THE EFFECT OF PRIVATIZATION ON THE PROFITABILITY OF COMMERCIAL STATE CORPORATIONS IN KENYA

BY

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DECLARATION

This research project is my original work and has not been submitted in any institution of higher learning for examination or award of a degree. Proper citation and referencing has been done to acknowledge the works of authors whose material has been referred to in this paper.

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

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DEDICATION

I dedicate this work to my family and all those who supported me in the completion of this project. Thank you and May God bless you abundantly.

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LIST OF ABBREVIATIONS

CSC- Commercial State Corporations

GDP- Gross Domestic Product

LDC- Low Developing Countries

NSE- Nairobi Securities Exchange

SOE – State Owned Enterprises

SOFs- State Owned Firms

ABSTRACT

Many state corporations in Kenya have been registering deteriorating performance in terms of profitability mainly attributed to poor management. This is in spite of the massive budgetary allocation to these corporations by the government. This has called for structural reforms in key government parastatals and government institutions. Privatization of commercial State Corporation requires dramatic changes. Managing such a radical change requires the presence of a catalyst having the vision and stamina to bring the transformation needed for greater profitability. The main objective of this study was to determine the effect of privatization on the profitability of commercial state corporations in Kenya. This study adopted an ex-post facto design. Ex-post facto research design is systematic and empirical inquiry in which the independent variables have already occurred and are not manipulated by the researcher. The target population of this study was drawn from 102 privatized commercial state corporations in Kenya as at 31st December 2014 as shown in Appendix I. This study relied on secondary data. Secondary data was obtained from published accounts of the firms. The published accounts provided information on Return on Return on Equity (ROE) and operational costs. Data on percentage of government ownership in privatized commercial state corporations was obtained from the privatization commission of Kenya. Data on market share and state of the economy of privatized commercial state corporations was obtained from the Competition Authority of Kenya. Descriptive statistics was used to describe and make sense of the data. The descriptive statistics included frequencies, percentages and means and standard deviations. Multiple Regression analysis was used to analyze the relationship between privatization and profitability of commercial state corporations in Kenya. The study asserted from the findings that profitability of commercial state corporations in Kenya improved after privatization. This can be explained by, first and foremost privatization reduced the government expenditure due to the withdrawal of direct subsides. Prior to the privatization process, there was a physical drain on the national treasury as the government was heavily subsidizing commercial state corporations to stand on their own, for instance, exempting them from import duties. In this there was increased financial efficiency and high profitability. Secondly, privatization of commercial state corporations led the management to focus on profit goals because now under private ownership, they were directly supervised by shareholders. That is why the change in ownership from public to private resulted in an increase in the profitability of commercial state corporations. The study concluded that there were positive improvements in the performance of commercial state corporations in Kenya in terms of profitability. In general the results concur with empirical literature that states privatization improves the performance of privatized companies in terms of profitability and financial efficiency. While the causes of such satisfying outcome most expect further empirical analysis, there is evidence to suggest that such causes may include but not limited to adequate finance, decrease in production cost and management efficiency. Based on the findings, this study recommended that the government should privatize poorly performing enterprises as it can greatly benefit from privatizing commercially oriented enterprises.

CHAPTER ONE: INTRODUCTION

1.1 Background to the Study

Privatization is positively linked with hardened firm budgets and the extent of market liberalization, but its constrained by excessive debts and work redundancy. Firm efficiency and state owned enterprises; financial liabilities imposed on local governments are not factors of influence (Guo and Yao, 2005).Privatization represent a potential revolution in the role of government in promoting economic growth and development. This revolution gained force in the 1980's and continues to gather momentum (Kikeri, Nellis & Shirley,1992).

The privatization movement set in motion by the Reagan administration in the 80s in the United States appears to have started a global trend of restoring the free enterprise spirit (Dhameja and Sastry, 1998).The economic benefits of privatization are now widely accepted and can include improved enterprise efficiency and financial performance, developing a competitive industry which serves consumers well, accessing the capital knowhow and markets which permit growth ,achieving effective corporate governance ,broadening and deepening capital markets and securing the best possible price for sale (Kikeri et al., 1992).

Boubakri and Cosset (1994) notes that privatization has turned into a major phenomenon for the developed world, particularly so over the last decade, with SOEs being privatized at an increasing rate. Ramamurti (1991) notes that the objectives of privatization are numerous; these objectives include improving government cash flows by reducing subsidies and capital infusions to SOEs, acquiring efficiency in resource utilization, increasing profitability, promoting popular

capitalism through a wider ownership of shares, restraining the power of trade unions in the public sector, redistributing incomes and rents within society, satisfying foreign donors by reducing the government's role in the economy and especially enhancing the efficiency and the performance of the SOE sector based on the rationale that the private sector outperforms the public sector.

1.1.1 Privatization

According to Megginson and Van (2004), privatization can be defined as the process of transferring productive operations and assets from the public sector to the private sector, it is much more than selling an enterprise or corporation to the highest bidder. According to the guidelines given by the World Bank and the IMF, privatization is only deemed to have occurred when the government reduces its shareholding in the corporation to 25% or less (World Bank, 1995).

Elsewhere, Nyong'o (2004), defined privatization as the generic term used to describe a range of positive initiatives meant to alter ownership or management away from the government in favour of the private sector. Despite modern privatization being associated with the Thatcher government in the United kingdom, the first large scale sale occurred in 1961, when the Federal Republic of Germany sold a majority stake in Volkswagen in a public issue heavily tilted towards small investors.

There are a number of ways to privatize state owned corporations in Kenya which include: sale of shares, where the government will sell off its shares through methods like competitive sale,

public floatation and pre-emptive rights, sale of assets using ways like open tenders, public auction, direct sale and liquidation of assets, management buyouts and employee buyouts, transfer of assets and shares, equity dilutions, joint ventures, restitutions and management contracts (Oliver and Bhatia, 1998).

1.1.2 Profitability

Profitability is the quality of affording gain or benefit or profit. Return on sales, return on asset and return on equity are the indicators used to measure profitability. Most studies find that privatization has a positive impact on the profitability of firms. The firms in these studies have had a majority of their assets privatized and control rights have been transferred from the government to private owners (Megginson & Netter, 2001).

Estrinand Perotin (1991) argues that with the government as owner, the business will not concentrate on profit maximization since the government has both political and economic objectives that are different from those of commercial firms and that corporate performance in such firms will be inferior due to weaker governance arrangements.

Shleifer and Vishny (1998) show that private ownership is favored to government ownership because the government extorts firms to the merits of politicians and bureaucrats.Megginson and Netter,(2005) concluded that the weight of empirical research is now decisively for the proposition that privately owned firms are more efficient and more profitable than otherwise comparable to government-owned firms. The main assumption is that privatization generates sufficient funds and that the privatized enterprise, apart from being large, continues to operate

efficiently post privatization and that the divestiture price at least equals the government's investment in the enterprise; the proceeds are used for repaying a corresponding amount of public debt. This has led to increased interest in disassociation of the state from production of goods and services, (World Bank, 2005).

Profitability in commercial state corporations will be measured in terms of Return on Investment, Return on Equity and Return on Sales. Return on Investment measures the return available to providers of long-term capital to the organization, including both debt and equity capital. It is intended to examine the return available to all capital providers, so it is generally inappropriate to use net income after the effects of interest expense (Carton and Hofer, 2006).

According to Tonchia and Quagini (2010), return on equity is the ratio between profit and equity and it mainly interests shareholders. The Stakeholders earn a return on investment after all other resource providers to the organization, including employees, vendors, lenders, preferred stakeholders and the government have been compensated, thereby making the common stakeholders residual claimants (Carton and Hofer, 2006). Return on Sales measures the percentage of sales retained as profits and is also known as net profit margin. Return on Sales is influenced by the financial structure of the organization since net income is calculated after interest expense. Those firms that are more highly leveraged relative to their peer group, all other circumstances being equal will have a lower return on investment because of higher interest expense (Carton and Hofer, 2006).

1.1.3 Effect of Privatization on Profitability

Yarrow (1986) notes that as firms move from public to private ownership, their profitability should increase; first, given that shareholders wish the firm to maximize profit, newly privatized firms' managers should place greater emphasis on profit goals. Secondly, privatization typically transfers both control rights and cash flow rights to the managers who then show a greater interest for profits and efficiency relative to pleasing the government with higher output or employment.

Boycko et al., (1993) states that following privatization; firms should employ their human, financial and technological resources more efficiently because of a greater stress on profit goals and a reduction of government subsidies. They also predict a fall in output since the government no longer subsidizes the newly privatized firm to maintain inefficiently high output levels.

Megginson, Nash & Netter (1997) carried out a study that compared the pre- and post-privatization performance of 61 companies in 18 countries and 32 industries; it showed a significant increase among newly private firms in profitability, output per employee, capital spending, and employment. It also found that the financial policies of these firms start to resemble those typically associated with private entrepreneurial companies with lower leverage and higher dividend pay-out ratios. The study was able to rule out price increases as a frequent source of profitability increases. It also showed that privatization has a positive effect on a firm's operating and financial performance while maintaining employment.

Megginson and Van (2004) notes that governments expect that greater emphasis on efficiency will lead the newly privatized firm to increase its capital investment spending. Once privatized, the firm should also increase its capital expenditures because it has greater access to private debt and equity markets and it will have more incentives to invest in growth opportunities. It should also increase output because of greater competition, better incentives and more flexible financing opportunities.

Megginson (2005) believe 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 markets. The author's further notes that with privatization, dividend payments should increase because unlike government, private investors generally demand dividends and dividend payments are a classic response to the atomized ownership structure which most privatization programs led to. Kikeri et al., (1992) assert that governments expect the level of employment to decline once the SOF, which is usually overstaffed, turns out private and no longer receives government subsidies. However, in growing sectors, the newly privatized firm could absorb surplus labour through new capital investment and more productive use of existing assets. Privatization as an economic development policy is currently in progress world over.

Megginson (2005) also argued that the impact of privatization is increasingly related to performance; while it did not have a significant impact on profitability it increased operating efficiency, reduced employment at firm level and decreased fixed assets Clarke & Pitelis, (2003)

also argued that based on mainstream economic theory, markets allocate resources efficiently without state intervention as long as market failure does not exist which is caused by externalities, public goods and monopolies.

1.1.4 Commercial State Corporations in Kenya

From 1963 when Kenya achieved political independence up to 1979 a comprehensive review of the State Corporations sub-sector was carried out, the Government's participation in commercial activities grew rapidly and broadly resulting in state dominance in various forms in many commercial activities. The establishment of the parastatals was driven by a national desire to accelerate economic social development; redress regional economic imbalances; increase Kenyan Citizen's participation in the economy; promote indigenous entrepreneurship; and promote foreign investments through joint ventures, Sessional Paper on African Socialism and its application to planning in Kenya No. 10 of 1965.

Following the two reviews, a number of measures were put in place. One of the measures was the enactment of the State Corporations Act. However, although this was a major attempt to streamline the management of the state corporations, the performance of most of the corporations continued to deteriorate. One reason is the continued reliance on limited public sector financing. The state corporations continued relying on public sector financing which was not adequate to meet all the sector's needs. They continued to be financed from loans borrowed by the government and on lent or channeled to them as government equity; loans borrowed by the enterprises on government guarantees which in most cases ended up being repaid by the Treasury when the corporations defaulted; funds provided directly by

the Treasury as grants or equity; or through internally generated funds. A decade of Parastatal waste (2002).

The internally generated funds were, however, inadequate due to huge debt burdens, tariffs that were below cost recovery levels, over employment, which caused most of the revenue to be used in payment of salaries, non-viable ventures which siphoned away resources from the enterprises, corruption and mismanagement in general.

In addition most of the parastatals were under capitalization from the time of incorporation as they were mainly financed from loans without due regard to the establishment of a strong financial base. Most of them also continued to spread their resources thinly due to multiplicity of objectives and poor accountability. With inadequate resources the corporations were unable to reinvest to rehabilitate or modernize their operations. This led to poor service delivery and inability to extend services to new consumers including industries. The continued poor service delivery and lack of access in turn resulted in a vicious circle, which increased the country's cost of production, thereby affecting adversely Kenya's external competitiveness and leading to loss of jobs and of economic opportunities.

Some of the privatized state corporations in Kenya include: Kenya Airways (1996), Bamburi Cement (1995) and CMC Holdings (1995). In 1995, IFC successfully advised the Government of Kenya on the privatization of Kenya Airways. After selling 26 percent of the airline to a strategic partner, the frequency of the airline's flights grew by 61 percent in six

years, developing Nairobi into a regional hub. The sale was completed in December 1995 and the public offering in April 1996. The airline has been profitable ever since until recently when it started making losses due to its ambitious expansion strategy. CMC Motors Group Ltd is owned by CMC Holdings Ltd and was acquired by the Al-Futtaim Group in 2014. Other trading subsidiaries owned by CMC Holdings Ltd include: Cooper Motor Corporation (Uganda) Limited; Hughes Motors (Tanzania) Ltd and Kenya Vehicle Manufacturers Ltd. Since privatization CMC has been making profits.

1.2 Research Problem

Many state corporations in Kenya have been registering deteriorating performance in terms of profitability mainly attributed to poor management. This is in spite of the massive budgetary allocation to these corporations by the government. This has called for structural reforms in key government parastatals and government institutions, Barasa, (2013). Privatization of commercial State Corporation requires dramatic changes. Managing such a radical change requires the presence of a catalyst having the vision and stamina to bring the transformation needed for greater profitability (Goodman & Loveman, 2011). Some of the key commercial state corporations in Kenya, which have been privatized, include Kenya Airways, which was privatized in 1996, Bamburi Portland Cement Ltd which was privatized in 1991 and General Motors which privatized in 1997. Major reforms have been realized after privatization of these firms due to their improved financial performance in comparison to when they were fully state owned ,the state of Kenya's private sector, ADBG (2013).

Although a number of empirical studies have been conducted in order to measure the financial effects of privatization on the newly privatized firms throughout the world, little emphasis has been put on its effect on firm profitability. Research on privatization in emerging economies has not considered post privatization management practices of commercial state corporations nor have researchers examined the relationship between performances of newly privatized firms. Most work on privatization either takes the macro public view, usually aiming to demonstrate benefits of privatization to the public, (De Castro and Uhlenbruck, 1997).

Otieno (1998) did a study on the financial performance of newly privatized firms in Kenya. This study covered only a period of four years after privatization and the findings revealed the immediate benefits. Thus further research should be undertaken to determine the long term benefits. Mike (2003) analyzed the privatization of Kenya Airways and concluded that there is no universal formula for successful privatization and there is no well thought out policy for measuring performance pre and post privatization of firms listed on the NSE. Makokha (2013) while looking at the effect of privatization on financial performance of firms listed at the NSE did not emphasize much on profitability. It is in this regard that this study sought to address this knowledge gap by answering the question, “What is the effect of privatization on the profitability of commercial state corporations in Kenya?”

1.3 Objective of the Study

To establish the effect of privatization on the profitability of commercial state corporations in Kenya.

1.4 Value of the Study

Financial managers and directors of CSCs who may benefit from this study as it will enable them to convince the government to divest from state owned enterprises so that efficiency of the workforce increases and government expenditure is reduced or eliminated and replaced by revenue being generated.

The study may also benefit individual investors and investment firms who will be able to operate in a liberalized environment where there is information symmetry and they will strive to be competitive to ensure the state owned firms yield profitable returns on their investments.

This study paves the way for other researchers in this field towards identifying areas for further research. Academicians will therefore gain more knowledge on the success factors of privatization of SOFs. This will enable them to enhance their literature on the financial benefits of privatization state owned firms.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter involves a review of literature related to the current study. Its purpose is to examine whether the problem in question is related to any other study or written work in the same area of research. This summarized literature review helped to compare, contrast and clarify some important issues that have been observed by others.

2.2 Theoretical Review

Relevant theories on the privatization concept are productive efficiency theories, property right theory, agency theory as well as the theory of allocative efficiency.

2.2.1 Productive Efficiency Theory

Farrell (1985) contends that productive efficiency focuses on a decrease in the production costs, which can be achieved by a proper management and the right incentives. In this respect, neoclassical economists argue that private ownership stimulates the implementation of efficiency-enhancing policies. Principal-Agent relationships may be common in small firms, but in the large modern limited liability corporation the property rights are diluted. Diluted ownership reduces the control of owners over managers. As a result, managers have a considerable amount of freedom to back their own interests (Adam et al., 1992).

Moreover, the implications of ownership with respect to production and efficiency depend to a high degree on the nature of the business environment. These environmental factors have a considerably larger impact on firm performance than ownership. Therefore, apart from

ownership, these factors, including competition and regulation, have to be taken into account when assessing the privatization process (Brabant, 1995).

2.2.2 Property Right Theory

The property rights theory was developed by Harold Demsetz in 1967. He argued that the emergence of new property rights takes place in response to new cost-benefit possibilities as resource values change. He further indicated that property rights develop in a society when the benefits of having them exceed the costs of getting them.

Elsewhere, Vickers and Yarrow (1988) contend that property rights are instrumental in achieving both allocative and productive efficiency with respect to the use of firm resources. It is also argued that abolishing the public sector property rights has a positive impact on the productive performance and innovation of firms (Erbetta & Fraquelli, 2002).

Barzel (1989) points out that property rights are never entirely accounted for by the law, and that issues such as expropriation, free-riding, and eluding the law are quite common. In addition, Starr (1988) argues that the property rights school fails to recognize that the separation of ownership and management alters the nature and functioning of private firms. Further, property rights theory rules out the significance of aspects such as size, centralization, hierarchy, or leadership. Finally, it does not recognize the relationship between firm performance and the exchange of information or ambiguity about business goals. This theory is relevant to this study because when public entities are privatized the public sector property rights cease and the new

managers manage the resource in a better way hence increased performance. However, critics argue that privatization is not the answer to public sector problems.

2.2.3 Agency Theory

Jensen and Meckling (1976) developed the agency theory which addresses the relationship between a principal and an agent where the principal engages the agent to perform some service on their behalf which involves delegating some decision making authority to the agent. This happens because of the separation of ownership and control, when the owner of the company or the board of directors (the 'principals') have to employ managers ('agents') to run the business and need to monitor their performance to ensure they act in the owner's interest.

Agency theory states that agents act merely out of self-interest, and therefore incentives have to be offered that motivate them to adjust their aims to those of the enterprise. Agency theorists believe that privatization stimulates the design of new macroeconomic systems, including accounting systems (Macias, 2002). Further, privately owned firms are presumed to be governed by business goals and the capital market acts as a deterrent to managerial non-profit behavior (Ott & Hartley, 1991).

Critics argue that the empirical validity of the views on which this theory is based is dubious. Full information is hard to obtain in practice and thus information processing is highly complex. Moreover, internal conflicts undermine communication between organizational members. In addition, in LDCs the competitive markets are still poorly organized, and the economic relationships and motivations are much more complex than is being portrayed by the agency

theory. It is difficult to model them by means of this theory. For example, trust is not dealt with (Armstrong, 1991; Neu, 1991). Further, the relation between a manager's efforts and the output in terms of profitability is more difficult to determine than is being suggested in this theory.

2.2.4 Allocative Efficiency Theory

According to Adam et al., (1992) competition generated by private ownership is essential in achieving allocative efficiency, as during this process crucial information is revealed, which is required for an efficient use of a firm's input. If the level of competition is low, it will be more difficult to detect signals on the basis of which a proper input-output balance can be determined. In addition, due to managerial inefficiency or lower levels of demand, profits may decrease. Neo-classical economists claim that the allocative efficiency of public enterprises is poor because the politicians as well as the managers and workers are motivated by goals that do not correspond with the interests of the company. They also argue that an adequate allocation of resources will be stimulated by measures such as market pricing, the removal of import restrictions or quotas, the promotion of the private sector, the curtailment of government activities by closing state enterprises, and contracting out government functions to the private sector (Toye, 1994). The view is that private rather than public ownership will produce more efficient enterprises, beneficial to consumers, the industry, and the nation as a whole (see Donald & Hutton, 1998; Flemming & Mayer, 1997; Shaoul, 1997; Ogden, 1997; Adam et al., 1992; Goodman & Loveman, 1991).

Advocates consider privatization to be intertwined with public financing and allocative efficiency. In their view privatization reduces net budgetary transfers, eliminates possible external debt liabilities and decreases the adverse effects of deficit financing. Critics however, argue that the actual reality differs significantly from what is being claimed in most theories on privatisation. They argue that a broader range of issues have to be incorporated to achieve the desired results. Generally, it is believed that improved performance will result in both accounting practices that are more transparent and an increase in economic performance (Vickers & Yarrow, 1988), investments, Gross Domestic Product (GDP), productivity and employment. The assumption is that these improved management control systems and accounting techniques are suitable to be introduced in any privately-owned firm. There is however, little empirical evidence to support this notion, especially with respect to LDCs (Cook and Kirkpatrick, 1995). Some studies even doubt the relevance of improved performance in the case of LDCs.

2.3 Determinants of Profitability of Commercial State Corporation

Analysis of the determinants of corporate financial performance is essential for all the stakeholders, but especially for investors. The Anglo-Saxon corporate governance focus on maximizing shareholder value. This principle provides a conceptual and operational framework for evaluating business performance (Brief & Lawson, 2002; and Peasnell, 2006).

2.3.1 Market Share

Many state corporations enjoy monopoly and as such have little competition. If a firm has monopoly power then it has little competition, therefore demand will be more inelastic. This

enables the firm to increase profits by increasing the price. If the market is very competitive then profit will be low. This is because consumers would only buy from the cheapest firms. Also important is the idea of contestability. Market contestability is how easy it is for new firms to enter the market. If entry is easy then firms will always face threat of competition, even if it is just “hit and run competition” This will reduce profits (Kakani, 2001).

2.3.2 State of the Economy

Mathur (2007) contends that if there is economic growth then there will be increased demand for most products especially luxury products. For example manufacturers of luxury sports cars will benefit from economic growth but will suffer in times of recession.

A successful advertising campaign can increase demand and make the product more inelastic; however the increased revenue will need to cover the costs of the advertising. Sometimes the best methods are word of mouth.

2.3.3 Operational Costs

According to Bruton (2004), an increase in operation costs decreases profits, this could include labour costs, raw material costs and cost of rent. For example a devaluation of the exchange rate would increase cost of imports therefore companies who imported raw materials would face an increase in costs. Alternatively, if the firm is able to increase productivity by improving technology then profits should increase. If a firm imports raw materials the exchange rate will be important. A depreciation making imports more expensive. However depreciation of the exchange rate is good for exporters who will become more competitive.

A firm with high fixed costs will need to produce a lot to benefit from economies of scale and produce on the minimum efficient scale, otherwise average costs will be too high. For example in the steel industry we have seen a lot of rationalization where medium sized firms have lost their competitiveness and had to merger with others (Oyieke, 2002)

2.4 Empirical Review

This section highlights studies conducted by other scholars with regards to privatization and its effect on financial performance of organizations. The studies are chronologically arranged in terms of author, year of study, place of study, mode of study and the study findings.

2.4.1 Local Evidence

Naikuni (2004) and IFC (2010) successfully advised the Government of Kenya on the privatization of Kenya Airways. The sale was aimed at improving the performance of the airline. It is for this reason therefore that the government initiated a plan to privatize the airline where KLM Royal Dutch Airlines, an international airline, purchased 26% of the equity where the Kenyan Treasury received over US$70 million from the sale, 113,000 Kenyans bought 22% shares worth US$200, Kenyan financial institutions bought 12%, international financial investors 14%, and finally the Kenya airways employees acquired 3%. Naikuni further stated that after selling 26% of the airline to a strategic partner, the frequency of the airline's flights grew by 61% in six years, developing Nairobi into a regional hub and that the airline had been profitable ever since.

Makokha (2013) studied the effect of privatization on the financial performance of firms that are now listed at the Nairobi Securities Exchange. The study concluded that privatization had a positive impact on the financial performance of these firms as it increased their profitability and activity ratios. The results of the study also showed varied performance results from the other ratios.The study recommended that the managers of these SOEs should focus more on attracting foreign direct investments into the firm and the government should relinquishing all of their control on the privatized firms and let them operate on their own.

Mutugi (2013) conducted a study on the effect of privatization on performance of privatized public enterprises listed at the Nairobi Securities Exchange in Kenya. The study targeted public corporations that are privatized and listed at the NSE. The study relied on both primary and secondary data collected by use of questionnaires and published accounts respectively. Both descriptive and inferential statistics were used to analyze the data. The study findings revealed that privatized firms profits had increased as a result of proper corporate governance structures in place. Based on the study findings it was concluded that privatization had a significant influence on the performance of firms listed at the NSE.

Musomba (2013) also studied the effect of privatization on financial performance of state owned enterprises listed at the NSE. The study used the financial reports of the firms before and after privatization as the secondary data to address the study objectives. The study

established that privatization generally improved the firms' profitability, liquidity and working capital which are the main indicators of financial performance.

Mulaku (2014) studied the effect of privatization on the financial performance of the Kenyan Aviation industry with specific reference to Kenya Airways Limited. The study explored literature on the financial performance of Kenya Airways before and after it was privatized by analyzing financial statements throughout this period. The research findings revealed that to a larger extent, privatization has had a positive impact on the financial performance of the aviation industry.

2.4.2 International Evidence

Since the 1980s, privatization has been the most significant approach in global market reform. In general, privatization is associated with economic liberalization, free trade, competition and limited government intervention. In spite of the fact that it was introduced decades ago, there is not much documentation available about privatized firms, which is considered as a major concern (Adam et al., 1992). Only after a considerable time after their global introduction have researchers started to investigate the results and effects of privatization programmes.

Potts (1995) conducted research on denationalization and production efficiency in Tanzania. In two states the management of organisations had improved after privatisation, whereas in others it had declined. According to Potts there is a relationship between management decline and production performance. Further, Potts concludes that apart from some macro-economic benefits, a clear disadvantage of the privatisation process is the transfer of ownership to foreign-

based companies. When using size, market structure, industry trends and ownership as variables to investigate possible changes in performance.

Weiss (1995) found no significant evidence for the assumption that public enterprises perform less good than private companies. Moreover, he has found no proof that privatization measures increase economic efficiency. What Weiss' study does show us is that in particular branches, foreign-owned firms outperform national firms. Karatas (1995) compared pre- and post-privatisation firm performance in Turkey by using financial measures as point of departure. No significant differences were found. Although the theory suggests that privatization leads to the improvement of financial practices, researchers generally show little interest in finding empirical evidence that supports this assumption. The available evidence does not convincingly show clear improvements in the performance of enterprises as a result of privatization.

Juliet & Megginson (1996) compared 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 Earle and Estrin (1996) present empirical evidence that

privatization in Russia had an impact on enterprise efficiency, but domestic market structure and hardening of the budget constraints mostly had little effect. Later they found systematic effects of private ownership on several types of restructuring behaviour and on labour productivity (Earle & Estrin, 1997). A comparative analysis of economic performance of more than 2,000 Russian state-owned and privatized enterprises carried out by experts of Saint-Petersburg and Moscow showed that private enterprises were ahead of state-owned ones for basic economic indicators (Eio,et al.,1997). The difference was more significant for effectiveness of production and less for financial indicators.

Uddin & Hopper (2003) conducted a study in 13 privatized firms on the effect of privatisation on firm's returns in Mexico. The study findings revealed that returns did not increase; in fact, states revenues as well as employment decreased. In addition, transparency in external reports was not achieved, and some shareholders, creditors and tax collecting institutions were affected by wrongful transactions.

Boubakri (2004) examines the post-privatization performance of newly privatized firms in Asia and document how the private ownership structure evolves overtime. The authors show that privatization leads to increase in profitability, efficiency, and output in former state-owned firms from Asia. Employment increases but insignificantly. Compared to the related literature on the effects of privatization in developing countries, results from this study indicate that performance improvements in Asia where most firms are partially privatized are less significant than those documented in other studies. This study finds that higher improvements are associated with

certain aspects of corporate governance and the economic environment: For example, a friendly institutional environment, lower political risk, more developed stock markets and involvement of foreign investors, are important determinants of performance improvements after privatization. Finally, the study shows that governments generally do not relinquish control and private ownership concentrates overtime, but by far less than what is observed elsewhere in developing countries.

Gupta (2004) conducted a study on partial privatization and firm performance in India. He used data from Indian state owned enterprises and found that partial privatization has a positive impact on profitability, labour productivity and investment spending. On the other hand, he found no evidence that firms are chosen for privatization because of unusually bad performance in the previous year. His analysis confirms the argument that the most profitable enterprises are usually the first to be privatized as with the case in Indian oil and gas companies. He also documents that privatization and competition are not substitutes in their impacts on firm performance. His results supports the hypothesis that partial privatization address managerial rather than the political view of inefficiency in state-owned enterprises.

Jones (2009) undertook an impact study applied to 81 privatizations to determine the effect of privatization of firms in Cote d'Ivoire and concluded that firms performed better after privatization and that they performed better than they would have had they remained under public ownership. The study also found that the set of transactions as a whole contributed positively to economic welfare, with annual net welfare benefits equivalent to about 25% of pre-

divestiture sales. These results stemmed from a number of effects, including increases in output, investment, labour productivity, and intermediate-input productivity.

Cook and Uchida (2014) studied on the effects of privatization on economic growth in developing countries. The findings suggest that there is a robust negative correlation between privatization and economic growth in developing countries. Since the theory predicts a positive correlation between privatization and economic growth, something is possibly lacking from the model specifications. This can provide powerful insights in the methodology of future studies .Their study largely eliminates the possibility that the privatization variable captures other economical changes. Perhaps, as theory implies, it is possible that some of the success of privatization as a policy that promotes economic growth lays in the fact that privatization leads to other structural changes in the economy.

2.5 Summary of the Literature Review

This study is anchored on the productive efficiency theory, property rights theory, agency theory and allocative efficiency theory. The productive efficiency theory focuses on decrease in the production costs, which can be achieved by a proper management and the right incentives. However, these factors have a considerably larger impact on firm performance than ownership. Property rights are instrumental in achieving both allocative and productive efficiency with respect to the use of the firm resources. It is argued that abolishing the public sector property rights has a positive impact on the productive performance and innovation of firms. The general view of critics is that privatization is not the answer to public sector problems. The agency theory stipulates that agents act merely out of self-interest and therefore incentives have to be

offered that motivate them to adjust their aims to those of the enterprise. It is however argued that the relationship between a manager's effort and his output in terms of profitability is more difficult to determine than is being suggested in this theory. According to the allocative efficiency theory, competition generated by private ownership is essential in achieving allocative efficiency. However, there is little evidence to support this notion especially in developing countries (Cook and Kirkpatrick, 2005).

Most of the empirical studies done in the literature review view privatization as a way of gaining profit incentives, most of the studies reviewed focus on privatisation of companies in low developing countries (LDCs). The studies also focus more on how privatisation affects other performance comparatives ranging from employment, employee and sales efficiency, economic growth and welfare. Not many researchers have focused their studies on the effect of privatization on the profitability of former commercial state corporations. Most previous research was pegged on the efficiency and effectiveness of privatization in terms of how efficient service delivery was to the general public and as a way to reduce the ever bloating public service which consumes a lot of government expenditure in terms of salaries.It is therefore clear from the above empirical review that little has been done with regards to the effect of privatization on the profitability of former commercial state corporations. The review also reveals that there is a wide knowledge gap with regards to the effect of privatization on profitability of state owned firms in the Kenyan context. This study therefore seeks to address this knowledge gap by answering the question, what is the effect of privatization on the profitability of commercial state owned corporations.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research design, location of the study, target population, sample size and sampling techniques, research instruments, piloting of research instruments, validity and reliability of research instruments, data collection procedure and data analysis plan

3.2 Research Design

This study adopted an ex-post facto design. Ex-post facto research design is systematic and empirical inquiry in which the independent variables have already occurred and are not manipulated by the researcher. Borg and Gall (2010) define ex-post facto research as a systematic empirical inquiry in which the scientists does not have any control of independent variables because their manifestations have already occurred or because they are inherently not manipulable. Inferences about relations among variables are made without direct intervention from concomitant variation of independent and dependent variables. This research design was relevant because privatization of commercial state corporations which was the independent variable has already occurred. The design also determined the effect of privatization on the profitability of commercial state corporations.

3.3 Target Population

Target population consists of items or people under consideration in any field or enquiry (Orodho, 2009). The target population of this study was drawn from 102 privatized commercial state corporations in Kenya as at 31st December 2014 as shown in Appendix I.

3.4 Sample

Sampling is the process of selecting a sub set of cases in order to draw conclusions about the entire lot (Orodho, 2009) . Gay (2011) asserts that in descriptive research 30% of the population may be required for consideration of the study where the population is small. A sample of 31 privatized commercial state corporations was therefore recommended.

3.5 Data Collection

This study relied on secondary data. Secondary data was obtained from published accounts of the firms. The published accounts provided information on Return on Return on Equity (ROE) and operational costs. Data on percentage of government ownership in privatized commercial state corporations was obtained from the privatization commission of Kenya. Data on degree of competition and state of the economy of privatized commercial state corporations was obtained from the Competition Authority of Kenya.

3.6 Data Analysis

Data analysis is the process of bringing order, structure and meaning to the mass of information collected (Mugenda & Mugenda, 1999). The data obtained was edited for completeness before coding. Once coded the data was entered into the Statistical Package for Social Sciences (SPSS) version 20 computer package. Both descriptive and inferential statistics were used in this study. Descriptive statistics was used to describe and make sense of the data. The descriptive statistics included frequencies, percentages and means and standard deviations. Multiple Regression analysis was used to analyze the relationship

between privatization and profitability of commercial state corporations in Kenya. The research findings were presented using tables and graphs.

3.6.1 Analytical Model

This relationship was as presented in the following regression model:

$Y=\alpha+\beta_1X_1+ \beta_2X_2+ \beta_3X_3++ \beta_4X_4 + \varepsilon$

Where:

Y= Profitability as measured by ROE

α = constant (intercept)

β_1, β_2, β_3 and β_4 = slope (gradient) showing the rate at which the dependent variable is changing for each unit change in the independent variable.

X_1= Privatization as measured by ratio of government ownership

X_2 = Market share as measured by the ratio of the size of firms in relation to the industry

X_3= State of the economy as measured by the ratio of the gross domestic product

X_4= Operational costs as measured by the ratio of expenses which are related to the activities of the organizations under study

ε = Error term

Control Variable- Government Policy

3.6.2 Test of Significance

The p-values generated from the SPSS output was used to establish statistical significance. If the p-values are less than 0.05, then the findings are statistically significant at 95% confidence interval.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND INTERPRETATION

4.1 Introduction

This chapter presents findings from analyzed secondary data. Descriptive statistics and model results are presented. This chapter also includes results interpretation and summary of the findings.

4.2. Descriptive Statistics

Descriptive statistics presents the mean, maximum and minimum values of variables used in this study together with their standard deviations.

Table 4.1: Descriptive Statistics

	N	Mean	Std. Deviation
Privatization	31	50.7416	30.00629
Operational costs	31	9.8091	.55936
Market share	31	52.23	17.194
State of the economy	31	10.7849	.00000

Source: Research Findings

From the findings, the mean score for the 31 privatized state corporations in relation to privatization was 50.7416 percent with a variability of 30.00629 percent. In addition, the mean score for the operational costs was 9.8091 billion with a variability of 0.55936 billion. On the other hand, the mean score for the market share was 52.23 percent with a variability of 017.194 percent. Finally, the findings depict that the mean score for the state of the economy was 10.7849 billion with a variability of 0.00000 billion. The standard deviation

depicts a moderate variation in the variability of the market share and privatization of the state corporations while the standard deviation depicts a low variation in the variability of the operational costs and state of the economy of the state corporations. This implies that privatization led to an increase in market share and operational costs of the state corporations under study.

4.3 Inferential Statistics

4.3.1 Correlation Analysis

Table 4.2: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.569	6.599		0.995	.0361
	Privatization	.707	.005	.244	141.4	.0194
	Operational costs	-.160	.293	.101	.546	.00590
	Market share	.015	.010	.289	1.562	.0130
	State of the economy	.536	.567	.171	.994	.0361

a. Dependent Variable: Profitability

Source: Research Findings

Table 4.4 interprets the standardized regression coefficients (Beta). In estimating the contribution of each of the independent variables to the study, it was established that all the

independent variables had a significant contribution to the variance of the dependent variable at a significance level of 0.05.

The relative importance of each of the independent variables was however different. According to the equation, taking all factors (Privatization, Market share, State of the economy and Operational costs) constant at zero, profitability will be 6.569. The data findings also show that a unit increase in privatization will lead to a 0.707 increase in profitability; a unit increase in operational costs will lead to a 0.160 decrease in profitability; a unit increase in market share will lead to a 0.015 increase in profitability; while a unit increase in the state of the economy will lead to a 0.536 increase in profitability.

4.3.2 Regression Analysis

Regression analysis was undertaken by fitting an equation of privatization and profitability of commercial state corporations in Kenya. The researcher regressed Y=performance against independent variables X_1= Privatization as measured by percentage of government ownership, X_2 = Market share as measured by the size of firms in relation to the industry, X_3= State of the economy as measured by the gross domestic product and X_4= Operational costs as measured by the expenses which are related to the activities of the organizations under study. A test of significance was carried out to test the differences between the averages means and median of the data and the results were presented in quantitative form and tables and graphs where applicable. The analysis of data relied on Microsoft (MS) excel statistical package (SPSS).

Table 4.3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.919[a]	.844561	.791233	.87208

a. Predictors: (Constant), Privatization, Market share, State of the economy and Operational costs

Source: Research Findings

The coefficient of determination (the percentage variation in the dependent variable being explained by the changes in the independent variables) R2 equals 0.844561, that is, Privatization, Market share, State of the economy and Operational costs explain 84.5 percent of the variance in profitability of the privatized state corporations under review.

4.3.3 Analysis of Variance (ANOVA)

Table 4.4: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	3.769	4	.942	1.239	.019[b]
1	Residual	19.773	26	.761		
	Total	23.543	30			

a. Dependent Variable: Profitability
b. Predictors: (Constant), Privatization, Market share, State of the economy and Operational costs

Source: Research Findings

The analysis of variance in table 4.3 depicts an F Test of 1.239 which indicates that the regressions explanatory power on the overall significance was strong. The significance

value of 0.019 obtained implies that the regression model was significant in predicting the relationship between privatization and profitability of commercial state corporations in Kenya and the predictor variables as it was less than α = 0.05. This significance level means that the chances are almost zero that the results of the regression model were due to random exogenous events instead of the true relationship existing in the model.

4.4 Interpretation of the Findings

The study asserts from the findings that profitability of commercial state corporations in Kenya improved after privatization. In estimating the contribution of each of the independent variables to the study, it was established that all the independent variables had a significant contribution to the variance of the dependent variable at a significance level of 0.05. The relative importance of each of the independent variables was however different. This can be explained by, first and foremost privatization reduced the government expenditure due to the withdrawal of direct subsides.

Prior to the privatization process, there was a physical drain on the national treasury as the government was heavily subsidizing commercial state corporations to stand on their own, for instance, exempting them from import duties. In this, there was increased financial efficiency and high profitability. Juliet & Megginson (1996) compared 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. By and large, findings from this study strongly suggest that privatization yields significant performance improvements

According to the equation, taking all factors (Privatization, Market share, State of the economy and Operational costs) constant at zero, profitability will be 6.569. The data findings also show that a unit increase in privatization will lead to a 0.707 increase in profitability; a unit increase in operational costs will lead to a 0.160 decrease in profitability; a unit increase in market share will lead to a 0.015 increase in profitability; while a unit increase in the state of the economy will lead to a 0.536 increase in profitability. This implies that privatization of commercial state corporations led the management to focus on profit goals because now under private ownership, they were directly supervised by shareholders. That is why the change in ownership from public to private resulted in an increase in the profitability of commercial state corporations. Makokha (2013) concluded that privatization had a positive impact on the financial performance of these firms as it increased their profitability and activity ratios. Mutugi (2013) findings revealed that privatized firms profits had increased as a result of proper corporate governance structures in place.

Moreover, the benefits of ownership stem from the assumption that shareholders did not expropriate investments of manager in the company's assets while the government could re-deploy the investments to serve social goals. The managers then showed a greater interest for profits and efficiency in private ownership relative to state ownership. By doing so, privatization

subjected managers to the pressure of the financial markets and to the monitoring and discipline of profit oriented investor. Yarrow (1986) notes that as firms move from public to private ownership, their profitability should increase; first, given that shareholders wish the firm to maximize profit, newly privatized firms' managers should place greater emphasis on profit goals. Secondly, privatization typically transfers both control rights and cash flow rights to the managers who then show a greater interest for profits and efficiency relative to pleasing the government with higher output or employment.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provides the summary of the findings from chapter four, the conclusions and recommendations of the study. The objective of the study was to determine the effect of privatization on the profitability of commercial state corporations in Kenya.

5.2 Summary

The objectives were achieved by analyzing financial ratios i.e. Privatization, Market share, State of the economy and Operational costs. Regression analysis between performance (y) as the dependent variable and each of the financial ratios was done. The study established that, the mean score for the 31 privatized state corporations in relation to privatization was 50.7416 percent with a variability of 30.00629 percent. In addition, the mean score for the operational costs was 9.8091 billion with a variability of 0.55936 billion. On the other hand, the mean score for the market share was 52.23 percent with a variability of 017.194 percent.

The findings depict that the mean score for the state of the economy was 10.7849 billion with no variability. The standard deviation depicts a moderate variation in the variability of the market share and privatization of the state corporations while the standard deviation depicts a low variation in the variability of the operational costs and state of the economy of the state corporations. This implies that privatization led to an increase in market share and operational costs of the state corporations under study.

Additionally, the coefficient of determination (the percentage variation in the dependent variable being explained by the changes in the independent variables) R2 was found to equal to 0.844561, that is, Privatization, Market share, State of the economy and Operational costs explain 84.5 percent of the variance in profitability of the privatized state corporations under review. It was also established that all the independent variables had a significant contribution to the variance of the dependent variable at a significance level of 0.05. The relative importance of each of the independent variables was however different. According to the equation, taking all factors (Privatization, Market share, State of the economy and Operational costs) constant at zero, profitability will be 6.569. The data findings also show that a unit increase in privatization will lead to a 0.707 increase in profitability; a unit increase in operational costs will lead to a 0.160 decrease in profitability; a unit increase in market share will lead to a 0.015 increase in profitability; while a unit increase in the state of the economy will lead to a 0.536 increase in profitability.

5.3 Conclusions

The study concludes that there were positive improvements in the performance of commercial state corporations in Kenya in terms of profitability. This performance indicator showed also an increase in financial efficiency. In addition to this effect, the operation performance indicator of operational cost efficiency was increased. The results suggest that privatization has positive effects on of commercial state corporations in Kenya performance. In general the results concur with empirical literature that states privatization improves the performance of privatized companies in terms of profitability and financial efficiency.

While the causes of such satisfying outcome most expect further empirical analysis, there is evidence to suggest that such causes may include but not limited to adequate finance, decrease in production cost and management efficiency.

5.4 Recommendations for Policy and Practice

Based on the findings, this study provides the following recommendations:

As this study has shown that privatization has a positive impact on the financial performance of an organization in terms of profitability, the government should privatize poorly performing enterprises as it can greatly benefit from privatizing commercially oriented enterprises.

To sustain the positive benefits of privatization, there is need for privatized companies to engage professionals in the running of the companies who can foster transparency and credibility. In this manner, management of the privatized companies would be able to make them attractive to the market and be able to compete in growing global competitive industries.

Policy makers should borrow from the experience of privatized commercial state corporations in Kenya and advice the government of creating an enabling political and economic environment that would ensure the gains made during privatization are sustained through efficient and effective use of resources, as this study has shown that privatization increases overall efficiency in resource utilization.

The government through the privatization commission should ensure that methods used in privatization are transparent and objective so as to achieve positive results.

5.4 Limitation of the study

The study used financial data derived from financial statements of the 31 privatized state corporations studied collecting the data proved quite a challenge because some had to be gotten form the Nairobi securities exchange journals which proved quite expensive.

The researcher faced a challenge in determining a sample for the companies to be studied. This was brought about by the limiting period of the researchers study which was to select from all the 102 privatized state corporations.

The study also faced difficulties in pursuit of drawing firm conclusions regarding privatization and performance of the commercial state corporations, among them was lack of adequate time, this was because the study applied survey design, which is very time consuming because of nature of financial data collected. Therefore capturing all aspects therefore was not possible due to time constraints.

5.5 Suggestion for Further Research

Further studies can be done to determine whether privatization that does not limit foreign participation will result to improve performance or which method of privatization will yield better results.

More research also needs to be done on the financial performance of privatized companies which were not formerly state corporations or those listed on the NSE this will be able to show if there are any major differences.

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APPENDICES

Appendix I: List of Privatized State Corporations in Kenya as at 31st December 2014

1.	African Diatomite Industries Ltd
2.	African Marine and Engineering Co. Ltd
3.	Ark Ltd
4.	Associated Battery Manufacturers Ltd
5.	Associated Vehicle Assemblers
6.	Avon Expert Ltd
7.	Avon Marketing Ltd
8.	Avon Rubber Co Ltd
9.	Bamburi Portland Cement Co. Ltd
10.	BAT Development (K)Ltd
11.	Boosta Manufacturing (A) Ltd
12.	Brollo Kenya Ltd
13.	Carnand Metal Box Ltd
14.	Chloride Exide (K) Ltd
15.	CMC Holdings
16.	CPC Industries Producers Ltd
17.	Dawa Pharmaceuticals
18.	EA Oxygen Ltd
19.	East Africa Industries Ltd

20.	East African Fine Spinners Ltd
21.	Elson Plastics
22.	Embu Hotel Ltd
23.	ESA Bookshop
24.	Eveready Batteries Kenya Ltd
25.	Firestone (EA) Ltd
26.	General Motors
27.	Golden Beach Hotel
28.	Golf Hotel
29.	Highlands Paper Mills Ltd
30.	Hola Cotton Ginnery
31.	Homa Bay Hotel Ltd
32.	Horti Seed Kenya Ltd
33.	Infusion Kenya Ltd
34.	Kenatco Transport Ltd
35.	Kenchick Ltd
36.	Kenya Airfreight Handling Co. Ltd
37.	Kenya Airways
38.	Kenya Bixa Ltd
39.	Kenya Bonding Centers
40.	Kenya Cashewnut Ltd

41.	Kenya Drilling Co. Ltd
42.	Kenya Engineering Industries Ltd
43.	Kenya Film Corporation
44.	Kenya Fishnet Industries Ltd
45.	Kenya Flamingo Airways Ltd
46.	Kenya Fluospar Co. Ltd
47.	Kenya Fruit Processors Ltd
48.	Kenya Furfural Co. Ltd
49.	Kenya Horse Studs Ltd
50.	Kenya Industrial Products Ltd
51.	Kenya National Capital Corporations
52.	Kenya National Properties
53.	Kenya National Shipping Lines Ltd
54.	Kenya Peanut Co. Ltd
55.	Kenya Shipping Agency Ltd
56.	Kenya Taitex Mills Ltd
57.	Kenya Vehicle Manufacturers Ltd
58.	Kibos Cotton Ginnery
59.	Kisii Bottlers
60.	Kisumu Cotton Mills Ltd
61.	Lion Hill Camp

62.	Maralal Lodge
63.	MEPAL Plastics Kenya Ltd
64.	Meru Ginnery
65.	Milimani Hotel Ltd
66.	Milling Corporation of Kenya Ltd
67.	Minet ICDC Insurance Brokers Ltd
68.	Motor and Pedal Ltd
69.	Mount Kenya Bottlers Ltd
70.	Mumias Sugar Company
71.	Mwea Cotton Ginnery
72.	Nairobi Oil Products Ltd
73.	Nakuru Chrome Tanning Co. Ltd
74.	NAS Airport Services Ltd
75.	National Bank of Kenya
76.	Nestle Foods (K) Ltd
77.	Pan Vegetables Processors Ltd
78.	Panafric Hotel Ltd
79.	Pollmans Tours and Safaris Ltd
80.	Polysynthetic EA
81.	Raymond Woolen Mills Ltd
82.	Robinson Baobab Hotel Ltd

83.	Salawa Cotton Ginnery
84.	Salt Manufacturers Kenya Ltd
85.	Sanya Armco Ltd
86.	Seed Driers Ltd
87.	Seracoating Kenya Ltd
88.	Simpson and White Low Ltd
89.	Sirikwa Hotel Ltd
90.	Sokoro Fireboard Ltd
91.	Stanbic Kenya Ltd
92.	Sunset Hotel Ltd
93.	Synthetic Fibres Kenya Ltd
94.	Tea Hotel Kericho
95.	Tigers Shoes Ltd
96.	Town Properties Ltd
97.	Uplands and Bascon Factory Ltd
98.	Wananchi Sawmills Ltd
99.	Warehousing and Forwarding Company
100.	Wire Products Ltd
101.	Y Fashions Ltd
102.	Yuken Textiles Ltd

Source: Sessional Paper No.1 of 2005 (Privatization of State Corporations and Investments)

Appendix II: Raw Data (Independent Variables)

	PRIVATIZATION	OPERATING COSTS IN MILLIONS	MRKT SHARE	STATE OF THE ECONOMY
Kenya Electricity Generating Company	70	10.02428	77%	10.7849
Telkom Kenya	49	6.977724	28%	10.7849
Kenya Railways Corporation	100	8.982723	89%	10.7849
Mumias Sugar Company 2nd Offer	20	10.11866	62%	10.7849
Safaricom	35	9.98331	69%	10.7849
Kenya Reinsurance Corporation	60	9.891482	54%	10.7849
Kenya Commercial Bank Ltd	35	10.02666	41%	10.7849
Mt. Kenya Textile Mills	48.5	9.926908	39%	10.7849
Uchumi Supermarkets Ltd.	44	10.06243	27%	10.7849
General Motors (K) Ltd	46.5	9.874018	68%	10.7849
Housing Finance Company of Kenya	30	9.984212	56%	10.7849
National Bank of Kenya	42.5	9.872215	23%	10.7849
Kenya National Capital Corporation	22.5	9.986144	46%	10.7849
Kenya Airways	20	10.09684	71%	10.7849
East African Industries (EAI)	44	9.969975	51%	10.7849
Eveready Batteries Kenya Ltd.	20.87	9.815843	26%	10.7849
Kenya National Shipping Lines Ltd.	45.12	10.0269	79%	10.7849
Stanbic Kenya Ltd.	23	9.933234	36%	10.7849
Nakuru Chrome Tanning Co. Ltd.	20	9.904337	66%	10.7849
Kenya Peanut Co. Ltd.	46	9.891482	48%	10.7849
Kenya Horse Studs Ltd.	50	9.814447	69%	10.7849
Kenatco Transport Ltd.	100	9.854428	42%	10.7849
Horti Seed Kenya	100	9.983716	53%	10.7849
Seed Driers Ltd.	100	9.80291	41%	10.7849
Simpson & Whitelaw Ltd.	100	9.816771	52%	10.7849
BAT Development (K) Ltd.	20	10.03104	78%	10.7849
Town Properties Ltd.	10	9.96199	48%	10.7849
Uplands Bacon Factory Ltd.	100	9.894371	39%	10.7849
Kenya Film Corporation	100	9.896581	56%	10.7849
Motor and Pedal Ltd	40	9.801061	47%	10.7849
Panafric Hotel Ltd	31	9.874192	38%	10.7849

Appendix III: Raw Data (Dependent Variable)

	PROFITS
Kenya Electricity Generating Company	6.7201706
Telkom Kenya	6.521159
Kenya Railways Corporation	6.6552238
Mumias Sugar Company 2nd Offer	6.4324233
Safaricom	7.3620589
Kenya Reinsurance Corporation	6.4965145
Kenya Commercial Bank Ltd	6.8954303
Mt. Kenya Textile Mills	6.871184
Uchumi Supermarkets Ltd.	7.8750613
General Motors (K) Ltd	6.555144
Housing Finance Company of Kenya	8.871184
National Bank of Kenya	8.9034687
Kenya National Capital Corporation	6.4563873
Kenya Airways	6.5291736
East African Industries (EAI)	6.2095547
Eveready Batteries Kenya Ltd.	6.1847246
Kenya National Shipping Lines Ltd.	6.4282889
Stanbic Kenya Ltd.	9.7387013
Nakuru Chrome Tanning Co. Ltd.	6.2769356
Kenya Peanut Co. Ltd.	6.2346489
Kenya Horse Studs Ltd.	6.36932
Kenatco Transport Ltd.	6.513898
Horti Seed Kenya	6.2738503
Seed Driers Ltd.	6.2266636
Simpson & Whitelaw Ltd.	6.2768013
BAT Development (K) Ltd.	6.4981369
Town Properties Ltd.	6.2525645
Uplands Bacon Factory Ltd.	6.1366626
Kenya Film Corporation	6.3151038
Motor and Pedal Ltd	6.2936677
Panafric Hotel Ltd	6.3151032