GRADUAL VIS A VIS RAPID PRIVATIZATION AND FINANCIAL PERFORMANCE OF PRIVATIZED COMPANIES QUOTED IN THE NAIROBI STOCK EXCHANGE IN KENYA.

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DECLARATION

This is my original work and has not been submitted in any other university.

Signed ---

Date 8th August 2006. ---

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This project has been submitted for examination with my approval as the university supervisor.

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DEDICATION

To God:

"If the Lord does not build the house, the work of the builders is useless…" Psalms 127:1

To My Family:

A special dedication to my husband, Mr. Jack Hongo who encouraged me and for his unwavering support during my period of study. Also to my children Arbela, Agnes, Jeff, Audrey and Arnette for their patience, love and encouragement in my pursuit for furthering my education.

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May God bless you all.

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LIST OF ABBREVIATIONS

SOEs	State-Owned Enterprises
CMC	Cooper Motors Corporations
SPSS	Software Programme for Social Sciences
BOC	British Overseas Company
KCB	Kenya Commercial Bank
KSHS	Kenya Shillings
HFCK	Housing Finance Corporation of Kenya
NBK	National Bank of Kenya
GPM	Gross Profit Margin
NPR	Net Profit Return
ROCE	Return On Capital Employed
EPS	Earnings Per Share
DPS	Dividends Per Share
AT	Asset Turnover
CR	Current Ratio
LT	Long-Term
SF	Shareholders Fund
TD	Total Debt
ROA	Return On Assets
CEOs	Chief Executive Officers
KAS	Kenya Accounting Standard
IAS	International Accounting Standard
TPS	Tourism Promotion Services

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ABSTRACT

Privatization in general refers to the transfer of the provision of services or assets from the public to the private sector. Privatization can be partial (divestiture) or complete where 100% of government ownership is sold out to the public. Privatization of parastatals is one the major elements in the economic reform program being undertaken by African governments. The main objectives of privatization is raising revenues and reducing the financial and administrative burdens that these enterprises impose on the government. Other privatization objectives are to foster economic flexibility and improve access to foreign markets for domestic products and to promote foreign investments. Privatization is a world-wide phenomenon and there has been a rush to privatize SOEs as the vehicle for development. Kenya has not been left behind in privatization of SOEs. The key issue in privatization is how to implement it. In privatization, some governments choose to fully or rapidly privatize while others implement privatization gradually or carrying it out in piece-meal.

This study therefore sought to assess the rate of transfer of ownership of privatized public enterprises and to assess the relationship between the rate of transfer of ownership and the financial performance of privatized companies in Kenya.

This study shows that for companies that followed the rapid privatization, there was a significant increase in all the financial ratios thus improved financial performance. In the case of gradual privatization, there has been mixed results in that they have recorded very low financial ratios after the second divestiture. The study reveals that gradually privatized firms are performing relatively poorly as compared to rapidly privatized. This study reveals a number of potential challenges which include the fact that few companies have been privatized in Kenya through the stock exchange thus the results may not be conclusive. In addition, there was lack of sufficient documented data from the Nairobi Stock Exchange and Capital Markets Authority regarding the percentage of shares the government divested over the years especially in the case of gradual privatization. Another challenge is the frequent change of CEOs in the privatized firms as some firms may have poor performance due to the strategy adopted by the new management.

From the findings of the study, it is recommended there is need to ensure that whenever firms are privatized, the government should use the rapid privatization approach since this leads to better performance.

It is suggested that further research be carried out on specific sectors of the economy like the banking sector that have been identified and are yet to be privatized. One would research on the implication of unsecured loans in privatized banks whether they were privatized rapidly or gradually.

CHAPTER ONE: INTRODUCTION

1.1 Background

Privatization in general refers to transferring the provision of a service or an asset from the public to the private sector. Boubak (1999) defines privatization as the transfer of ownership from the government to the private sector. Privatization could be partial (divestiture) or complete (100% sale of ownership). Privatization is a world-wide phenomenon, from the former socialist states to the Latin America, from South Asian countries to the African Continent. The world has, for the last two decades been undergoing a profound fundamental shift in infrastructural development and provision of essential services. There has been a rush to privatize State-Owned Enterprises (SOEs) as the vehicle for development

Simba (1986) defines a public enterprise as an organization or company that is created by an Act of Parliament, with specific policy guidelines, objectives and goals, that directly or through a government ministry, agency or authority and that in which the government appoints the Board of Directors and the Chief Executive.

Most governments in developed and developing countries are retreating from owning and running business-like activities and are focusing more in providing a regulatory framework and enabling operating environment for private sector development (Boubak, 1999).

One may ask whether there is anything wrong with the government owning and running enterprises. Simba (1986) notes that the government is not best suited to do business in a competitive environment, where customer taste and preferences change overnight. He goes further and draws a comparison between both private and public enterprises in terms of personnel, investment and management policies. In terms of management policies, board decisions in public corporations are only recommendations to the government whereas in the private sector, the board decisions are the highest authority and make all policy decisions. In addition, public investments are done in areas based on national strategy considerations whereas in the private sector, investments are based on market analysis and viability (Simba ,1986). As far as workers are concerned, unproductive and inefficient employees are retained in public corporations whereas they are laid off in the private enterprises.

Kinandu (1995) notes that privatization of parastatals is one of the major elements in the economic reform program being undertaken by African governments. He cites objectives of privatization as raising revenues from sale of state-owned assets previously held by the government and reducing the financial and administrative burdens that these enterprises impose on the government.

Other privatization objectives as stated by Smith (1996) is to foster economic flexibility and eliminate rigidities in operations, improve access to foreign markets for domestic products and to promote foreign investments which would result to economic growth.

In most countries, foreign investors tend to equate the effectiveness and efficiency of a privatization process with the governments sincerity and commitment to reduce the role of the public sector. Also, a technically sound and business-oriented treatment, untainted by subjective political decision-making and bureaucratic incompetence is necessary for a successful privatization process (Kerf, 1996). In addition, investors need to be convinced that they will be treated in a fair and objective manner free of any type of corruption and red tape. In order to be credible, the privatization process must also be transparent with straightforward laws and well-defined institutional responsibilities.

Olajide (2005) states that the key issue in privatization may no longer be whether to privatize or not, but how to implement privatization. Privatization is expected to improve productive efficiency, which in turn increases competition among firms, lowers prices and ultimately improves consumer welfare. Despite this, the privatizing governments have not suddenly transferred all public enterprises to the private sector.

In privatizing state-owned enterprises, some governments have chosen to proceed totally, in which case the public firm is fully privatized, leaving other reforms such as restructuring to the new owners. Another relates to where privatization is implemented gradually, in which case the government only restructures initially , and privatization is carried out in stages, that is staging of privatization (Olajide,2005) .

1.2 Statement of the Problem

Government Policy Paper (1994) observes that there are 240 commercially oriented public enterprises in Kenya, with direct or indirect government ownership. Out of these, 33 are considered strategic while 207 are non-strategic. Strategic enterprises are so defined as those that provide essential services or play a key role from the point of view of national security, health and environmental protection.

The privatization process in developing countries such as Kenya has been very slow. Despite ambitious privatization programs in policy documents, the reality has been different. Out of the aforementioned 240 state-owned enterprises, only half have been privatized over a period of twelve years since 1992. Mutahi (1989) notes that the public is reluctant to speed up privatization process and this is attributed to the fact that public sector has been used by many African Governments as a source of employment. Equally, the sector provides goods and services at subsidized prices for the social good of the people. It has also been used as a political patronage, which is critical to most African Governments.

Smith, (1996) has identified some factors that will influence the success of a privatization process. This includes political commitment, business orientation, fairness and transparency during the privatization process.
A privatization program is successful when it results into an efficient transfer of public enterprises into private hands under the conditions that the sales generate the maximum price attainable in the market, and that the future of these companies is improved. Transfer of ownership can be gradual, or rapid. The method used during transfer of ownership will have an effect on the performance of the privatized companies (Kerf, 1996).

In Kenya, no study has been done to assess the rate of transfer of ownership of public enterprises from the government to the private sector and the effect the rate of transfer has had on the financial performance of such companies. This study will therefore fill the gap by collecting and collating evidence and arguments sometimes used to justify staging and sequencing as an optimal strategy for privatization implementation.

1.3 Objectives of the Study

Two main objectives of this study are:

1. To assess the rate of transfer of ownership of privatized public enterprises in Kenya

2. To assess the relationship between the rate of transfer of ownership and the financial performance of privatized companies in Kenya.

1.4 Importance of the Study

This study will be useful to the following:

Government

Privatization is likely to lead to reduction of financial and administrative burdens on the exchequer, equity in wealth distribution among citizens of the country and payments of taxes by privatized companies to the exchequer.

Privatized institutions

This study will give an indication of the rate of ownership that contributes to the highest financial performance. This will in return result to increased profitability, sustainable employment, improved efficiency and enhanced quality of goods and services.

Potential investors

Local investors who can afford to purchase state-owned enterprises could use this study and turn-around these cash-drained enterprises through effective management into profit making companies. Also, foreign potential investors could be attracted into buying such enterprises and this would be of advantage to our economy in terms of provision of employment among others.

Policy makers

Policy makers require information to assist put in place policies that will enforce financial discipline, mobilize managerial and financial autonomy all aimed at having privatized enterprises operate on commercial principles. This study will be of assistance in selecting what rate of transfer to apply and use the privatization process to diversify ownership and to enable the gains expected from privatization to be widely shared.

Privatization program

A privatization program should be reliable and attractive to investors. This study will be of assistance when drawing a privatization program, which will result, into privatized firms that are profitable and competitive.

CHAPTER TWO: LITERATURE REVIEW

2.1 Objectives of Privatization

State-owned enterprises thought to enhance development performed poorly in most developing countries. Financial losses resulting from inefficient management and bloated workforce often posed a major burden for already hard-pressed public budgets. Generally, governments hope that the change in ownership will decrease the financial demands made by state-owned enterprises on strained government budgets and that it will improve the efficiency of the economy resulting in an overall and net positive effect on the country's economic and social development (Sader,1996).

Defining privatization objectives is an important exercise that should be undertaken as early as possible for the success of a privatization program. The current wave of privatization is largely a response to the financial crisis facing many governments. Subsequently, budgetary matters and short-term revenue maximization tend to be high on the list of governmental objectives (Guislain, 1997).

Two main principles of privatization are to enhance the efficiency and performance of the public enterprise sector, and to reduce the financial burden of the sector on government (Government Policy Paper 1994). Guislain (1997), and Sader (1996) groups objectives of privatization into four broad categories;

2.1.1 Financial objectives

Privatization is aimed at maximizing net privatization receipts in order to fund other government expenditures, reduce taxation, reduce the public sector deficit, or repay domestic and foreign debt outstanding (Sader, 1996). In addition, privatization is aimed at reducing the financial drain of the state-owned enterprises on the government in form of subsidies, unpaid taxes, loan arrears and guarantees given (Guislain,1997). Privatization is also aimed at mobilizing private sources to finance investments that can no longer be funded from public finances. Sader (1996) observe that privatization should also generate new sources of tax revenue as well as limiting potential future demands to provide capital for expansion , upgrading or rescue of SOEs in financial difficulties.

2.1.2 Efficiency and economic development

The privatization objective of efficiency and economic development includes macroeconomic or sectoral efficiency and competitiveness which results into improved level and/or quality of goods and services produced. Sader (1996) observe that privatization should aim at establishing or developing efficient capital markets resulting to better capture and mobilization of domestic savings as well as attraction of foreign capital and expertise resulting to improved access to foreign markets for domestic products. Privatization should also aim at promotion of domestic and foreign investments, maintaintenance of / or creation of employment and promotion of innovation through access to new technologies.

2.1.3 Income distribution or redistribution

Another privatization objective aims at income distribution or redistribution. This entails fostering broader, widespread capital ownership and promoting development of national middle class. Sader (1996) observe that privatization also encourages economic development of a particular group in society and promotes employee ownership to elicit public support for initially costly liberalization policies.

2.1.4 Political considerations

Equally, Guislain (1996) observe that another objective of privatization takes into account political considerations. This is aimed at reducing the size and scope of the public sector or its share in economic activity which allows the government to concentrate on core governmental functions including creation of an enabling environment favorable to private economic activity as well as reducing the opportunities for corruption and misuse of public assets by government officials and SOE managers and reducing the grip of a particular group or parties on the economy.

The government's strategic task in the process of privatization is to balance competing objects and prioritise them. Flexibility must be built into the system especially at the implementation level when multiple objects exists. This calls for transparent procedures and acceptability of decision makers. The governments should never lose sight of the primary motivation for privatization, and that is to transform SOEs into efficient and profit-making private enterprises (Sader 1996).

2.2 Economic Importance of Privatization

There are quite a number of economic benefits that accrue to the government following privatization. These include cash proceeds on sale of state-owned enterprises, revenues to the government in form of corporate taxes on profits, dividends from divested companies where the Government has retained some equity holding (Boubak 1999)

2.2.1 Cash proceeds

Economic benefits include, savings in million of shillings in terms of financial and administrative burdens to the exchequer spent in the management of these state-owned enterprises, reduction in Government borrowing to sustain these loss making enterprises, less reliance by the Government on foreign aid that is usually accompanied by unpleasant conditional ties, the multiplier effects arising from stable employment such as payment of personal taxes on income by employees, indirect taxes on consumption of goods and services, and increase in individual savings and investments(Roth,1994).

2.2.2 Enhances monitoring

Sader (2000) states that privatization subjects managers to pressure of the financial markets and to monitoring and discipline of profit-oriented investors. The change in ownership equally redefines the firm's objectives and the manager's incentive. He further notes that releasing a firm from government control provides greater entrepreneurial opportunities and that freeing SOE'S from the financial constraints imposed by the government's public sector borrowing requirements opens attractive financing options (Sader, 2000)

2.2.3 Capital market discipline

According to Boubak (1999), a well-developed and active capital market may contribute to an economic and regulatory environment conducive to post-privatization performance improvements. The author contends that such a market allows the newly privatized firms a greater access to capital frequently required for further restructuring and equipment modernization (Boubak, 1999).

2.2.4 Changes in CEO and the board of directors

Changes in the privatized firms upper management who are often political appointees usually lead to performance improvements. Lopez-de-Salanes (1999) notes that the existing SOE management may lack the appropriate human capital to effectively guide the privatized firm in the new competitive market. He also finds a positive relationship between a change in CEO and the market value of the privatized firm. Megginson (1994) also examines how executive changes affect the operating performance of newly privatized firms and report improved performance for firms with larger changes in top management (Lopez, 1999)

2.2.5 Exposure to competition

Privatization equally exposes the firm to discipline of product market competition. Having to compete with other firms for customers and market share may provide the pressure required to stimulate greater efficiency and profitability. Chong (2003) identify competition as a major determinant of post-privatization performance improvements firms that are not subject to discipline of competitive pressure are less likely to benefit from privatization (Chong, 2003).

2.2.5 Improved performance

To an organization that has undergone privatization, some of the benefits include improvement in performance in terms of profit, increased productivity and enhanced operating efficiency. These arises from change in ownership and the resultant deployment of both modern technologies and professionalism from highly qualified personnel, who are attracted to a well-managed firm (Kerf, Smith, 1996)

Privatization equally opens the doors to international investors who may have initially shunned investing in bureaucratic managed firms. Chong et al (2003) for instance, finds positive results for productivity, operational efficiency and production but negative result for labor in a firm following privatization.

Empirical analysis showed that profitability of the firms increased significantly after privatization according to the ratio namely operating income to sales, net income to sales, operating income to fixed assets, net income to fixed assets and earnings before interest and taxes to total Assets (Chong, 2003).

2.3 Approaches to Privatization:

Currently, four main clusters can be identified that segment ownership of business firms. These are privately owned firms operating in a competitive market, mixed ownership firms operating in competitive markets and public ownership operating in regulated markets (Derek, 2002).

According to Guislain (1997), the main approaches to privatization include:

Public offerings of shares in the Stock Exchange: This involves floating of shares at the exchange, thereby giving every member of the public a chance to participate in share ownership.

Sale of shares by private sector placement: This method involves the issuing of shares selectively to individuals or institutions, which are known to or have expressed their interest in shares of a particular company.

Sale of enterprise assets, including liquidation: This is mostly applied to those institutions that have ceased from being going-concern but whose assets can fetch residual value (Guislain 1997).

Employee/management buy-outs: This method is applied to small and medium firms with intention of retaining the insiders, that is, the employees and or management who are familiar with the running of the enterprise to provide continuity. The private firm manages the operations of the SOE without committing its own investment capital. The contractor must be given enough autonomy to implement commercial reforms, including the hiring and firing of labor. Management contract is an attractive option when the government's commitment to fuller privatization is weak and more ambitious forms of privatization are to be considered in future. (Kerf, 1996).

Leasing: This is where lease-purchase contracts are made between the Treasury and the willing parties. The private firm operates and maintains the SOE as its own commercial risk. It requires the government to commit funds to cover at least operating and maintenance cost (Kerf 1996).

Concessions: In this method of privatization, the private operator manages the facility, operates it at its own commercial risks, accepts investment obligations and can build/expand the existing facility. The contract has a fixed term and involves transfer of assets back to the state at end of term (Smith, 1996).

De-monopolizing and new entry: These methods involves de-monopolizing a market segment in whole or in part and allow private investors to enter the market at their own risks. The new entry can be complimentary to the existing public sector or in competition with it (Kerf, 1996).

Divestiture: This involves sale of Government shares in a SOE. It acts as a source of government revenue and is used to pay down debts and other government obligations (Sader, 2000).

2.4 Challenges to Privatization

In countries where indigenous private sector performance is weak, we might ask whether this is not perhaps in large part the result of barriers and distortions consciously or unconsciously created by policy makers (Clausen, 1987).

Many obstacles to private sector involvement in public services are social and political rather than technical and financial. Lack of security discourages investment and bureaucratic requirements can depress the entrepreneurial spirit (Roth , 1994).

Guislain (1997) has identified the following as challenges to privatization:

2.4.1 Small market affordability concerns and payment risks

In order to attract private investment, the rewards must be commensurate with the risk. Low per capital income and low or negative economic growth can make markets appear small and unattractive to private investors. In many cases, the key problem is insufficient information on how a market would respond to privatization (Kerf, 1996). There is the issue of the affordability of the cost-covering tariffs being levied by the private investment, and even if the tariff is affordable, there is the issue of non-payment, which introduces additional risks for potential investor (Smith, 1996).

2.4.2 Legal and regulatory framework

Sader (2000) observes that most legal framework have been drafted with the understanding that the provision of goods and services is the business of the public sector, with very little attention to potential private sector participation. Before committing significant capital to private investments private firms require clear "Rules of the game" covering such matters as the scope and conditions of market entry. Sader (2000) continues to observe that change of legislation takes long and in most cases the investors walk away and re-route to other countries where legislation is friendly to investment. Guslain (1997) adds that the government should carefully specify the scope for private operation and the processes that will be adopted. This many include amendment of earlier legislation that mandated provision by SOE.

2.4.3 Availability of local finance

Privatization may require significant volumes of capital. Most domestic financial markets are underdeveloped and rely heavily on foreign capital to finance a large part of privatization. Most developing countries, which have successfully attracted private financing, have relied heavily on foreign sources of capital (Kerf 1996). Guislain (1997) has gone further to state some of the criticism that has been levied on privatization programs. These include excessive bureaucracy, to much political interference, too many people with the potential to influence the process, lack of a clear and consistent process, lack of a clear and consistent process, lack of business capabilities and lack of clear objectives.

2.4.4 Unclear market entry conditions

One obstacle investor's encounter is lack of clarity in the rules governing their entry and operations in a particular sector. The government tends to maintain the very lucrative and rapidly growing business for itself. This normally tends to hold back the county economic growth by maintaining its monopoly position. (Sader 2000)

2.4.5 Price inequality

Another obstacle to the involvement of private sector in public service provision is the notion that services have to be the same rate for different people even when circumstances differ greatly, for example supply of water to all at the same prices (Gabriel 1994).

The cited obstacles does not mean end of private sector involvement. Before privatization program is embarked on, careful assessment of risk mitigation measures must be examined. Investors will need to ensure that all risks are mitigated as much as possible and that government are willing to take responsibility for risks outside the investor control (Roth, 1994). Some ways of mitigating risk would be to maximize funding from local currency source especially in respect of debt financing; governments to create enabling environment without undue interferences during operation and to assure a sufficiently attractive rate of return (Roth 1994).

2.5 Implication of Rate Transfer of Ownership on Financial Performance

The Change in ownership following privatization has been credited to improvement in performance of firms. Wellenius (1992) notes encouraging results in the privatization of state telecommunication enterprises in Latin America, in terms of attracting expert managers (labor), specialized management tools, access to latest technologies and willingness by international markets to provide large amounts of capital to privatized companies in countries with sound microeconomic and regulatory frameworks.

Similarly, Megginson (1994) compares pre and post privatization financial and operating performance of 61 companies from 18 countries and notes that after being privatized, firms increase real sales, become more profitable, increase their capital spending and improved their operating performance.

Macedo (2000) analyzed the performance of 50 former state-owned enterprises in Brazil, one to four years before and after privatization.

His study covered eight variables (i.e. net sales, net profits, net assets, investment, fixed investment, number of employees, debt and index of liquidity). From these variables six were derived to measure efficiency, sales and profit by employees, rate of return in form of profit to sales, sales to net assets and propensity to invest with respect to sales and assets.

The obtained results confirmed that privatization brings significant improvement of firm's performance in terms of increased productivity, efficiency, profitability and propensity to invest.

From microeconomics perspective, Olajide (2005) states that privatization is expected to lead to productive efficiency, which in turn increase competition among firms, lowers product prices, and ultimately improves consumer welfare.

Two issues are key at the center of the implementation process. The first is whether privatization of public firms should proceed totally, in which case the public firm is fully privatized, leaving other reforms such as restructuring to the new owners. The second relates to whether privatization should be implemented gradually, in which case the government only restructures initially and privatization is carried out in stages. That is, staging privatization. In the first case, the government will offload all its shareholding all at once to the private sector and will have no control on the operations except for regulatory purposes. In the second case, the government will offload its shareholding to the private sector on a piece-meal basis while still maintaining some shares and a say in the operations of the firm (Olajide, 2005).

Olajide (2005) observe that gradual privatization is beneficial as the social costs are spread over a long period of implementation as opposed to total privatization where gainers from earlier stage may oppose further privatization. The author goes further and observes that the real issue is how the firm behaves post-privatization. The case of Telmex (Mexico) provides evidence on how gradual privatization and on stages can increase the market value of firm. In this case, the government sold to a private consortium 20.4% of the capital in 1990, public offering of 15.7% in 1991, 4.7% in 1992, 3% in 1993 and 1.5% in 1994 (Guislain, 1997). The share price of Telmex increased from US dollars 8 billion during the first phase to about $14 billion six months later, and then to about $30 billion, which represents almost three times as high as the initial value (Olajide, 2005).

This may not be so in all cases as is explained by Lopez-de-Silanes (1996). He found out that where the government holds on to some shares and only releases gradually during privatization, the direct cost for restructuring is quite substantial and slows down privatization. This is particularly when subsidies poured on the state-owned enterprises can quickly add up to outweigh privatization revenues. For gradual rate of transfer to be effective, regulatory framework must be in place. Sader 1996) reports that the speed of privatization of numerous power and utilities was impressive in Argentina, difficulties arose for the simple reason that the regulatory framework effectively was not in place. Gradual privatization will provide sufficient time for developing appropriate regulatory framework as compared to the rapid privatization(Olajide,2005). This will in turn translate to improved performance as a result of privatization.

In other cases, notably in Argentina, Chile, Germany and New Zealand, privatization took the form of sale of all or almost all the shares to strategic investors or groups of investor, that is the rapid rate of transfer of ownership was used. All shares of Telcom New Zealand were sold in 1990 to a US consortium (Guislain, 1997). The author concluded that these enterprises as a whole posted substantial performances gains in terms of increases in sales, investment productivity, profits and dividends, and reduction in debts.

Cooper (2004) observes that privatization is about inducing behavioural changes in the public firms. Implementation strategy adopted by the government might not matter if firms behaved exactly in the same way under any ownership form. For implementation strategy to matter, behavior must differ according to ownership. Whereas the merits of total privatization can be judged solely on ownership change, the merit of any alternative ownership form is relatively complex. In partial or staged privatization for example, what should be the extent of the shareholding that the government should transfer to the private sector at a time? A government should endeavor to know how a firm would behave under different ownership forms in order to determine the appropriate form of implementing privatization (Cooper, 2004).

Lopez (1996) concludes by stating that there is a premium for rapid privatization as it halts the drain of resources. The key lesson is "----do not do too much, simply sell."

2.6 Measures of Performance

Pierre Guislain (1997) states that privatization program is successful when it results in an efficient transfer of public enterprises into private hands under the conditions that the sales generate the maximum prices attainable in the market and that the future of these companies is improved.

Improved performance after privatization is reflected in substantial performance gains in increases in sales, investments, productivity, profits and dividends and reduction in debt. Measures of performance of a firm after privatization can be done by looking at efficiency gain after privatization, cost-benefit analysis and simulated welfare losses (Belli, 2001). For the selling country, privatization results in maximized net privatization receipts, reduced taxation, trim in the public sector deficit and reduced financial drain of the SOEs on the state in form of subsidies. It acts as a new source of tax revenue.

For the buying firm, privatization results into mobilization of private sources to finance investments that can no longer be funded from public finances, improved management, access to modern technology and professionalism. For a successful privatization program, factors such as political commitment and a technically sound and business oriented treatment must be taken into consideration (Kerf, 1996).

Privatization can be linked to increase in labor productivity and to the rate of growth of total factor of productivity. Reducing investment barriers expose investors to competition and forces them to exert more effort to obtain higher levels of productivity and growth. Privatization also allows firms to participate in wider capital market and international markets. A firm could be inefficient because it fails to choose appropriate capital/labor ratio, if it uses more inputs than necessary to produce a given level of output, if produces less output for a given level of input used and also if it overpays for input used (Belli, 2001)

Public enterprises are considered less efficient in ensuring that the difference between revenues and costs is as large as possible. This is because managers are aware that any shortfall can be remedied by government subsidies. Managers are shielded from the effect of market controls and they tend to satisfy multiple objectives as determined by the politicians. When this happens with no clear rules, it is difficult to measure performances (Belli, 2001).

Another measure of performance is the impact on simulated welfare due to the redistribution of wealth from other stakeholders. We consider how social welfare is affected when a competitive pricing enterprises is replaced by a private firm that sets its prices to maximize profits but also more efficient in producing its output (Bradburd 1992).

As observed by Oliver Williamson (1968a, 1968, 1969), if a private firm is more efficient producer, then the net change in social welfare depend upon the relative values of both the loss of monopoly pricing and the resource savings made possible by more efficient production

Another measure of performance is the change in the market value at the Stock Exchange Increase in the market value depends critically on the firm's financial and operating performance. The market value of a loss-making firm prior to privatization will decrease rather than increase (Derek, 2002).

Another measure of performance is cost-benefits analysis. This is relating costs to the benefits that are measurable in monetary terms. The cost benefits of the government provided goods or services should be compared with the costs and benefits of having the private sector provide the same goods and services. In such cases, we may use cost-effectiveness (one variable) and/or weighted cost-effectiveness (several variables) to measure performance (Belli, 2001).

Other measures of performance include surging stock prices, increase in foreign exchange reserves, improved services while prices drop and elimination of previous government subsidies (Matto, Sauve, 2003).

Upward performance is not always guaranteed after privatization. This may not only be due to the challenges as cited out in this paper but other factors. Such factors include exchange rate shock where massive devaluations drive a wedge between domestic currency revenue streams and hard currency debt service requirements; dropping property values erasing future income potential for projects relying on real estate development and general economic slow down (Roth, 1994).

In conclusion, for countries to allow benefits from new and more efficient investments, governments need to devout substantial efforts in designing broad reforms that will sustain an investor-friendly environment. Failure to do so will almost invariably result in lengthy delay in the privatization programs (Sader 2000).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Population and Sampling

The entire population of all the companies privatized through Nairobi Stock Exchange since 1990 numbering eight (see Annex 1) were examined thus no sampling was done.

3.2 Data Collection

The study relied heavily on secondary data from published financial statements of the companies, Ministry of Finance, Kenya National Audit Office and Nairobi Stock Exchange. The data collection entailed the examination of the financial statement of firms identified for the period 1990-2004.

Post privatization data was sourced either from the financial statements of the firms and or Nairobi Stock Exchange records.

3.3 Data Analysis

Data was analysed by use of percentages, proportion of authorized shares at pre and post privatization, dividend yield and financial ratios year-by-year basis giving an indication of performance overtime.

The analysis was for firms where rate of transfer of ownership was rapid as opposed to where the transfer was gradual. Rapid rate of transfer of ownership was where the government offloaded all its shareholding all at once to the private sector and would have no control on the operations except for regulatory purposes. The public firm is fully privatized leaving all other reforms as restructuring to the new owners. In the case of Gradual rate of transfer of ownership, the government offloads its shareholding to the private sector on a piece-meal basis while still maintaining some shares and a say in the operations of the firm. The government only restructures initially and privatization is carried out in stages and the proportion need not be the same. The results were then aggregated and the variability in performance analysed.

The financial ratios computed assessed the profitability, growth, solvency, liquidity and operating efficiency of the privatized firms, which included operating income to sales, net income to sales, operating income to fixed assets, net income to fixed assets and earnings before interest and taxes to total assets.

The same ratios were computed in order to establish the effect of rate of transfer on ownership on financial performance after privatization.

Ratios used included:

Profitability ratios

These included;

- Gross profit margin, computed as; $= \frac{\text{Gross profit}}{\text{Sales}}$
- Net profit ratio, computed as; $= \frac{\text{Net profit}}{\text{Sales}}$
- Return on capital employed $= \frac{\text{Profit before interest and taxes}}{\text{Total assets}}$

Growth ratios

They included;

- Net book value per ordinary share = $\frac{\text{Net book value of assets}}{\text{No. of ordinary shares}}$

- Earnings per share = $\frac{\text{Net earnings after tax}}{\text{No. of ordinary shares}}$

- Dividends per share = $\frac{\text{Total dividends}}{\text{No. of ordinary shares}}$

Efficiency ratios

- Assets turnover = $\frac{\text{Sales}}{\text{Net Assets}}$

- Stock turnover = $\frac{\text{Cost of goods sold}}{\text{Average stock}}$

- Debtors days = $\frac{\text{Debtors} \times 365}{\text{Sales}}$

- Creditors days = $\frac{\text{Creditors} \times 365}{\text{Purchases}}$

Solvency and Liquidity ratios

These included;

- Current ratio = $\frac{\text{Current assets}}{\text{Current liabilities}}$

- Acid test ratio = $\frac{\text{Monetary assets}}{\text{Current Liabilities}}$

- Fixed interest cover = $\frac{\text{Earnings before interest \& tax}}{\text{Interest expense}}$

- Long-term debt to shareholders funds = $\frac{\text{Long term debt}}{\text{Interest expense}}$

- Total debt to shareholders funds = $\frac{\text{Total debt}}{\text{Shareholders funds}}$

Operating performance ratios

- Returns on assets = $\frac{\text{Earnings before interest \& taxes}}{\text{Total assets}}$

In carrying out the analysis, chi-square was used where rankings were done in terms of gradual and rapid rate of transfer of ownership from the government to private firms. This was correlated to the financial performance of the firms using the two methods of rates of transfer of ownership. Gradual rate of transfer was the case where the government transferred its shareholding to the private sector on a piece-meal basis whereas rapid rate of transfer was the case whereby the government transferred all its shareholding all at once to the private sector during the privatization process.

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 Introduction

The research design was a cross sectional survey. The research design is a suitable method of obtaining responses from several firms or individuals in the same industry, or in different industries at once. (Coopers and Emory, 1995) recommend this type of research design for studies carried out once and representing one point in time. This study fell in this category. The sample was made up of all the eight companies privatized through the Nairobi Stock Exchange (NSE) since 1990. The companies listed at the Exchange as at 31st December 2004 were included in the study. The data collection entailed examination of the published financial statements of the companies/firms identified for the period 1990-2004. All the financial statements of the eight firms were examined hence representing a 100% response rate.

The Statistical package for Social Sciences (SPSS) was used to capture the data and build a database and analyzed the data to produce descriptive statistics. Frequency tables, percentages and proportions were used extensively to draw conclusions on the findings. Chi-square test was carried out to determine whether there is relationship between gradual and rapid privatization.

4.2 Demographic data.

The companies surveyed in this study were all privatized through as well as listed in the Nairobi Stock Exchange. The total population is 8 firms and they were classified as to either they were privatized gradually or rapidly, showing authorized shares at privatization and their price by share as shown in Table 1 and percentage and proportion of authorized shares at pre and post privatization.

Table 1: Rapid Privatization

Name of firm	Year of privatization	Authorized shares	Price per share (Kshs)
1.Uchumi	1992	16,000,000	14.50
2.BOC	1993	1,600,000	26.50
3.CMC	1993	2,000,000	10.00
4.Kenya Airways	1996	235,423,896	11.25
5.TPS Serena	1997	12,893,000	13.00

Source: Research Data

The above table shows the year of privatization, the number of ordinary shares and the price per share (in Kenya shillings) in the case of those firms that were privatized rapidly through the Nairobi Stock Exchange.

Table 2 below indicates the firms that were privatized gradually. It shows the year of privatization, number of authorized shares and the price per share in Kenya shillings. For example in the case of Kenya Commercial Bank (KCB), the government sold 20% of its shareholding in 1988, 10% in 1990, 10% in 1996 and 25% in 1998, therefore remaining with 35% shareholding.

In the case of Housing Finance Corporation of Kenya (HFCK) the government offloaded 30.4% of its shareholding by selling eighteen million (18M) shares at Kshs 7 each in 1992 and a further 62.3% in 1999 by selling thirty million (30M) shares at Kshs 14 each hence remaining with 7.3% shareholding.

For National Bank of Kenya (NBK), the government sold forty million (40M) shares at kshs 10 each in 1994 and this represented 57.5%, hence remaining with 42.5% shareholding. They sold a further forty million (40M) shares in 1996 for kshs 15 each by offloading 20.5% hence remaining with 22% shareholding.

Table 2: Gradual Privatization

Name of firm	Years of Privatization	Government Divesture %	Government Holding %	Authorized shares	Price per share (Kshs)
1.KCB	1988	20	80	7,500,000	20.00
	1990	10	70	7,500,000	33.00
	1996	10	60	11,880,000	50.00
	1998	25	35	28,050,000	65.00
2.HFCK	1992	30.4	69.6	18,000,000	7.00
	1999	62.3	7.3	30,000,000	14.00
3.NBK	1994	57.5	42.5	40,000,000	10.00
	1996	20.5	22	40,000,000	15.00

Source: Research Data

4.3 Financial Ratios of the firms both pre and post privatization.

Financial ratios of all the eight companies were calculated before (pre) and after (post) privatization to determine whether there was any significant increase in financial performance after privatization. The ratios are computed to assess the profitability, growth, efficiency, solvency and liquidity of the privatized firms.

4.3.1 Rapid Privatization.

Table 3: CMC Holdings

	Years									
Ratios	**Pre**				**Post**					
	'90	'91	'92	'93	'98	'99	'00	'01	'02	'03
GPM	.042	.033	.027	.027	.061	0.00	.27	.25	.23	.26
NPR	.019	.016	.011	.015	.038	.038	.030	.021	.034	.039
ROCE	.045	.035	.037	.036	.062	.048	.092	.073	.075	.068
EPS	3.09	2.59	1.98	2.69	8.07	6.61	5.05	3.66	6.30	7.30
DPS	.073	.84	.98	1.22	.399	.59	.59	.59	.78	.78
AT	2.35	2.42	2.72	2.86	2.98	1.95	2.10	2.05	2.07	1.95
CR	1.40	1.37	1.48	1.43	1.36	1.36	1.43	1.54	1.64	1.54
LT/SF	.002	.004	.035	.015	.025	.046	.252	.222	.121	.141
TD/SF	1.18	1.31	1.06	1.18	1.90	1.36	1.35	1.11	1.03	1.26
ROA	.045	.035	.037	.036	.062	.048	.092	.073	.075	.068

Source: Research Data

From the above table, it is self-evident that before privatization majority of the ratios calculated for the period 1990 to 1993 were decreasing. Gross Profit Margin (GPM) decreased from .042 to .027, Net Profit Ratio (NPR) from .019 to .011, Return On Capital Employed (ROCE) from .045 to .036, and Earning Per Share (EPS) from 3.09 to 2.69. On the other hand Dividend Per Share (DPS) increased from .073 to 1.22, Assets Turnover (AT) increased from 2.35 to 2.86 and Current Ratio (CR) increased from 1.40 to

1.43. However, after privatization the ratios estimated for the period 1998 to 2003 increased remarkably. GPM increased from .061 to .26, while NPR more than doubled from .015 to .039, ROCE increased from .036 to .068, EPS increased by 271% from 2.69 to 7.30 after privatization, CR from 1.43 to 1.54. It is only AT which has shown some abnormal trend in that it increased from 2.86 in 1993 to 2.98 in 1998 after which it has had an up and down behaviour finally settling at 1.95 in 2003.

Table 4: Uchumi Supermarkets

	Years								
	Pre		**Post**						
Ratios	'92		'93	'94	'95	'96	'97	'98	'99
GPM	.125		.137	.135	.090	.087	.070	.081	.054
NPR	.045		.096	.087	.054	.056	.043	.052	.035
ROCE	.302		.293	.369	.284	.300	.243	.261	.207
EPS	5.75		6.2	6.76	5.27	6.48	3.75	5.21	4.07
DPS	2.75		2.67	3.33	3.33	3.33	3.35	3.75	3.00
AT	3.50		4.07	5.59	6.69	7.43	7.96	8.09	8.65
CR	2.34		1.82	1.55	1.45	1.47	1.31	1.21	1.33
ROA	.302		.293	.369	.284	.300	.243	.261	.207

Source: Research Data

Despite the fact that there was an immediate increase in almost all the ratios after privatization such as GPM, NPR, EPS and AT, DPS and ROCE/ROA decreased from 2.75 to 2.67 and .302 to .293 respectively. Furthermore, the above-calculated ratios have been decreasing especially the profitability, solvency, liquidity and operating performance ratios. However, there has been tremendous increase in efficiency and growth ratios. Asset turnover (AT) for example increased by over 100% from 4.07 in 1993 to 8.65 in 1999. This may be attributed to the management strategy adopted by the firm which may have been a growth oriented. Unfortunately, this was not sustainable in the long run and as a result Uchumi has found itself in an insolvent scenario.

Table 5: Kenya Airways

Ratios	Years									
	Pre		Post							
	'95	'96	'97	'98	'99	'00	'01	'02	'03	'04
GPM	0.00	0.00	0.00	0.00	0.00	.294	.271	.261	.251	.295
NPR	0.00	0.00	0.00	0.00	0.00	.163	.091	.035	.013	.043
ROCE	.11	.20	.11	.12	.08	.13	.09	.05	.023	.071
EPS	1.92	4.33	2.36	3.11	3.09	6.18	4.43	2.29	1.18	2.82
AT	0.00	0.00	0.00	0.00	0.00	1.17	2.84	3.38	3.74	3.61
DPS	0.00	0.00	.75	1.0	0.00	1.25	1.25	0.60	0.50	6.75
CR	1.22	1.42	1.30	1.30	1.53	1.60	1.60	1.23	.87	.87
LT/SF	.16	.27	.30	.48	.59	1.03	1.09	1.03	1.30	1.60
TD/SF	0.61	1.79	0.89	1.06	1.11	2.03	1.94	1.95	2.31	2.49
ROA	0.11	0.20	0.11	0.12	0.08	0.13	0.09	0.05	0.023	0.071

Source: Research Data

Despite the fact that the ratios were increasing even before privatization they increased tremendously after privatization. This is exemplified by the fact that EPS increased from 1.92 to 2.82, LT/SF from 0.16 to 1.60, TD/SF from 0.61 to 2.49, while AT and DPS reached a high note of 3.61 and 6.75 respectively. The GPM, NPR and AT are zero up to 1999 because the firm was not disclosing their turnover thus not able to compute these stated ratios. However, the firm started disclosing its turnover as from the year 2000. Despite that, there was a decrease in ROCE/ROA from 0.11 to 0.071 and CR from 1.22 to 0.87. However, there is a very interesting trend in that it reached its peak in 2000 and then took a nosedive until 2003 before turning around in 2004.

Table 6: BOC

Ratios	Years								
	Pre				Post				
	‘90	‘92	‘93		‘00	‘01	‘02	‘03	‘04
GPM	0.00	0.00	0.00		.494	.514	.568	.583	.581
NPR	0.00	0.00	0.00		.133	.115	.151	.209	.193
ROCE	.108	.10	.085		.089	.091	.122	.157	.151
EPS	3.33	5.15	6.46		3.83	3.84	5.40	7.82	8.20
DPS	0.00	0.00	0.00		3.55	3.55	4.35	4.35	4.50
AT	0.00	0.00	0.00		.546	.634	.664	.648	.693
CR	1.508	1.99	1.57		3.44	2.70	3.18	3.43	2.98
LT/SF	1	1	1		.049	.043	.04	1.05	1.04
TD/SF	1.26	1.27	1.29		.262	.316	.268	1.25	1.27
ROA	.018	.10	.085		.089	.091	.122	.157	.151

Source: Research Data

It is very clear that after privatization there was a remarkable increase in literally all the ratios. GPM increased from .494 to .581 this clearly indicates that the firm was making more profits after privatization, NPR increased from .133 to .193 hence the firm was able to reduce operating expenses after privatization hence increased net profits, ROCE increased from .089 to .151. This shows that return on capital employed has almost doubled after privatization, an indication that the firm has made an optimal use of its assets. EPS and DPS increased from 3.83 to 8.20 and from 3.55 to 4.50 respectively. This clearly shows that the firm performed well hence it was able to pay a higher dividends and earnings on shares. AT increased from .546 to .693, which means that there was a more utilization of available resources after privatization. Furthermore, the firm has been able to reduce the ratio of TD/SF by more than half from .262 to .127; despite the fact that LT/SF increased marginally. This clearly indicates that the firm was able to reduce borrowing as well as increase shareholders funds.

However, the calculation of GPM, NPR, DPS, AT, LT/SF and TD/SF before privatization was impossible due to the reporting and presentation of financial statements, given that they prepared them to suit their parent company. For example in the calculation of GPM, neither sales nor turnover for the year was given, hence its calculation becomes impossible.

Table 7: TPS Serena

	Years								
	Pre		**Post**						
Ratios	'96	'97	'98	'99	'00	'01	'02	'03	'04
GPM	.085	.078	.086	.785	.780	.781	.786	.786	.795
NPR	.046	.040	.064	.110	.106	.107	.118	.028	.124
ROCE	.099	.095	.094	.083	.0788	.0785	.0805	.017	.101
EPS	0.00	1.17	1.72	2.05	2.15	2.50	2.75	.65	3.37
DPS	2.708	.998	.998	1.098	1.098	1.098	1.098	1.098	1.098
AT	.455	.472	.544	.760	.675	.635	.704	.825	.653
CR	.809	.944	.885	.948	.919	1.047	1.085	1.116	1.102
LT/SF	.186	.191	.093	.332	.340	.482	.383	.385	.301
TD/SF	.895	.742	.703	734	.990	1.143	1.079	981	.882
ROA	.099	.095	.094	.0832	.0788	.0785	.0805	.017	.1012

Source: Research Data

Before privatization most of the ratios were decreasing but after privatization they increased marginally. They increased as follows; GPM from .078 to .795, NPR increased by 210% from .040 to .124, and EPS increased by 188% from 1.17 to 3.37, DPS by 10% from 0.998 to 1.098, AT from 0.455 to 0.653, ROCE/ROA from 0.099 to 0.101, CR from 0.809 to 1.102, LT/SF from 0.186 to 0.301. Furthermore, TD/SF has reduced from 0.895 to 0.882 however marginal it is.

Before privatization most of the ratios were very low, but immediately after privatization they increased significantly and stabilized. This implies that the firm has become more profitable, efficient and effective after privatization through effective utilization of its assets and reduction of short-term and long-term debt.

4.3.2 Gradual privatization

Table 8: Kenya Commercial Bank

	Pre					Post					
Ratios	'93	'94	'95	'96	'98	'99	'00	'01	'02	'03	'04
ROCE	.052	.047	.065	.059	.056	(.03)	(.01)	.003	.070	.015	.015
EPS	11.4	14.9	21.2	22.3	22.9	(13)	(4.1)	1.31	(20)	3.06	3.94
DPS	5	6	6	7	8	0.00	0.00	0.00	0.00	1.00	0.00
AT	.052	.045	.065	.059	.056	0.00	0.00	0.00	0.00	0.00	0.00
ROA	.052	.047	.065	.059	.056	(.03)	(.01)	.003	.070	.015	.015

Source: Research Data

Given that the government has been offloading their shareholding gradually in KCB, this has however resulted in a phenomenon that is different in those that were privatized rapidly. In that, by divesting 10% in 1988 and 20% in 1990 it resulted in positive improvement in ratios especially EPS, which increased consistently from 11.44 from 1993 to 22.29 in 1996 prompting the government to divest a further 10% in the same year and 25% in 1998. However, after that the ratios drastically became negative. For example, EPS resulted in a loss per share of 13 in 1999, 4.1 in 2000 and 20 in 2002. This negates the whole objective of privatization. Fortunately, the trend seems to have changed in 2003 and 2004, given that EPS was 3.06 and 3.94 respectively in the two years unlike the previous years, which were losses. Some data especially on GPM, NPR, CR, and LT/SF was not available. This is in line with commercial banks which do not report turnover and have little or no long-term debts in their financial structure justifying why the stated ratios could not be estimated.

Table 9: Housing Finance Corporation of Kenya.

	Pre						Post			
Ratios	'90	'91	'95	'96	'97	'98	'00	'01	'02	'03
GPM	.717	.082	.184	.174	.181	.151	0.00	0.00	0.00	0.00
NPR	.041	.049	.116	.108	.111	.101	0.00	0.00	0.00	0.00
ROCE	.285	.213	.289	.359	.370	.393	-.04	-.25	.100	.097
EPS	0.00	0.00	2.62	2.75	3.23	2.48	(.5)	(1)	.49	.45
AT	3.60	2.61	1.31	1.80	1.84	1.83	0.00	0.00	0.00	0.00
LT/SF	.020	.009	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ROA	.285	.213	.289	.359	.370	.393	-.04	-.25	.100	.097

Source: Research Data

It is clear from the above table that after the first divestiture in 1994 the company ratios improved. For instance the GPM increased from 0.082 to 0.184 and then it started decreasing to 0.151 just before the second divestiture in 1999 and NPR the same thing in that it increased from 0.049 to 0.116 and then decreased to 0.101. But after the second divestiture in 1999 the ratios dropped dramatically, for example EPS resulted into loss per share of .50 and 1.0 in 2000 and 2001 respectively unlike when they were stable between 1995 and 1998.

Table 10: National Bank of Kenya

	Pre						Post			
Ratios	'91	'92	'93	'94	'95	'96	'97	'98	'01	'02
ROCE	.022	.018	.012	.024	.035	.037	.021	(.11)	(.02)	.015
EPS	4.68	4.38	.81	1.80	1.85	2.51	1.94	(14.)	1.49	.99
DPS	1.55	1.25	0.25	0.10	1.50	0.00	0.00	0.00	0.00	0.00
TD/SF	13.8	13.59	8.95	5.010	5.10	6.66	8.34	62.35	12.56	12.16
ROA	.022	.018	.012	.024	.035	.037	.021	(.11)	(.02)	.015

Source: Research Data

From the above table it is evident that after the first divestiture of 1994 the company ratios improved. This can be seen through ROCE, which increased, from 0.024 to 0.035, EPS from 1.80 to 1.85, and DPS from 0.10 to 1.50. But after the second divestiture of 1996 the ratios decreased drastically heading to the negative. ROCE decreased to negative 0.02 in 2001 before increasing to positive 0.015 in 2002.Furthermore, TD/SF increased by almost 100% from 6.66 in 1996 to 12.16 in 2002.

This indicates that after the second divesture the firm performed dismally.

4.4 Comparative analysis

Table 11: Rapid Privatization analysis.

	PRE						POST					
Ratios	UCH	KQ	TPS	BOC	CMC	**AVE**	UCH	KQ	TPS	BOC	CMC	**AVE**
GPM	.125	0.00	.082	0.00	.034	**.058**	.093	.274	.786	.548	.177	**.376**
NPR	.045	0.00	.043	0.00	.015	**.029**	.060	.045	.094	.160	.030	**.083**
ROCE	.302	.155	.097	0.10	.039	**.097**	.280	.084	.076	.122	.065	**.125**
EPS	5.75	3.85	1.17	4.98	2.55	**3.138**	5.40	2.70	2.17	5.82	5.67	**4.352**
DPS	2.75	0.00	1.85	0.00	.85	**1.35**	3.25	6.63	1.08	4.06	.71	**2.24**
AT	3.50	0.00	.46	0.00	2.50	**1.48**	6.93	3.40	.685	.637	2.28	**2.896**
CR	2.34	1.32	.876	1.69	1.42	**1.326**	1.45	1.29	1.02	3.15	1.47	**1.675**
LT/SF	0.00	.215	.189	0.00	.014	**.139**	0.00	.928	.45	.45	0.16	**.491**
TD/SF	0.00	1.20	.819	1.27	1.18	**1.118**	0.00	1.77	.93	.67	1.22	**1.165**
ROA	.302	.155	.097	.10	.039	**.139**	.280	.084	.076	.122	.065	**.125**

Source: Research Data

From the above data, the financial ratios improved after privatization and this is exemplified by the following ratios; GPM increased from 0.058 to 0.376, NPR increased by over 168% from 0.029 to 0.083, ROCE/ROA from 0.097 to 0.125, EPS from 3.138 to 4.352, DPS from 1.35 to 2.24, AT from 1.48 to 2.89, CR from 1.326 to 1.675. Except for LT/SF and TD/SF, which increased marginally instead of reducing from 0.139 to 0.491 and 1.118 to 1.165 respectively.

Table 12: Gradual

	Pre				**Post**			
Ratios	KCB	NBK	HF	**AVE**	KCB	NBK	HF	**AVE**
GPM	0.00	0.00	.141	**.141**	.021	.003	0.00	**.012**
NPR	0.00	0.00	.088	**.088**	.019	.0015	0.00	**0.010**
ROCE	.056	.025	.009	**.030**	.011	(.022)	.012	**.0003**
EPS	18.54	2.67	1.814	**7.675**	(4.96)	2.423	(.053)	**1.295**
DPS	6.40	.93	0.00	**3.665**	1.00	0.00	0.00	**1.00**
AT	.055	0.00	1.694	**.875**	0.072	0.035	0.00	**0.054**
LTL/SF	0.00	0.00	.015	**.015**	0.927	0.00	0.00	**0.927**
TD/SF	0.00	8.000	0.00	**8.000**	8.26	23.85	0.00	**16.055**
ROA	.056	.025	.009	**.030**	.011	(.022)	.012	**.0003**

Source: Research Data

From the above-calculated ratios that were available for both before and after privatization, it is evident that ROCE/ROA decreased from 0.030 to 0.0003 after privatization, and EPS decreased from 7.675 to 1.295. Further, TD/SF increased by over 100% from 8.000 to 16.055 instead of reducing hence this negates the very need for privatization. In addition, TD/SF ratio doubled after privatization.

Table 13: Comparative analysis for both gradual and rapid, pre and post privatization.

	Pre		Post	
Ratios	Gradual 1	Rapid 1	Gradual 2	Rapid 2
GPM	**.141**	.058	**.012**	.376
NPR	**.088**	.029	**0.010**	.083
ROCE	**.030**	.097	**.0003**	.125
EPS	**7.675**	3.138	**1.295**	4.352
DPS	**3.665**	1.35	**1.00**	2.24
AT	**.875**	1.48	**0.054**	2.896
CR	**1.326**	1.326	**1.675**	1.675
LTL/SF	**.015**	.139	**0.927**	.491
TD/SF	**8.000**	1.118	**16.055**	1.165
ROA	**.133**	.139	**.0003**	.125

Source: Research Data

4.5 Hypothesis testing using Chi-Square Test

Ho: Performance of gradually and rapidly privatized companies listed in the Nairobi Stock Exchange is not significantly different.

HA: Performance of gradually and rapidly privatized companies listed in the Nairobi Stock Exchange.

Chi-Square Test
Table 14: Descriptive Statistics

Statistics

		GRADUAL 1	GRADUAL2	RAPID1	RAPID2
N	Valid	10	10	10	10
	Missing	0	0	0	0
Mean		2.194800	2.102860	.887400	1.352800
Median		.508000	.490500	.628500	.828000
Minimum		.0150	.0003	.0290	.0830
Maximum		8.0000	16.0550	3.1380	4.3520

Test Statistics

	Gradual1	Gradual2	Rapid2	Rapid1
Chi-Square	.778	.778	.800	.800

From the results of the Chi-square test it is evident that there is a strong positive relationship between both cases i.e. gradual and rapid privatization. However, rapid privatization has exhibited a higher strong positive relationship (0.800) as opposed to (0.778) for gradual privatization.

Therefore, from the findings of this research we can conclude that rapid privatization is better than gradual privatization hence in agreement with Lopez (1996) who said that rapid privatization is the best. Despite the fact that other factors might have had a great influence on the performance of firms like change of top management as put forward by (Lopez, 1999, Megginson, 1994) who asserted that executive changes leads to improved performance in organizations

CHAPTER FIVE: SUMMARY AND CONCLUSIONS, RECOMMENDATIONS AND SUGGESTIONS FOR FURTHER RESEARCH

5.1 Summary of findings and conclusions

5.1.1 Summary of Findings

The two main objectives of this study were to assess the rate of transfer of ownership of privatized public enterprises in Kenya, and to assess the relationship between the rate of transfer of ownership and the financial performance of privatized companies in Kenya.

To satisfy the objectives of the study, the secondary data was collected, by way of examination of the financial statements of the firms before and after privatization for a period of 15 years that is 1990-2004.The data was analyzed by comparing their financial ratios before and after privatization and conclusions drawn from the findings.

The research findings revealed that financial ratios of firms both pre and post privatization recorded improved performance.

In assessing the rate of transfer of ownership of privatized public enterprises in Kenya, they were classified into two groups, gradual and rapid. 62.5% of the firms were privatized gradually while 37.5% were privatized using rapid approach. In both cases there was a remarkable increase in the performance of privatized companies as measured by ratios of profitability, growth, efficiency, solvency and liquidity of the privatized firms. This in line with (Olajide, 2005), who argued that the key issue is how to implement privatization.

5.1.1.1 Rapid privatization

It is evident from the research findings that before privatization, financial ratios of most firms were decreasing, low or had stagnated but after privatization, there was a significant increase in literally all the financial ratios. For example there was an increase of 707% in gross profit margin (GPM) and 136% earnings per share (EPS) in the case of CMC holdings, 213% in asset turnover (AT) for Uchumi, 178% increase in return on capital employed (ROCE) for BOC just to mention but a few.

This in line with (Lopez, 1996) who argued that rapid privatization is the best approach. However, a notable observation is in the case of Uchumi and Kenya Airways. In the case of Uchumi the profitability, solvency and liquidity and operating performance ratios have not been consistent except for efficiency ratios. This may be attributed to the management strategy adopted by the two firms. Furthermore, this has resulted in frequent change in the CEOs, which has actually given some positive results in the two firms. This is indicated by the fact its ratios have increased consistently up to 2004. This is mainly attributed to CEO change.

5.1.1.2 Gradual privatization

In the case of gradual privatization, there has been mixed results in that they have record very low financial ratios after the second divesture. For example KCB made a loss per share of 4.96 between 1999 to 2002, HFCK in 2000 and 2001, and NBK in 1998.

In addition, the overall aggregate results of all the ratios decreased after privatization except for total debts to shareholders funds (TD/SF), which doubled after privatization. This negates (Olajide, 2005) who favours gradual privatization since he argues that firms that are privatized gradually will have enough time to develop appropriate regulatory framework as compared to rapid privatization.

The dismal performance of gradually privatized firms is further confirmed by the hypothesis testing using chi-square, which indicates that despite the fact that there is no significant relationship between gradual and rapid rate of privatization, gradually privatized firms are performing relatively poorly as compared to rapidly privatized firms.

5.1.2 Conclusion

From the chi-square test it is evident that there is a strong positive relationship in performance of firms that were privatized rapidly. This is supported by chi-square value of 0.80. However, in the case of gradually privatized firms the chi-square value is 0.788, which shows that there is a strong positive relationship.

This study is therefore in agreement with (Chong, 2003) who stated that profitability of firm's increases significantly after privatization and (Cooper, 2004) who favours a middle ground by advocating for inducing behavioral changes in the public firms after privatization. He went further to elucidate that implementation strategy adopted by the government does not matter if firms behaved exactly in the same way under any ownership form. Therefore, we conclude that this study falls under this category as these enterprises as a whole posted substantial performance gains in terms of terms of increases in profitability, liquidity, solvency and operating ratios.

5.2 Limitations of the study

The change of reporting standards given that initially companies in Kenya used to be preparing their financial statements in accordance with Kenya Accounting Standards (KAS), while currently financial statements are prepared in accordance with International Accounting Standards (IAS). In both cases some elements were excluded which were crucial in calculating the various financial ratios.

Furthermore, some companies for example CMC holdings reported their results in Kenyan pounds and in accordance with their parent company format/specification.

Few companies (only eight) have been privatized through the stock exchange, thus the results might not be conclusive. A number of firms in Kenya have been privatized and if all were considered in the study, then the conclusions may be different.

Categorization into rapid and gradual was challenge where the researcher ended up relying on the number of times the company had issued shares as an indicator of how rapid or gradually the process was undertaken.

In addition, there was lack of sufficient documented data from the stock exchange and capital markets authority regarding the percentage of shares the government divested over the years in the case of gradual privatization approach. Hence forcing the researcher to gather the information from the individual firms. Furthermore, even these firms lacked a clear mechanism of obtaining the data.

5.3 Recommendations to Policy makers

There is need to harmonize the presentation of financial statements in accordance to international Accounting Standards (IAS) as is currently with most firms to enable comparison between firms and for the same firms over a duration of time. This eliminates the need to restate or prepare the financial statements again to allow comparison.

Furthermore, there is need for government to ensure that whenever firms are privatized they use the rapid approach to eliminate any further political interference in the firms. Since, previous research has shown that politicians use such firms for political expediency by for example employing their relatives and supporters.

5.4 Suggestions for further research

It is therefore suggested that further research be carried out on specific sectors of the economy like banks because they seem to share common problems. This is clearly indicated by the fact that after privatization both the two banks KCB and NBK had a lot of unsecured and unserviced loans, which ended up straining its operational efficiency. Hence, there is need to do a research focusing specifically on the implications of unsecured loans in privatized banks whether they were privatized gradually or rapidly.

Furthermore, there is need to do a research on the effects of management and CEO change in privatized firms as some firms may have performed poorly due to the strategy adopted by its management. A case in point is Uchumi and Kenya Airways, which showed improved performance after CEO change.

In addition there is need for a research that focuses on the specific sectors of the economy. For example in the case of Uchumi, it was almost a monopoly in the early 80s to the late 90s before entry of competitors like Nakumatt and other small super markets like Tusker Mattresses. Hence, this partly explains why they are performing dismally even after privatization, since they are facing stiff competition.

This also applies to tradition banks like KCB and NBK, given that apart from stiff competition from big banks like Barclays and Standard Chartered, there are new entrants in the industry like NIC, CFC, Stanbic, Commercial Bank of Africa among other banks who are determined to create a market niche for themselves.

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ANNEX 1

LIST OF PRIVATIZED FIRMS THROUGH THE NAIROBI STOCK EXCHANGE

1) Kenya Commercial Bank Ltd
2) Housing Finance Company of Kenya Ltd
3) Uchumi Supermarkets Ltd
4) British Oxygen Companies (BOC Kenya) Ltd
5) National Bank of Kenya Ltd
6) Kenya Airways Ltd
7) C. M. C Holdings Ltd
8) Serena Hotels Ltd

ANNEX 2

SOURCE DATA FOR THE EIGHT (8) FIRMS

KENYA AIRWAYS

Years	1995	1996	1997	1998	1999	2000
Profit before Tax	885,558	1,999.726	1,090,100	1,436	1,425	2,853
Profit after Tax	2,136,791	1,419.091	851,568	1,314	1,207	2,922
Fixed Assets	4,078,117	4,530,095	5,691,680	7,348	11,244	10682
Current Assets	3,827,418	5,436,178	4,526,182	4,904	6.096	12,258
Total Assets	7,905,535	9,996,273	10, 217862	12,252	17,340	22,940
Current Liabilities	3,827,418	5, 436,178	4,526,182	4,3763	3,74	7,673
Net Current Assets	694,226	1,613,373	1,043,753	6,507	2,122	
Long-term loans	1,105,851	681,079	1,787,800	3,122	4,526	8,003
S/holders funds	6,912,818	2,510,949	5,921,253	6,507	7,689	7,738
E.P.S Before Tax	1,92	4,33	2.36	3,11	3,09	6,18
E.P.S after Tax	4,63	3,07	1.84	2.85	2.45	6.33
D.P.S			0.75	1.00	-	-
Dividend			346	461		577

Kenya Airways

Year	2001	2002	2003	2004	2005
Turnover	22,525	25,165	27,461	30,421	42,234
Gross Profit	6,107	6,557	6,639	8,983	13,169
Profit before Tax	2,044	1,059	547	2,075	5,520
Net Profit	1,357	868	345	1,302	3,882
EPS before tax	443	2.29	1.18	2.82	8.40
EPS before tax	577	2.77	231	6.75	1.25
Dividend	12,576	13,734	17,873	22,908	33,260
Fixed Assets	23,267	22,170	24,255	29,408	44,822
Current Assets	10,691	8,436	6,382	6,500	11,562
Shareholders Funds	7,925	7,444	7,338	8,420	12,329
Long-term liabilities	8,664	7,659	9,551	13,502	18,490
Current Liabilities	6,678	6,848	7,366	7,468	13,992
No. of shares		461,615,483			
Dividend Per				0.5	0.75

Share					
Net Assets	16.589	15,322	16,889	21,940	30,830

Note: All figures are in Kshs Million, except EPS and DPS, which are ratios and number of shares that is in thousands

.

UCHUMI SUPERMARKETS

	1993	1994	1995	1996	1997	1998	1999
Turnover	1,975,657	3,109556	4,654,426	5,176,699	5,968,031	5,176,699	5,968,03
Profit before Tax	271,064	418,997	352,386	405,777	364,085	485,354	375,097
Profit after tax	190,132	270,210	210,808	259,589	224,948	312,612	244,389
Dividend	160,000	200,000	206,000	200,000	201,000	225,000	180,000
EPS	4.07	6.2	6.76	5.27	6.48	3.75	5.21
S/holders funds	485,719	555,929	566,737	626,326	650,274	337,886	802,275
Fixed Assets	126,319	237,593	265,642	261,123	219,366	507,934	473,477
Current Assets	800,043	897,683	977,043	1,090,860	1,281,852	1,351,778	1,339,73
Current liabilities	440,643	579,347	675,948	741,841	979,396	1,121,829	1,010,94
Net Current Assets		359,400	318,336	301095	349,019	302,456	229,952
Total Assets	1,813,215	926,362	1,135,276	1,242,685	1,351,983	1,501,218	1,859,71

Note: All figures are in Kshs Million, except EPS and DPS, which are ratios and number of shares that is in thousands

1997 EPS = Kshs 224,948,000/60,000,000 shares

= 3.74

1998 EPS = $\frac{312,621,000}{60,000,000}$

= 5.21

1999 – EPS = 224,389,000

(1998: 312,612,000) and 60,000,000 shares in issue at 30th June 1999

KENYA COMMERCIAL BANK (KCB)

After **Before**

Advertised in 1998 Government 60%
35%
Ordinary shares 28,050,000 - 65/= 40%
65%

Government Holding Government Divestiture

1997 31st 1988 20% 80%
EPS - Ksh 22.87 1990 10% 70%

DPS - Ksh 8.00 1996 10% 60%
Dividend cover Ksh 86 1998 25% 35%
Net Asset Value per share Ksh 87.40

Kenya Commercial Bank (KCB)

	1997	**1996**	**1995**	**1994**	**1993**
Profit before tax	4,122.661	4,045,520	3,786,733	2,887,146	2,041,324
Taxation	1,556,249	1,544,587	1,410,923	1,157,300	758,,039
Profit after Tax	2,566,412	2,500,933	2,372,810	1,679,846	1,283,285
Dividend	897,600	785,400	504,900	324,500	280,750
Dividend Cover	2.9	3.2	4.7	5.2	4.7
Adjusted EPS	22.87	22.29	21.15	14.97	11.44
Income	17,041,026	15,914,484	12,320,088	11,039,831	6,888,978
No participating shares	112,200,000	841,150,00	841,150,00	841,150,00	841,150,00
DPS (Kshs)	8	7	6	6	5

Adjusted EPS figures are computed using 112,200,000 ordinary shares.

. **Kenya Commercial Bank (KCB) Balance Sheet Items**

	1997	1996	1995	1994	1993
Current Assets					
Other Assets	19,039,197	17,891,614	16,729,811	18,141,420	13,915,841
Total Assets	73,535,223	68,238,617	57,930,778	60,608,164	39,503,148
Total other	7,236,096	5,561,926	5,470,129	7, 636,330	4, 939,279
Capital	9,806,502	8,139,286	6,423, 753	4,555,675	3,196,947
Fixed Assets	2,811,794	2,644,005	2,333,048	1,940,067	1, 196,947
C.A.	51,684, 232	47,652,998	38,867,919	40,526,677	725,834

The Bank has continued to record impressive pre tax profits in the last 5 years. In 1997 it was 4,122, 661,000 representing 98% increase over the 1993 of 2,041,324,000. The increase has been gradual over the last five the year period. The adjusted EPS was continuously improved and a level of Ksh 22.87 was recorded in 1997, compared to Ksh 11.44 realized in 1993. The Net Asset value per share by end of 1997 was 87.40, which is 20.5% increase over the 1996 value.

Kenya Commercial Bank (KCB)

	2000	1999	2001	2002	2003	2004
Total Assets	74, 104,539	75,260,365	64, 984,079	59,754,869	60,488,155	69,600,167
Fixed Assets	2,832,608	3,226,063				
Total Liabilities	65, 710,185	66,499,134	56,826,404	54,487,414	54,905,745	61,020,008
Share Capital	1,122,000	1,122,400				
Reserves	7,222,354	7,719,231				
Shareholders	8,394,354	8,841,231	8,157,675	5,267,455	5,582,410	8,580,159
Interest Income	8.785,274	10,452,739	6,608,506	4,735,345		
Interest Expense	(4,342,316)	(5,084,686)	(2,511,504)	(1,767,455)	(944,043)	(388,276)
Loss before Tax	(765,631)	(2,244,854)	(182,958	(4,178,557)	(877,012	(1,073,467)
Tax	301,162	690,189	12,686	1,177,918	(264,631)	(286,416)
Loss after tax	(464,469)	(1,554,665)	195,644	(3,000,639)	612,441	787,051
Loss per share	(4.14)	(13.86)	1.31	(20.06)	3.06	3.94

Note: All figures are in Kshs Million, except EPS and DPS, which are ratios and number of shares that is in thousands

NATIONAL BANK OF KENYA (N.B. K.) - 200,000,000 ordinary shares

	1999	1992	1993	1994	1995	1996
Total Assets	9,687,598	10,690,526	12,824,654	17,565,949	18,256,865	24,447,179
Fixed Assets	351,764	373,835	406,364	1,049,556	1,103,705	1, 215,497
Total Liabilities	9,033,019	9,957,725	11,535,418	14,643,360	15,264,055	21,256,468
Dividends	31,250	62,500	93,750	51,250	218,439	431,302
Net Assets	654,579	732,801	1,289,236	2,922,589	2,992,810	3,190,729
S/holders funds	654,579	732,801	1,289,238	2,922,589	2,992,810	3,190,729
E. P. S	468	438	0.70	1.80	1.85	2.51
Profit before tax	215,858	196,102	150,297	429,253	633,379	903,826
Profit After tax	116,945	109,471	87,685	247,252	370,221	502,336
DPS	1.55	1.25	0.25	0.10	1.50	
Dividends	38,750	1,250	31,250	20,000	300,000	300,000

	1997	1996	1998	2001	2002
Fixed Assets	31,090,007	24,447,197	25,762,640	23,304,862	25,230,980
Fixed Assets	1,219,780	1,215,497	1,299,973		
T/Liabilities	27,761,586	21,256,468	25,355,992	21,586,231	23,313,591
Net Assets	2,328,421	3,190,729	406,648	1,718,631	1,917,389
S/h funds	2,328,421	3,190,729	406,648	1,718,631	1,917,389
Profit			(2,821,722)	(322,580)	390,142)
Profit before tax	650,059	903,826			
Profit after tax	387,692	502,334	(2,821,773)	298,868	198,758
Dividend	250,000	300,000	100,000		
EPS	1.94	2.51	(14.11)	1.49	0.99
Interest Expense				(992,805)	(1,095,366)

Note: All figures are in Kshs Million, except EPS and DPS, which are ratios and number of shares that is in thousands

HFCK

	1990	1989	1991	1999
Fixed Assets	236,637,703	85,698,761	238,950,015	539,652,118
Net Current Assets	208,553,632	239,474,319	335,624,379	13,061,147,000
Long-term Loans	4,289,782	5,530,548	3,021,604	
Gross Revenue	841,885,140	439,382,116	874,450,641	
Profit before Tax	60,372,431	27,307,200	71,808,171	114,315,839
Profit After Tax	34,355,111	8,835,812	42,405,752	70,684,810
Dividends	4,000,000	4,000,000	28,000,000	
Share Capital	20,000,000	20,000,000	140,000,00	575,000.00
Reserve	191,716,761	27,485264	337,182,385	866,595,810

HFCK

	1995	1996	1997	1998
Income	1,558,041,980	2,350,621,273	2,671,382,248	2,820,264,253
Profit before Tax	286,539,730	407,893,419	4,83,337,034	428,246,959
Profit after Tax	180,966,153	252, 876,696	297,127,312	285,734,461
Dividends	69,000,000	115,000,000	138,000,000	172,500,000
EPS	2.62	2.75	3.23(2.58)	2.48
Fixed Assets	543,144,339	548,830,152	543,581,887	532,671,240
Net Assets	1,190,558,766	1,307,959,709	1,456,033,747	1,544,198,933
Share Capital	345,000,000	460,000,000	460,000,000	575,000,000
Reserves	646,157,773	676,672,599	844,828,236	843,821,842
Operating Profit			543,235,770	572,622,757

HFCK

	2000 ('000)	2001 ('000)	2002	2003
Interest Expense	(1,159,358)	(921,961)	(623,933)	401,203
Profit before tax	78,618	(254,946)	951,318	98,011
Profit after Tax	52,223	(185,724)	55,851	51,847
EPS	0.45	(1.60)	0.49	0.45
Total Assets	13,134,215	11,828,590	10,445,217	10,764,533
Share capital	575,000	575,000	575,000	575,000
Reserves	759,195	440,620	382,353	434,200
Dividends Payable	95,634	96,293	96,293	96,293
Dividend Proposed	575,000	-	-	-

Note: All figures are in Kshs Million, except EPS and DPS, which are ratios and number of shares that is in thousands

C. M. C HOLDINGS

	1993$	1992$	1991$	1990$	1998$
Revenue	100,890,706	91,798, 969	79,024,299	75,511,736	4,087,173
Operating Profit	2,715,499	2,457,132	2,632,489	3, 148,779	250,846
Profit after Tax	1,515,499	994,353	1,306,839	1,424,502	154,896
Total Dividends	688,353	550,632	475,530	409,015	12,410
EPS	2.69	1.98	2.59	3.0918.07	
Fixed Assets	16,846,993	15,949,029	16,562,865	17,052792	447,334
Current Assets	59,058,724	51,194,948	58,518,030	52,926,072	31,621,802
Current Liabilities	41,170,323	34,591,527	421,604,548	37,825,783	2,664,33
Share Capital				63,337	957,469
Reserves	35,269,760	33,191,718	32,613,434	32,089,744	1,360,924
Total Assets	751,905,717	67,143,977	751,080,895	69,978,846	4,069,136

C. M. C HOLDINGS

	2003	2002	2001	2000	1999
Revenue	4,493,092	4,552,390	4,224,218	4,112,378	4,203,586
Cost sales	(3,479,104)	(3,485,211)	(3,186,764)	(2,996,512)	
Gross Profit	1,013,998	1,067,179	1,037,454	1,115,886	
Operating profit	354,410	34,238	351,387	424,394	241,431
Profit before Tax	173,745	151,890	88,642	122,458	
Minority Interest	3,243	890	156	196	
Net profit	176,988	152,780	88,798	122,654	160,535
Dividends	24,280	24,280	18,210	18,210	18,210
EPS	7.30	6.30	3.66	5.05	6.61
Shareholders	2,302,311	2,196,912	2,059,289	1,959,441	2,150,686
Long Term debt	341,831	266,470	457,868	493,793	991,505
Fixed Assets	1,232,657	1,192,531	1,535,682	1,528,982	1,218,729
Current Assets	3,969,156	3,264,631	2,816,292	3,070,875	3,820,858
Current liabilities	2,576,423	1,992,289	1,832,436	2,144,068	2,819,586
Net Current Assets	1,392,733	1,272,342	983,856	926,789	1,001,272
Total Assets	5,201.813	4.457,162	4,351,974	4,599,839	5,039,587

Note: All figures are in Kshs Million, except EPS and DPS, which are ratios and number of shares that is in thousands

TPS Serena Hotels - Shares 38,731750

	2004	2003	2002	2001	2000	1999
Sales	1,672,490	1,217,130	1,450,158	1,473,952	1,404,798	1,187,792
Gross Profit	1,392,490	1,217,130	1,450,158	1,473,952	1,404,798	1,187,792
Operating profit	207,929	34,549	171,048	157,352	148,552	130,304
Profit before Tax	197,540	42,968	168,987	138,699	117,113	103,813
Profit after Tax	130,526	25,077	105,889	96,706	83,052	79,336
EPS	3.37	0.65	2.74	2.50	2.15	2.05
Dividend Proposed	42,547	42,547	42,547	42,547	42,547	38,679
Shareholders funds	1,091,639	1,003,660	1,021,130	935,891	947,619	903,246
Long-term Liabilities	328,514	386,893	390,668	450,790	340,875	300,052
Fixed Assets	1,355,278	1,321,342	1,351,584	1,357,256	1,336,850	1,183,331
Current Assets	699,241	667,298	771,208	648,434	549,095	382,975
Current Liabilities	634,366	598,087	710,994	619,009	597,457	363,008
Non-current Assets	64,875	69,211	60,214	29,425	(481,362)	19,967
Total Assets	2,054,519	1,988,640	2,122,792	2,005,690	1,885,951	1,566,306

TPS Serena Hotels - Shares 38,731750

	1998	1997	1996
Turnover	1,032,305	1,131,189	1,158,673
Profit Before Tax	89,216	88,490	98,789
Profit after Tax	66,362	45,314	52,673
Dividends	(38,679)	(381,680)	104,898)
Fixed Assets	643,155	652,151	696,717
Current Assets	302,735	277,581	302,489
Current Liabilities	342,244	293,933	373979
Non-current Liabilities	(39,509)	(16,352)	(71,490)
Long-term Liabilities	(52,312)	(101,938)	(98,000)
Shareholders Funds	561,544	533,861	527,227

Note: All figures are in Kshs Million, except EPS and DPS, which are ratios and number of shares that is in thousands

BOC

Year	1993	1992	1991	1990	1989
Net Assets	34,308,556	21,262,354	20,433,942	19,087,369	10,815,209
	4,386,177	3,93,999	3,823,597	2,583,136	2,288,406
Dividends	1,737,812	1,604,682	1,623,042	1,162,434	1,108,504
Profits	3,760,115	2,699,909		2,583,186	2,288,406
EPS	6.46	5.15		3.33	2.76
Proft after tax	2,648,365	1,789,317		1,420,752	1,179,902
Fixed Assets	28,690,689	5,680,790		16,569,87	8,940,058
	44,113261	26,922,655		23,996,707	
Current Assets	15,422, 572	11,241,865		7,426,832	6,208,429
Current Liabilities	9,804,695	5,660,121		4,924,338	4,348,278
Net Current Liabilities	5,619,877	5,581,744		2,502,494	1,860151
Net Assets	34,308,566	21,262,534		19,087,369	10,815,209
Shareholders Funds	34,308,566	21,262,534		19,087,369	10,815,209

	2000('000)	**2001**	**2002**	**2003**	**2004**
Sales of goods	504,923	551,103	608,672	637,786	687,095
Operating TI	73,413	96,777	136,535	148,675	189,324
Profit before Tax	110,159	118,175	154,990	210,720	220,980
Net Profit	74,715	75,050	105,491	152,619	160,117
EPS	3.83	3.84	5.40	7.82	8.20
DPS	3.55	3.55	4.35	4.35	4.50
Shareholders' Funds	980,671	986,406	1,006,873	1,009,479	1,076,803
Net Assets	1,1028,417	1,034,394	1,050,525	1,124,441	1,199,479

	2004	2003	2002	2001	
Sales	830,675	728,720	697,505	655,728	561,941
Gross Profit	482,502	424, 475	395,970	337,101	277,677
Dividends	87,865	84,936	84,936	69,315	69315
Shareholders' funds	1,153,363	1,074,556	1,006,873	986,406	980,671
Long-term Liabilities	1,199,479	1,124,441	43,652	43,159	47,746
Fixed Assets	672,264	590,513	556,447	571,825	520,635
	1,446,290	1,344,579	1,277,058	1,298,386	1,237,546
Current Assets	794,026	754,066	720,611	726,561	716,911
Current Liabilities	266,811	220,138	226,533	268,821	209,129

	1994	1995	1996	1997	1998	1999	2000
Net Assets	704,114	727,962	885,380	956,285	1,119,661	1,021,979	1028417
Dividends	51,972	54,623	65,410	65,410	68,339	69,315	69,315
Profit before tax	133,346	133,160	176,719	224,089	249,682	180,691	110,159
DPS	3.22	2.81	3.35	3.35	3.50	3.55	3.55
S/holders Funds	704	728	885	956	1,120	1,022	1,028
E.P S	3.54	3.98	6.17	6.98	7.81	5.75	3.83
Profit after tax	69	78	121	136	153	112	75

Note: All figures are in Kshs Million, except EPS and DPS, which are ratios and number of shares that is in thousands

ANNEX 3

CHI-SQUARE TEST

In carrying out the analysis, chi-square was calculated to test the correlation between the financial performance of those firms which were privatized gradually and rapidly. In this case, we are comparing the observed ratios after privatization with those before privatization. The expected frequencies after privatization are assumed to be equal. In other words, we are testing the hypothesis that the two methods of privatization (gradual and rapid) will have the same ratios i.e. the change in ratios like GPM and NPR will be the same.

Chi-square has been chosen because it is appropriate for comparing two or more related samples.

Descriptive Statistics

Statistics

		GRADUAL 1	GRADUAL2	RAPID1	RAPID2
N	Valid	10	10	10	10
	Missing	0	0	0	0
Mean		2.194800	2.102860	.887400	1.352800
Median		.508000	.490500	.628500	.828000
Minimum		.0150	.0003	.0290	.0830
Maximum		8.0000	16.0550	3.1380	4.3520

Test Statistics

	Gradual1	Gradual2	Rapid2	Rapid1
Chi-Square	.778	.778	.800	.800