (EMPL) = Total Number of Employees	EMPLA < EMPLB
P (7) Leverage	Debt to Assets (LEV1) = Total Debt ÷ Total Assets Long-Term Debt to Equity (LEV2) = Long Term Debt ÷ Equity	LEVA < LEVB LEV2A < LEV2B
P (8) Payout	Dividends to Sales (DIVSAL) = Cash Dividends ÷ Sales Dividend Payout (PAYOUT) = Cash Dividends ÷ Net Income	DIVSALA> DIVSALB PAYOUTA >PAYOUTB
P (9) Earnings per Share gains (loss)	Profit (Loss) before tax and unrealized exchange ÷ number of shares in issues as at date of prospectus	EPSA > EPSB

Adapted from Megginson et al. (1994: 42).

3.8. Ethical Considerations

In the time of conducting this research, each information possessed via the instruments would be not in any way be utilized for any other objective other than for its academic purpose, that is, the data would be kept secret. They were also made to learn before it is publicized; the copy of the study results could be offered.

CHAPTER FOUR

RESULTS AND DISCUSSION

This section consider with presentations, discussion and interpretation of the data gathered by secondary data sources.

The result organized and analyzed from the secondary sources of the researched companies and the empirical findings of the statistical analysis for the performance changes in variables described.

4.1. The Background of the Selected Enterprises

The study involves three enterprises, Kality Metal Products Factory, Addis Ababa Bottle and Glass Share Company and Faffa Food Share Company. These companies represent the manufacturing, and agro-processing sectors of the Ethiopian economy.

4.1.1 Kality Metal Products Factory

Kality Metal Products Factory (KMPF) was established in 1968 with the objective of producing structural and furniture hollow sections, door and window frame profiles, EGA and ribbed sheets for roofing and wall cladding, galvanized corrugated iron sheet, pressed and plain sheet metal products, trailers and cargo truck bodies and other job order products. The factory is located in Addis Ababa, Akaki kality sub city and branch sales office in Hawassa, Adama, and Teklehaymanot in Addis Ababa, Bahir Dar and Jimma.

Tsehay industry Share Company, the share company, which in subsistence acquired KMPF was established on 8 February 2012. The company registered capital at establishment date was birr 1,220,000 and later on 29 march 2013 have been increased birr 439,540,000 capital divided into 439,540 shares of par value of 1,000 each out of which birr 220,810,000 has been paid in cash ;the un paid balances is agreed to be repaid within four years from the date of amendment. KMPF, the main wing of Tsehay Industry Share Company ,was established in 1968 as private company by an Italian named Signor Riso Sprado and other shareholders for birr 500,000 capital; spanning across 130,050 areas of land at a site 20 kilometers south from center of Addis Ababa city and 800 meters of the main Addis–Debrezeit road. KPMF was nationalized on 7 December 1975 by the Derg regime while its capital casted to birr 2,000,000 , and remained

under government ownership until it was reestablished as a public enterprise on November 11,1995 following the public enterprise proclamation No. 25/1992 and council of ministers regulation No 54/1993.KMPF was sold to Tsehay Industry S.C on July , 12 ,2012 for birr 550, 550,000.27 (100% share value ,35% paid at the contract signing date and remaining 65% to be repaid with interest in the next five consecutive years with an equal annual installments) by PPESA.

Main Products and Services of the Factory:-

- Trailers and cargo Bodies, Rectangular and Circular Hollow Sections for Furniture and Structural purposes, Black LTZ door Window profiles, Galvanized and Black SEECO Door and Window profiles, Door and Windows Manufacturing and assembly, EGA Sheets, Plain and Press formed metal products, Truss and purlin, Erection on site, Furniture, ; Water, Fuel and Garbage tankers, Dixon Shelves, Galvanized Corrugated Sheet, Construction Form Works, Cable tray and Other metal products as per customers design and order

The factory uses imported steel sheets in coils as its major input to produce standard and job order products. The factory distributes its high quality and dependable products to the local market from the factory premises and through its branch sales centers located at different parts of the country. (Source: annual report, 2018)

4.1.2 Addis Ababa Bottle and Glass Share Company

Addis Ababa Bottle and Glass S.C (AABGSC) was established in 1972 with 10.8 million birr investment capital. As the case with other manufacturing companies in the country, AABGSC had been under the government custody, ministry of industry, since 1974 in the category of alcohol and beverages and later on under the cement corporation. The company located in Addis Ababa, mainly working in Glasses & Bottles business sectors.

Following the overthrow of the military government, the company was under the Privatization and Public Enterprises Supervising Agency having delegated board of directors. After privatization, the company had been under the Bazeto Industrial & Trading Plc. since 2010. Bazeto, paid 61 million Br. for the acquisition.

In 2015, the ownership changed to a 50-50 share between Ethiopian Bazeto Industries & Trading Plc. and the Chinese, Greatop. Before that, it was solely owned by Bazeto. It uses raw materials such as limestone, marble, soda ash and glasses, and 98 percent of which is accessed locally. These raw materials are kept on a heap in the compound of the factory. Currently, the demand for bottles and glasses remain at 65,000 tons per year. The Addis Ababa Bottles and Glasses Share Company however, have been able to supply the industry with 25,000 tons.

The Expansion Project

The expansion was pre-empted by the growing demand of glass resulting from the entry of giant international firms into Ethiopia's brewing industry and the expansion of existing ones**.** The new plant is constructed on the current site and includes 3 additional production lines with an estimated cost of USD 45 million. This is being undertaken by three phases.

- Phase one has already been completed and has started operations in July 2016. Phase one was the construction of a whole plant and batch house for three additional lines with the completion off one 50-ton production line.
- Phase two is planned to be implemented in 2018-19 and will involve the completion of two 80-ton production lines.

At the completion of phase III, AABGSC will have a production capacity of 245 tons per day and an annual capacity of 76,012 tons. As part of the expansion, preparation of raw materials will moved to a new location. The new plant seats on 24,000m^2 and is located in Sululta (From annual report 2017).

Competitors

AABGSC is the first of three glass factories in Ethiopia. Major products includes Amber Beer Bottle, Wine Bottle, Soft Drink Bottle, 475 Ambo Bottle, Areke Bottle, Cosmetics Bottles. There are now also the Ethio Hanssam International Plc. and Daylight Applied Technologies, with production capacities of 42,000 and 20,000 tone, respectively. Moreover, companies such as Juniper Glass Industries Plc. also started the construction of its plant in Debre Berhan in April 2015, with a production capacity of 150 million bottles a year. Goda Glass & Bottling, in Tigray, and Allied Chemical Plc. are also expected to have factories with capacities of 90 and 50 tons a day, respectively.

4.1.3 Faffa Food Share Company

Fafa Food Share Company manufactures and markets food products. The company was founded in 1962 and is based in Addis Ababa. Faffa Foods has become the first food plant in the country to produce milk powder, Corn Flakes and soya milk. Faffa Foods Share Company was initially a nonprofit manufacturing plant that produced nutritional supplements for malnutrition children. The plant was established based on a cooperative agreement between the Ethiopian Institute of Nutrition Studies and the Government of Sweden. During this agreement, the plant produced 400 tons of supplements per year. Later on, Faffa Food Factory reoriented its operation towards a business model that could cover its operation cost. The plant was purchased by Petram Private Limited Company in 2010, a cost of 62,550,001 birr .Petram Private Limited Company is a family owned company engaged in the import and distribution of merchandized goods. At present, the company has the capacity to produce more than 71.6 thousand tons of nutritious foods per year. Currently, Fafa Foods has created close to 300 employment opportunities**.** (Source: annual report, 2015).

Faffa Food Share Company, for over 50 years, has been and continues to be a pioneer of the food processing industry in Ethiopia. The company aims to reduce the risk of malnutrition among children by producing low cost high protein food for children who are being weaned from breast milk. Faffa is one of the top suppliers of baby foods for the Ethiopian children, including fortified foods and breakfast cereals. It is the only choices for many Ethiopian families while it is commercial products provide the nutrition needed during the key stage of a child's growth and development, it is also one of the main suppliers of relief products to areas afflicted by malnutrition and in severe cases, famine.

Main Products Produced

Faffa Commercial

Faffa is the company's legacy product and at the heart of the company. This supplementary weaning food for infants, primary above age of 6 months, is prepared from wheat flour, skimmed and full fat milk powder, defatted soya flower, chick peas, sugar, vitamins and minerals to provide infants with the right nutrition for healthy growth and development.

Cerifam

It is nutritionally enriched and precooked baby food usually for infants above the age of 6 months. There are a variety of flavors such as Cerifam Normal Wheat with Soya, Cerifam Wheat with Fruit, Cerifam Wheat with Vegetable, Cerifam wheat with milk and wheat with honey. Cerifam is prepared from wheat flour, skimmed and full fat milk powder, defatted soya flour, chick peas, sugar, vitamins, and minerals.

Other Products

Magi mix Bread Improvement

It is all purpose bread improver specially designed with local ingredients. Bread improvers are used to enhance many aspects of the bakery process and final baked products. The improved aspect of the final bread can range from a signature taste to improved crumb texture and structure, crust color and crustiness. It also increases the speed of dough rising and strengthens its workability. Bread improver is created with a combination of principally enzymes, emulsifiers and oxidation agents.

Saba Soya Milk

Soya is naturally high in essential fatty acids, proteins, fiber, vitamins and minerals. These nutrients provide energy and keep your body functioning at its optimum level. While Saba Soya is consumed by customers who follow the Ethiopian Orthodox fast throughout the year and is a desirable alternative for our lactose intolerance customers, it is a product that can be consumed year around. (Company annual report, 2018).

4.2. Research Findings and Discussion

In this part, survey of the actual situations of the firms under the studied and the empirical findings of the data collected on one by one basis using performance indicators has been presented and interpreted. In accordance with the objective of this thesis, it is to examine if privatized public enterprises operate better following privatization. In this respect, several variables to present for comparison between before and after privatization performance were investigated. As cited in first chapter, in the Ethiopian circumstances, the privatization objective is

to change, among other things, ownership to private sector to make the companies efficient and profitable and therefore, encourage economic development.

To restart such objectives, government of Ethiopia express in its economic policy that the vital aim to be privatized to require the companies 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 (Eshete, 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 and financial 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 4.1 Summary measures of Descriptive Statistics

Measuring parameter		Kality Metal Factory						Faffa Food Share Company					
		Before Privatization			After privatization			Before Privatization			After privatization		
		µ	Sd.	CV	**µ**	Sd.	CV	**µ**	**Sd.**	CV	**µ**	**Sd.**	CV
ROA		0.29	0.29	76	0.06	0.04	0.76	0.09	0.10	147	0.48	0.49	102
ROS		0.35	0.14	0.39	0.25	0.08	0.30	0.23	0.03	12	0.22	0.06	26
Out Put (In Birr)		933,497.51	274,387.63	29	3,484,536.2	516997	15	323,008	97648	30	731,850	230113	31
Operating Efficiency [a]	SE	503,595.23	231376.77	46	1,148,342.5	253119.10	22	140,053	85220	61	485,980	158103.94	33
	IE	52,340.91	18572.39	35	117,683	83656	71	10,663.59	18357.19	172	37,333.78	24,490	66
Employment		355	13.61	4	418	25.82	6	306	28.56	9	248	36	15
Leverage		0.58	0.05	8	0.46	0.05	10	0.38	0.14	37	0.20	0.04	19
Capital Investment	CETS	0.05	0.05	108	0.31	0.47	151	0.11	0.11	103	10.04	10.02	46
	CETA	0.27	0.49	181	0.11	0.05	46	0.07	0.07	106	0.04	0.02	47

Source: Financial Statements & operational Performance report 2004-2017

Note: a=in million birr

ROA= Return On Asset

ROS= Return On Sales

SE= Sales Efficiency

IE= Income Efficiency

CE= Capital Expenditure

TS=Total Sale

TA= Total Asset

Table 4.2 Summary measures of Descriptive Statistics

Measuring parameter		Addis Ababa Bottle & Glass Share Company					
		Before Privatization			After privatization		
		μ	Sd.	CV	**μ**	Sd.	CV
ROA		0.26	0.09	43	0.10	0.05	54
ROS		0.32	0.05	17	0.42	0.07	17
Out Put (In Birr)		264,316.38	44413.40	17	563,016.36	295600.54	53
Operating [a] Efficiency	SE	89,031.32	15136.65	17	196,064.46	65480.75	33
	IE	15,256.80	5,474.71	36	51,727.12	30503.29	59
Employment		437	11.41	3	423	22.26	5
Leverage		0.43	0.08	19	0.54	0.19	36
Capital Investment	CETS	0.08	0.04	48	0.27	0.12	43
	CETA	0.11	0.06	54	0.24	0.14	60

Source: Financial statement & operational report 2005-2015

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.

Coefficient of variation $\frac{sd}{\mu}$ x 100%

Where: μ= mean, Sd. = standard deviation

4.3.1. Profitability

One of the major problems of state-owned enterprises is the lack of proper economic incentives for the management and the fact that they are often charged with objectives like maximization of employment or providing goods or services at heavily subsidized prices so that the goal of profit maximization cannot be achieved. As a consequence, state-owned enterprises are often unprofitable. Privatization therefore, is designed to substitute the single objective of profit maximization with the many other objectives. It is also expected to enhance the development of capital market and focus employees on raising revenues and lowering costs. Also, government withdraws its guarantee to the enterprises debts after privatization, which exposes them to the real threat of bankruptcy which leads to their liquidation. This inevitably makes enterprises to promote greater emphasis on profit maximization. A change to a more private ownership structure leads to profit maximization, which becomes the dominant firm objective. Hence, the enterprises expect the profitability to increase after privatization. To measure profitability, two indicators are computed. These are return on sales (net income to sales), return on assets (the ratio of net income divided by total assets).

As shown in Table 4.1 and 4.2 above which summarized the profit performance of kality Metal Factory S.C (KMF) witnessed a decline in both proxies, and Addis Ababa Bottle & Glass S.C (AABGSC) not a positive effect on return on asset and increase in return on sale from 0.32 to 0.42 following privatization. Faffa Food S.C (FFSC) has 0.48 increment of ROA after privatization and a decrease of mean values of ROS from 0.23 to 0.22. This indicates more inconsistency after privatization than before the reform, which implies that after the reform, both KMF and AABGSC has no change in profitability. As seen from the above table 4.1 and 4.2, the irregularity of performance of profitability is recorded after privatization. In case of ROS in FFSC &AABGSC has a change from 0.23 to 0.24 and 0.32 to 0.42 but for KMF ROS show a decrease from 0.35 to 0.25 following privatization.

The overall results are mixed and sometimes contrary to expectations. While some variables tested positive, some have tested negative for the same company. However, i may not draw any conclusions to the fact that all the firms in the sample have become more profitable after privatization. It is also important to note that most of the firms that recorded improvements after privatization for all the two ratios have shown that they are set on the path of more profit in the future.

4.3.2. Operating Efficiency Performance

Flowing from the property rights and public choice literature, privatization is expected to result in increased efficiency in privatized enterprises as a result of new investment, new technology and improved corporate governance. To capture the ability of firms to extract maximum output from any given level of inputs, the study compute two indicators of operating efficiency: sales efficiency (real sales/employees) and net income efficiency (net income/employees) after tax.

The efficiency measure employs inflation-adjusted sales per employee (SALEFF) and net income per employee (NIEFF). Table 4.1 and 4.2 shows the sales and income mean values of operating performance indicators before and after privatization in terms of birr. In case of SE in all under studied enterprises has a positive change from 503,595.23 to 1,148,342.49; 140,053 to 485,980.00 and 89,031.32 to 196,064.46 birr in Kality Metal Factory, Faffa Food S.C and Addis Ababa Bottle & Glass S.C respectively. In the same way IE in all under studied companies have also a positive change from its mean value increase from 52,340.91 to 117,683; 10,663.59 to 37,333.78; and 15,256.80 to 51, 727.12 birr for kality Metal Factory, Faffa Food S.C and Addis Bottle & Glass S.C respectively in the years of privatization for which this paper considered.

As indicated in table 4.1 and 4.2, in most 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 Addis Ababa Bottle & Glass S.C IE proxies of operating performance has coefficient of variation 36 % before privatization shifted to 59 % of coefficient of variation after privatization. And also SE the AABGSC coefficient of variation 17% before privatization shifted to 33% 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 and positive increases following privatization.

Thus, the results show positive increases following privatization in all the three companies considered. The results somehow agree with the general expectations of my hypothesis.

4.3.3. Capital Investment

The general expectation is that, greater emphasis on efficiency and profitability will make newly privatized firms increase their capital investment spending. Firms should increase capital expenditure after privatization because they are no longer tied to government's bureaucratic procedures and that they have greater access to private debt and capital market. Moreover, if privatization is accompanied by deregulation and market opening, former SOE's will face very large investment spending needs in order to become more competitive with other private firms. In addition, years of financial stress often lead firms to defer routine maintenance which must also be made good after privatization. The removal of government control of the SOE also reduces or eliminates the government's ability to bribe or force SOE managers to produce politically attractive, but economically wasteful goods (Megginson et al, 1994).To the extent that privatization promotes entrepreneurship, former public firms will have the incentives and the means to invest in growth option such as launching new products and searching for new markets.

Government of Ethiopia expects that following privatization a privatized firm is to increase its capital investment spending. To access the impact of privatization on capital formation, the study computes two indicators: Capital expenditure to sales and capital expenditure to total asset.

Examining the table 4.1 and table 4.2 above, the results are mixed. It show that KMP which ratio of capital expenditure to sales has increased significantly (an upsurge in post-divestiture investment spending**)** from about 0.05 **% to 0.31 %** after privatization, also FFSC increased from 0.11% to 10.04 % and AABGSC increased from 0.08% to 0.27 %.On the other hand, capital expenditure to total assets ratio witnessed a decline for both KMP and FFSC but increase for AABGSC.

This shows that in both proxies AABGSC are investing much for the future of the organization than the other two. The other two increased in one proxy.

4.3.4. Output

Following privatization, output should increase because of greater competition, greater scope for entrepreneurial initiatives, better incentives and more flexible financing opportunities (Megginson, Nash and Van Randenborgh, 1994). On the other hand, the theoretical model of Boycko, Shleifer and Vishny (1993) argue that effective privatization will lead to reduction in output ,since government can no longer entice managers (through subsidies) to maintain inefficiently high output levels.

The proxy used is a real sale which is sales divided by consumer price index. The mean change in real sales attributable to privatization from the table 4.3 below, shows it increase after privatization from 933,497.51 to 3,484,536.20; 323,008.18 to 731,850; and 264,316.38 to 563,016.36 birr for KMP, FFSC, and AABSC respectively. All three companies have recorded positive increase in output during post privatization period and the observed increase in output might be a reflection of increased productivity of the affected firms. This result is in line with the first argument.

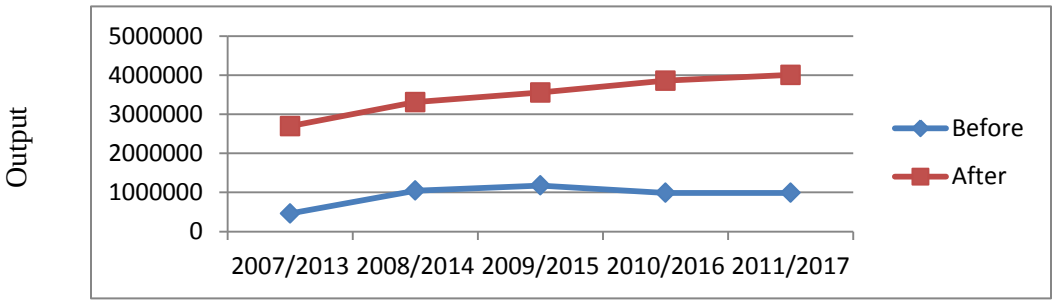
Table 4.3 Results of Performance indicators: Output

variables	**Mean Before**	**Mean After**	Mean change	**Change Description**
Kality Metal Factory				
Out Put (in million birr)	933,497.51	3,484,536.20	2,551,038.69	Positive
Faffa Food Share Company				
Output (in million birr)	323,008.18	731,850.00	408,841.82	Positive
Addis Ababa Glass & Bottle Share Company				
Out Put (in million birr)	264,316.38	563,016.36	298,699.98	positive

Source: Financial Statement & Operational Report, 2005-2017.

As it can be indicated in Table 4.3 above, shows that Kality Metal Factory output increased after privatization by three fold by birr 3,484,536.20 which shows a positive change has been observed. Similarly, FFSC, and AABGSC sales also increased double after privatization. These sales are adjusted for inflation. This is a real sales not nominal sale.

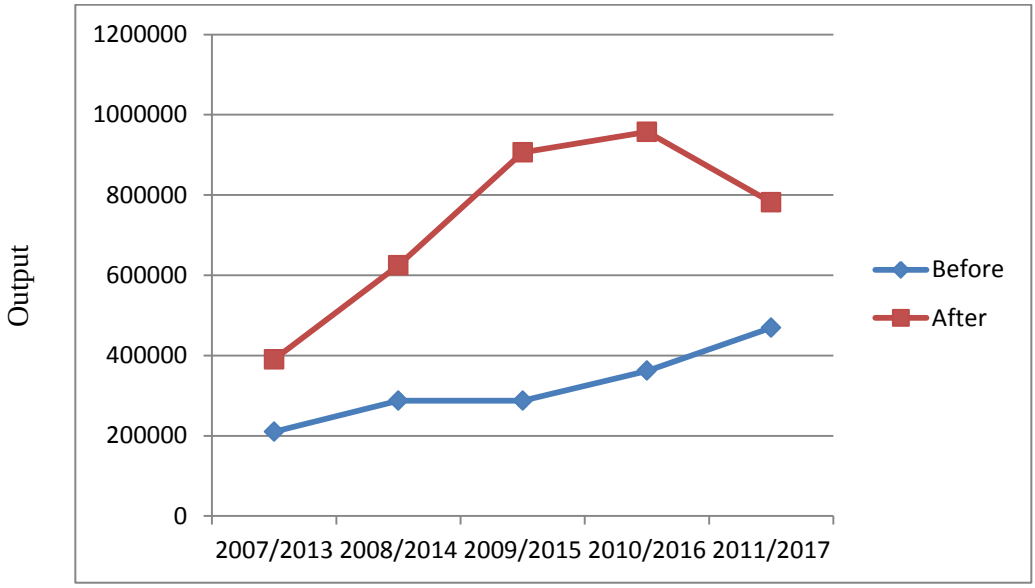
Fig.1 Output before and post-privatization for Kality Metal Factory



Year (before / post privatization)

As shown in the figure 1 above, after privatization Kality metal factory S.C output in terms of birr increases when compared to before privatization. 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 output.

Fig.2 Output before and post-privatization for Faffa Food Share Company

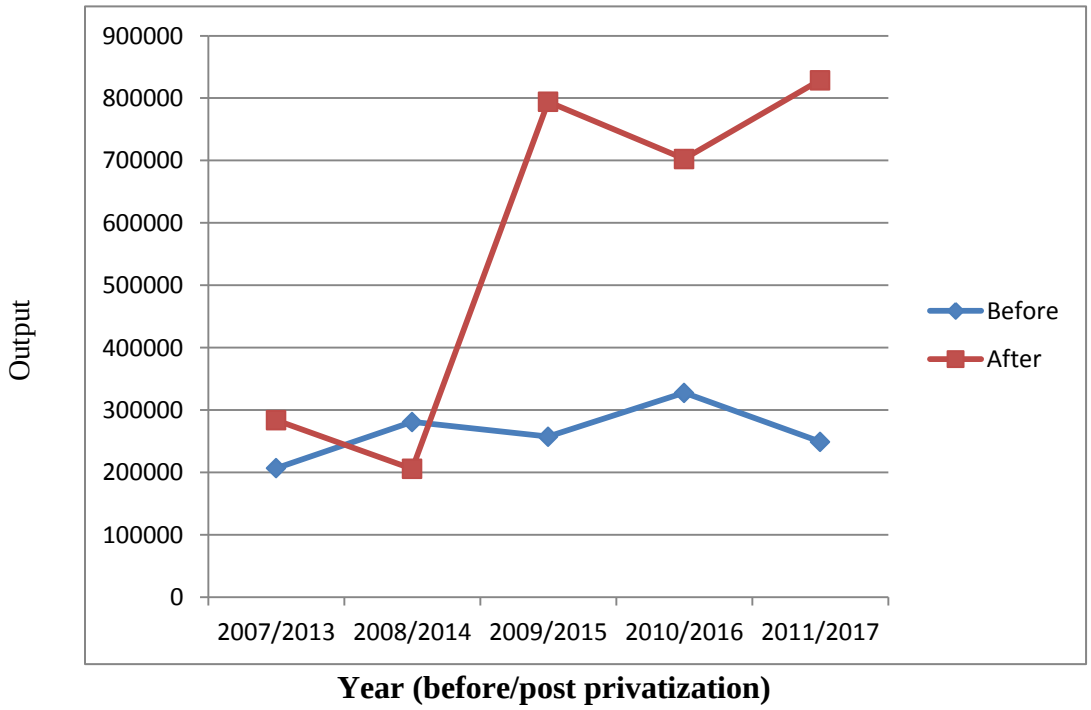


Year (before/post privatization)

Faffa Food Share Company rapidly used its capacity at start of its privatization while decreases over a time. Here also output in terms of birr increases for some year but start to decline when compared to before privatization. The main reason that there is now similar products imported from abroad and fear competition encountered the company.

As indicated in the above figure 2 above, after privatization its capacity utilization increased and this resulted in more benefited from privatization program than before.

Fig.3. Output before and post-privatization for Addis Bottle & Glass Share Company



As it can be seen from the above figure the revenue generated from sales increased sharply after privatization. This means, the intervention of privatization program allows Addis Bottle & Glass Share Company 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).After privatization especially after 2014 revenue generation capacity of the company shows dramatic change compared to pre-privatization.

4.3.5. Employment Level

The greater fear which most governments have expressed is that, the objectives of efficiency and profitability as a result of privatization can only be achieved at the cost of large scale job losses. In other words, people expect large declines in employment levels following privatization. This computed by the average employment levels for the pre- privatization and post- privatization periods in order to ascertain whether employment has actually fallen after privatization. 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 Faffa Food S.C and Addis Ababa Glass & Bottle S.C. These results conform to expectation. While in Kality Metal Factory S.C, the average employment mean for the five year period after privatization increase from 355 before privatization to 418.This is contrary to the null hypothesis.

Two competing ideas have emerged on who should be responsible for downsizing. The early school of thought holds that where large-scale labour shedding is required, it is best handled by the state (Nellis and Kikeri, 1989). Any change in employment should thus occur prior to rather than after privatization. Private investors may demand protection and subsidies in exchange for taking on excess labour, reducing the efficiency gains from privatization. Further, because of the sensitivities in shedding employees, large-scale layoffs are best handled by the state prior to sale. According to the second school of thought (Kikeri et al., 1992; La Porta and López-de-Silanes, 1997), the decision to retain or dismiss labour should be left to the new private investors. They, presumably, will be in a better position to judge what kinds of skills the firm needs, and they have the incentive to minimize severance costs. The empirical evidence in La Porta and Lópezde-Silanes (1997) strongly supports this view.

Table 4.4: performance indicators: Employment

Variables	Mean Before	Mean After privatization	Mean Change
Employment- Kality Metal Factory			
Number of employment	355	418	63
Employment – Faffa Food Share Company			
Number of employment	306	248	-58
Employment –Addis Ababa Bottle & Glass Share company			
Number of employment	437	423	-14

Source: Financial Statement & Operational Report, 2005-2017

4.3.6. Leverage

In order to place greater priority on improving the financial soundness of the newly privatized firms, leverage ratios are expected to drop after privatization. There are several reasons why leverage should decline after privatization, for one thing, SOEs traditionally have extremely high debt levels at least partly because they cannot sell equity to private investors, and thus the only equity available to the firms are capital injections and retained earnings (Megginson et al, 1994).Leverage ratio measures long term financial position of a firm and the extent to which the firm relied on debt to finance assets. It establishes the relationship between funds supplied by owners of a firm and those provided by creditors of a firm.

SOEs, particularly in developing countries, are typically encumbered by large debts, causing many to have negative net worth. Private buyers often make it clear that they do not want to take on these debts, even when the sale price is discounted by the amount of the debt. They seek an immediate positive cash flow to reduce their risk and help finance new investment. Debt write-downs are thus not uncommon practices for divesting governments the world over. MNR (1994) and Boubakri and Cosset (1998) show that leverage decreases significantly after privatization, a result that is partly due to debt write-downs and partly to infusions of equity capital into those firms executing primary offerings, but mostly a result of higher (retained) profitability.

The proxy used is total debt divided by total assets. From the above explanation leverage should decline but from the result on the table 4.1 and 4.2, leverage for KMF decrease from 0.58 to 0.46 after privatization similarly for FFSC decrease from o.38 to 0.20. But increase for AABGSC from 0.43 to before privatization to 0.54 after privatization because of huge expansion in the company. So, Majority of the firms conform to expectations.

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 4.5: T -Test Output

Measuring parameter		Kality Metal Factory		Faffa Food S.C		Addis Ababa Bottle &Glass	
		Z statistics	p-value	Z	p-value	Z	p-value
ROA after - ROA before		-.94916	0.00	-.09492	0.00	1.04407	0.00
ROS after - ROS before		-.95127	0.00	-.09122	0.00	1.04248	0.53
Output After – Output Before		1.15361	0.88	-.53344	0.00	-.62018	0.00
employment after - employment before		1.07770	0.00	-.89790	0.00	-.17980	0.89
Leverage		-.37018	0.91	-.76213	0.00	1.13231	0.00
Investment after – investment before	CETS	.76682	0.00	-1.13107	0.00	.36424	0.46
	CETA	-.98831	0.00	-.02298	0.00	1.01129	0.00
operating after - operating before	SE	1.03501	0.88	-.07414	0.00	-.96086	0.00
	IE	1.11988	0.88	-.80367	0.00	-.31621	0.00

Source: Financial Statement & Operational Report, 2005-2017

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.

In the Z- statistics if Z > 1.96 irrespective the sign, p < 0.05=> there is statistically significance difference between after and before privatization parameters. Since SPSS by default reports the two sided test result, the result is divided by two to report as a one sided test.

Table 4.6: 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 (Kothari, 2004 pp384).*

Based on Tables 4.5 above T-test output information, the following hypotheses are 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 4.6 whether the level of significance for one- tailed test in the range of assumed by the critical values.

A) Profitability changes

Hypothesis 1

Ha: Privatization leads to a significant improvement inprofitability.

Significance level, according to the critical values of T in the Wilcoxon Matched Pairs test less than 0.05 (P<0.05).

Test statistics

- **Decision**: at ROA for Kality Metal Factory (P-value=0.00), and Faffa Food S.C (p-value=0.00) and Addis Ababa Bottle & Glass S.C (p- value = 0.00) which is less than critical value at (p<0.05).

  Thus,

- Alternative hypothesis accepted, since P-value less than in the ranges in critical values.
- There is substantial difference in profitability between before and after privatization, for the three companies after privatization.

The profitability result shows that the mean values of ROA the profitability indicators for KMPSC and AABGSC statistically show decrease significantly based on Wilcoxon test at the significance level of 0.05 in other words the firms are not expanding profit margins after privatization. The Wilcoxon test also shows that, ROA of FFSC increase significantly after privatization.

At ROS for Kality Metal Factory S.C, p=0.00 and Faffa Food S.C, p=0.00 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 Addis Ababa Bottle & Glass S.C p=0.53 at ($p<0.05$)

- ***H*0 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**.**

The profitability result shows that the mean values of ROS the profitability indicators for KMPSC and FFSC statistically show decrease significantly based on Wilcoxon test at the significance level of 0.05 in other words the firms are not expanding profit margins after privatization. The percentage point here increased after privatization and Wilcoxon test also shows that, ROS of AAGBSC increase significantly after privatization**.**

B. Changes in Operating Efficiency

Hypothesis 2

Ha: Privatization results in operating efficiency improvements

➢ **Decision:** *at SE and IE for Kality Metal Factory S.C* p-0.88 at ($p<0.05$)

- **Ho accepted.** Since there are no significance improvement in operating efficiency by these two proxies between before and after privatization.

- **Ha Accepted** for FFSC, and AABGSC, a difference change in operating efficiency following privatization by far more than before, for SE,IE proxies thus there is significance difference between before and after privatization.

After privatization, firms are expected employ their human, financial and technological resources more efficiently because of a greater stress on profit goals and a reduction of government subsidies (Kikeris, Nellis and Shirley, 1992). For SE & IE sales and income per employee ration increases for all companies. This sales increase shows that the management of FFSC and AABGSC are using the employees more efficiently. According to Wilcoxon test the mean increase is significant for FFSC & AABGSC. But for KMF the increase is not significant in both proxies. This means that the amount of birr sales generated per employee for KMF has improved but not significant improvement and this is making the employees inefficient looking at the resources available to them.

C. Changes in Capital invested

Hypothesis 3

Ha: Privatization increases capital expenditure spending of the enterprise.

- ***Decision: at p=0.00 at (***$p<0.05$) in KMF & FFSC firms

- The null hypothesis is rejected since there was a significant change observed after privatization, thus ***Ha Accepted.***
- Examining the table 4.5 above, the results show that all studied companies ratio of capital expenditure to sales has increased after privatization. The ratio for KMF & FFSC show positive signs in mean values, all of them show significant change based on the Wilcoxon test. Capital expenditure to sales of AABGSC show insignificant change in capital investment.

On the other hand, capital expenditure to total assets ratio increased and significant for KMP, & FFSC but increase for AABGS but insignificant change according to Wilcoxon test. For AABGSC capital expenditure to sales $p=0.46$ at ($p<0.05$). The null hypothesis is accepted. Since there was not significance changes observed after privatization. In capital expenditure to total asset proxy $p= 0.00$ at ($P<0.05$) which the null hypothesis rejected. So Ha, accepted. In large cases capital expenditure increases after privatization. Which shows huge plant expansion in the company. In general, the companies invest more after privatization.

Table 4.7: Performance indicator: Capital Investment

Variables	Mean Before	Mean After	Mean Change
Capital investment- Kality Metal Factory			
Capital Expenditure/Sales	0.05	0.31	*0.26*
Capital Expenditure /Total Asset	0.27	0.11	*-0.16*
Capital investment- Faffa Food Share Company			
Capital Expenditure /Sales	0.11	*10.04*	*9.93*
Capital Expenditure /Total Assets	0.07	*0.04*	*-0.03*
Capital investment- Addis Bottle & Glass Share Company			
Capital Expenditure /Sales	*0.08*	*0.27*	*0.19*
Capital Expenditure /Total Asset	*0.11*	*0.24*	*0.13*

Source: Financial Statement & Operational Report, 2005-2017

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

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

- **Decision:** at p=0.00 and p=0.00 at (p<0.05) for KMF and FFSC, 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 4.5 above, the results are mixed. Based on the wilcoxon test result (refer the above table 4.5), 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 Kality Metal Factory reveals that employment increased from 355 to 418. The wilcoxon test shows a significant change for KMF.

But the result shows insignificant employment reduction for Addis Ababa Bottle and Glass S.C. from 437 to 423 and significant employee reduction for Faffa Food S.C from 306 to 248 (refer table 4.4 & 4.5).

E). Changes in Output

Hypothesis 5:

Ha: To test a firm's ability to generate revenue increase after privatization.

The proxy used is a real sale which is sales divided by consumer price index. From 4.8 in all companies output increased. From the table 4.5, according to Wilcoxon test, the real sale increase for FFSC and AABGSC is significantly while that of KMF is insignificantly.

Table 4.8: The Result for the Output

The situation		mean value(μ)	Standard deviation
Pre-privatization	Kality Metal Factory	933,497.51	274387.63
	Faffa Food S.C	323,008.18	97,648
	Addis Ababa Bottle &Glass S.C	264,316.38	44,413
Post-privatization	Kality Metal Factory	3,484,536.20	516997
	Faffa Food S.C	731,850.00	230,113
	Addis Ababa Bottle &Glass S.C	563,016.36	295600.54
Mean Change	Kality Metal Factory	2,551,038.69	
	Faffa Food S.C	408,841.82	
	Addis Ababa Bottle &Glass S.C	298,699.98	

Source: ***Financial Statement & Operational Report, 2005-2017***

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

- **Decision: at p=0.88 at (**$p<0.05$) Kality Metal Factory.

- No significant changes (see table showing t-test- for Mean results).
- Thus, hypothesis 1 is not substantiated**.** ***Ho Accepted.***
- But for Faffa Food S.C P=0.00 at ($P< 0.05$) and Addis Ababa Bottle & Glass S.C P=0.00at ($p<0.05$)
- That is, revenue generated has been increased after the privatization significantly. Significance difference in revenue generated, Thus **Ha accepted** for Kality Metal & Addis Ababa Bottle and Glass S.C especially revenue generated for Kality Metal Factory increased from 933,497.51 to 3,484, 536.20.

F. Changes in Leverage

Hypothesis 6

Ha: There is a significant reduction in the firm's leverage.

The switch from public to private ownership should lead to a decrease in the proportion of debt in the capital structure because with the end of government debt guarantees the firm's cost of borrowing will increase and because the firm has a new access to public equity market (Megginson, Nash and Van Randenborgh, 1994).

The proxy used is total debt divided by total assets. From the above explanation leverage should decline but from the result on the table 4.1; 4.2, the ratios of the KMF & FFSC decrease , which is similar to expectation ,but only AAGBSC ratio increase. Which the Wilcoxon test shows a significant change for FFSC & AABGSC and insignificant for KMF.

CHAPTER FIVE

Summary of Findings, Conclusion and Recommendation

5.1. Summary of the Findings

This study examined the impact of privatization on operating and financial 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, output (capacity utilization), Leverage 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 financial and 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 capacity utilization, capital investment, employment level and decrease in leverage for Kality Metal Product Factory. In case of Faffa Food Share Company improvement in profitability, output, investment, operating efficiency and decrease employment level and leverage parameters. Whereas Addis Ababa Bottle and Glass S.C, the results show improvement in operating efficiency, output, and significant increase in leverage.

5.2 Conclusion

Despite mixed results, the overall results show improvement in performance for all of the firms in the sample. Even some of the firms that have recorded reduction in profitability after privatization, if we take other measures into consideration, they are set towards higher profitability in the future. The operational efficiency measures statistically significant change at 5 per cent for most of the firms in the sample. This study also reveals an improvement in capital spending for the three firms in the sample using the two indicators during the post-privatization period. The study obtain increased result in output changes, all firms recorded positive changes. With regards to changes in leverage, mixed results, two firms in the sample have recorded a decline in leverage after privatization, only one show record an increase in leverage. This one company increase also because of big expansion in the company. However the cost of borrowing remained high despite access to borrowing and public equity markets. On employment changes, privatization has led to reduction in the number of workers in two of the privatized firms. But the reduction is insignificant for one company. Overall the results provide good empirical evidence that privatization has caused a significant improvement by all indicators.

5.3. Recommendation

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

- PEHAA has to continue the support at all levels in order to realize what the investor's compliance to their obligation. PEHAA must properly regulate these companies according to the Regulation No. 445/2019.

- Other government institution like ministry of industry, custom commission and Inland Revenue must support the private sector by providing government services without delay. The government also must be committed to open the economy to the private sectors. Electric service and supply must be reliable. The national bank also must open secondary market for the private sector to alleviate the finance supply and cost problem in the sector. Underdeveloped capital market, severe foreign currency problem and less domestic saving in the country must be solved soon to support the private sector. If such kind of support provided by the government, not only the local and federal government but also the investors are beneficiaries in which they can get equal opportunity to become profitable and viable industries.

- Government must 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 PEHAA at the time of acquiring the enterprises and also understand what is really happening. For instance, it enables PEHAA whether the buyers are honoring their promises or not. This in turn enables the workers to have confidence in the process.

- According to Sachs, Zinnes and Eilat (2000) study Change of title alone is not sufficient to generate economic performance gains, the real gains of privatization come from combining change of title reforms with other structural reforms like improve market competitiveness, improve ineffective and poor regulations and privatize main sector in the economy like transport ,rail ,electric ,communication. So all these sectors in our country still in the hands of the government. More work immediately needed to privatize these sector to get more economic benefit from privatization.

- The effects of privatization depends however on economic institutions in place ,in particular on ensure property rights protection and the rule of law, impose hard budget constraints, low corruption, increase competition, and improve quality of corporate governance and regulation. So the Ethiopian government implement these issues because they are complementary to privatization to get firm level benefit and economic development for the economy as a whole.

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
- Impact of privatization on wages and job satisfaction of workers.

Reference

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