

Privatization of State-Owned Enterprises and its Effects on the Performance of the Kenyan Economy

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Abstract

This study examined privatization in Kenyan with reference to whether there existed relationships between privatisation of SOEs, criteria used to select SOEs for privatisation; management of SOEs and their performance in the Kenyan economy. The target population comprised of 275 employees of Kenya pipe line. Survey research design and simple random sampling were used in this study. The researchers used 30% of the target population to arrive at an accessible population of 75 employees as respondents for this study. Questionnaires were used for data collection. Data was analyzed using paired samples t-test with the help of SPSS and results were presented using Tables. Interpretation of results were based on α (.05), df , p value, t -values and t -critical. The findings of the study revealed that there were relationships between privatisation of SOEs, criteria used to select SOEs for privatisation, and management of SOEs and their performance on the Kenyan economy. The results were significant and out of this study, recommendations were made to the Kenyan government and state owned enterprises in Kenya.

Key words: State-owned enterprises; Privatization; Kenya Pipeline Company; Sessional paper; Paliament.

1. Introduction

Privatization is defined as the transfer of business, industry, or service from public to private ownership and control (Pearsall, 1998). Privatization is the full or partial transfer of government responsibility to the private sector. It is an attempt to minimize the role of government bureaucracies and promote the responsibility of the private and commercial sectors. Privatisation in its strict sense involves complete withdrawal from the state's involvement in economic matters by allowing the private sector's wider

involvement (Yarrow, 1986). This has proved not to be the case as in most instances the state has to ensure that the consumer is protected. The state has also to retain services, which are better provided by the state rather than the private sector, for example services like state security and to some extent education and hospitals. Kenya has been undergoing the process of privatisation in the past few years. It is now moving into the second phase of privatisation, in the sense that it is now embarking on the big enterprises which have been lined up for sale (Kelly, 2000). The enterprises in which the government has an interest are known as the State Owned Enterprises (SOE), which have been defined as: Agencies charged with separate management of public utilities like railways, telecommunications, harbours, ports, roads and electricity and that they undertake commercial or industrial activities on behalf of the state. Currently almost all economies, developed and developing are undertaking privatisation in one way or the other.

2. Background to the Study

Privatisation is a world-wide phenomenon that became internationally significant in the 1970s. Over two hundred years ago, Smith (1776) argued that in every great monarch in Europe the sale of Crown lands would produce a very large sum of money which, if applied to the payment of the public debts, would deliver from mortgage a much greater revenue than any which those lands have been afforded to the Crown. Smith further argued that when the Crown lands had become private property, they would, in the course of few years, become well improved and well cultivated. Privatisation has become one of the central policies in the global move towards more competitive market economies. During the 1970s SOEs accounted for more than 10% of the GDP in many of the leading economies, including Britain (Zecchin, 1993). Today the figure is less as the developing economies have adopted the programme. These economies include the emerging ones in the former communist states of the Central and Eastern Europe (Ramanadhan, 1991). In Sub-Saharan Africa (SSA), figures are sometimes not available or not up to date resulting in under-estimates (Bennell, 1996). Information available shows that in Mozambique there were many sales but of little values. In broad geographical terms, West Africa and East and Central Africa, it can be observed that approximately one quarter of SOE had been privatised in one form or the other by end of 1995. In Southern Africa, with the exception of Mozambique and Zambia, there had been relatively few such activities (Bennell, 1996).

In Kenya, the Government inherited a large public sector at the time of independence in the early 1960s and expanded it in the post-independence era to assist in the development of the key productive activities, fill entrepreneurial and skill gaps, and generate financial surpluses for Government investment. This was done in the spirit of Kenyanization, i.e. creating a feeling in the citizens that they now have control over their country and economy. In the process, this sector has expanded to the extent that some SOEs have now fallen short of the purpose they were intended to serve (Mwaura, 2007). Some SOEs as they are known today in Kenya were inherited at the time Kenya gained independence in 1963 from the British Government. At independence the majority of them were in the context of East Africa Community. The most prominent were the East African Railways and Harbours, East African Airways, East African Posts and Telecommunications, East African Cargo and Handling Services, and the East African Currency

Board. Besides these, there were state enterprises in the purchasing, processing and sale of major agricultural and livestock products in the region. In keeping with the stated policies, the government of Kenya: Retained and maintained traditional activities of the enterprises inherited from the colonial Government; increased its involvement in direct activities by nationalising existing enterprises as well as establishing new ones. These measures led to increased number of SOE, which stood at 342 by the year 1994. Of these, 206 were commercial and financial institutions, 10 commodity boards, and the remainder a series of regulatory, professional and development institutions (GoK, 1996).

Between 1990 and 1992, direct subsidies to parastatals amounted to Kshs 7.2billion and additional indirect subsidies of Kshs 14.2billion. If the trend was not checked, the subsidies could soon be running to Kshs15billion annually, a situation, which could not be sustained hence the need for reforms on economic liberalisation i.e. privatisation (Kelly, 200; GoK, 1996). The reforms were as a result of the country's inability to control its deficits, acceleration of inflation accompanied by falling private investments and stagnation of economic growth and over-reliance on controls. Faced with these challenges, the government started a new development strategy, enunciated in the Sessional Paper 6 which called for restructuring the economy and reducing distortions by creating a market driven economy (Ndewa, 2002). The government embarked on preparing the necessary infrastructures and security for the investors. This triggered the reform of the parastatal sector, which included issues like the rationalisation of the capital and privatization for easy management of organizations (Daun, 2007; GoK, 1992).

3. Statement of the Problem

The privatisation programme usually starts with most profitable SOEs so as to create an enabling environment and also confidence among the investors that privatised firms are profitable. This seems to create a false impression to the public. In the interim period, the government experiences loss of revenue. Loss of employment due to transfer or change of hands for organizations can also create unrest in the state if not properly handled. The process of privatisation is expensive in terms of cost and administration. Apart from the draining of resources, it tends to undermine the ethos, morale and motivation of the public sector. In cases where domestic investors lack financial resources to buy them, foreigners will take up privatised SOEs.

Selection of SOEs for privatization is another problem. It sometimes creates problems in terms of regional balance and location of organizations. If not properly handled, this also creates rising of "political temperatures" that may make governance difficult. The privatisation process of the SOEs established under an Act of Parliament is a long and tedious one. To effect the process of the transfer of SOEs, a Bill has to be drafted and discussed in parliament which sometimes could be in recess thus prolonging the process. Selection of managers for privatisation process and to govern the privatized organizations is another issue that is a problem in Kenya. Situations where unskilled managers have been appointed due to regional balance or due to nepotism, has also had its toll in terms of performance of privatised SOEs in relation their contribution to the Kenyan economy (Mwaura, 2007).

4. Research Hypotheses

This research project was guided by the following hypotheses.

1. There is no relationship between privatisation of SOEs and their performance in the Kenyan economy.
2. There is no relationship between the criteria used to Select SOEs for Privatisation and their performance in the Kenyan economy.
3. There is no relationship between management of SOEs and their performance in the Kenyan economy.

5. Literature Review

The privatisation process relieves the state of the funding support it gives the SOEs. Since most SOEs are loss-making, the sale will enable the state to improve its macroeconomic status. By transferring SOEs to private hands, not only will the state receive more funds in the form of sales revenue but also the resources drained from government budgets by subsidies will be removed (Mwaura, 2007). If privatised enterprise improves its productivity the state can expect more revenue in the form of taxes. Privatisation has helped to improve the capital markets. There appear to be no hard rules and criteria to be used in privatising a SOE. The literature shows that the criterion used is varying from one country to the other and also there appear to be periodic changes in the lists of the SOEs due to privatisation (Ramanadham, 1988). For instance in Pakistan, an enterprise making losses and marked by relatively simple technology would be a candidate fit for privatisation while a profitable SOE is not a candidate as the Exchequer is interested in its revenue. In contrast, Sri Lanka's list is topped by profitable SOEs, because they are easier to sell and also they open the way for the future sales. Enterprises in sensitive areas are not seen anywhere as candidates for privatisation.

Privatisation in the SSA can be grouped into three (Utt, 1989). These groups are: Major privatisers notably Benin, Guinea, Kenya and Mali who divested a majority of their SOEs; Modest privatisers or those that divested less than 10% of the total value of SOEs – Burkina Faso, Côte d'Ivoire, Gambia, Ghana, Niger, Nigeria, Senegal, Madagascar, Tanzania, Uganda and Zambia; and minimal and non-privatisers, totalling some 25 countries (Utt, 1989). In terms of when each country started to divest, Five Franco-phone West African countries – Togo, Niger, Guinea, Senegal and Benin- started in 1970s up to mid 1980s. The second group started the programme in the late 1980s –Ghana, Nigeria, Côte d'Ivoire, Mali, Kenya, Malawi, Mozambique, and Uganda. The second group undertook the programmes largely due to the pressures from the World Bank and IMF. The third group started the exercise in the 1990s. These are Burkina Faso, Tanzania, Cameroon, Ethiopia and Zambia.

The pressures for privatisation have either been generated from internal or external sources. In Kenya and many developing countries pressure for decentralization and its aspect of privatisation were externally generated (Gori, 2014; Ndegwa, 2002; Kelly, 2000). In the process it comes out clearly that the poor performance of the economies has been occasioned by the subsidies to the SOEs coupled with planned

economies. The prescription usually given for privatization by external forces is to get rid of the SOEs and concentrate on the core services. In other instances they are asked to open up the economy by removing controls such as price and import controls. In either case, the aim is to minimise involvement of the state in the commercial sectors. It is anticipated that the private investors will be playing a big role in the economic activities of a state, thus setting up market economy rather than mixed economy. The prescriptions usually come in a package, either in political and economic reforms, or mainly political if politics has hindered progress in the economy (Ndegwa, 2002; Kelly, 2000).

6. Methodology

The target population of the study consisted of 250 employees of Kenya pipeline company. The researchers used 30% and simple random sampling strategy to arrive at the 75 employees who became the accessible population for this study (Bryman, 2004). A 20 itemed questionnaire was designed and used to collect data from employees regarding the three aspects (see section 4). A case study research design was used in this study. Questionnaires were given to 75 employees and collected after a period of one week. Using SPSS, the data from the 75 employees were scored and coded and then analyzed using paired sample *t*-test analysis strategy. Analysis was done at an alpha level of .05, while *t*-values, *t*-critical, *df* and *p*-values were used for presentation, interpretation of results and rejection or retention of the nulls (Gall, Gall & Borg, 2003; Gay, Mills & Airasian, 2006). Results were presented using Tables.

7. Instrumentation Reliability and Validity

Reliability of questionnaire items that were used was tested using Cronbach's alpha index. Reliability of the 20 items was found to be .842. Face validity was used and this involved colleagues in checking the worthiness of the items used. As Muijis (2004) and Bryman (2004) note, establishment of reliability and validity are essential before data analysis is done.

8. Data Analysis and Research Findings

8.1. Hypothesis 1

Hypothesis one which stated that "there is no relationship between privatisation of SOEs and their performance in the Kenyan economy" was tested using a paired sample *t*-test by comparing the means and standard deviations 1.87 and .664 and 1.55 and .793 (see Table 1). The analysis produced a *t*-value of 2.628 at a *df* of 74 and a *p*-value of .010 at an alpha of .05 (see Table 2). A *df* of 74 at an alpha level of .05 =1.99. This shows that a *t*-value of 2.628 is greater than a *t*-critical of 1.99, a value required for $\alpha = .05$. Based on the employees' responses, there is a relationship between privatisation of SOEs and performance of SOEs on the Kenyan economy, $t(74) = 2.628, p < .05$. This result led to the rejection of null hypothesis 1.

8.2. Hypothesis 2

The second hypothesis, “there is no relationship between the criteria used to Select SOEs for Privatisation and their performance in the Kenyan economy” was also tested using paired sample *t*-test by comparing the means and standard deviations M (1.79), SD(.759) and M (1.55), SD (.793) as shown in an Table 1. The analysis produced a *t*-value of 4.301 at a *df* of 74 and a *p*-value of .000 at an alpha level of .05. (see Table 3). A *df* of 74 at an alpha level of .05 = 1.99. Out of this result it was revealed that a *t*-value of 4.301 is greater than a *t*-critical of 1.99, a value required for $\alpha = .05$.

Table 1
Means and standard deviations of study variables

Variable	Mean	SD
Privatization of SOEs	1.87	.664
Criteria for SOEs selection	1.79	.759
Management of SOEs	2.27	.704
Performance in Kenyan Economy	1.55	.793

df = 74; critical *t* = 1.99; α = 0.05.

Based on the information given by teachers on hypothesis 2, the analysis revealed that there is a relationship between the criteria used to select SOEs for privatisation and their performance in the Kenyan economy, $t(74) = 2.213, p < .05$. This result led to the rejection of null hypothesis 2.

Table 2
Paired samples t-test between privatisation of SOEs and their performance in the Kenyan economy.

Pair 1	<i>t</i> -value	<i>df</i>	<i>p</i> -value
Privatization of SOEs- Performance in the Kenyan economy	2.628	74	.010

$p < .05$; *df* = 74; Critical *t* = 1.99

Table 3

Paired sample t-test analysis between the criteria used to select SOEs for privatisation and their performance in the Kenyan economy.

Pair 1	<i>t</i> -value	<i>df</i>	<i>p</i> -value
Criteria for SOEs selection- Performance in the Kenyan economy	4.301	74	.000

$p < .05$; $df=74$; Critical $t = 1.99$

8.3. Hypothesis 3

The third hypothesis was on “there is no relationship between management of SOEs and their performance in the Kenyan economy”. The analysis was centred between M (2.27), SD (.704) and M (1.55), SD (.793) as shown in Table 1. Results of the analysis gave a *t*-value of 5.955, a *p*-value of .000 at a *df* of 74 at an alpha level of .05 (see Table 4). A *df* of 74 at an alpha of .05 = 1.99. From the results of the analysis it was revealed that a *t*-value of 5.955 is much greater than a *t*-critical of 1.99, a value required for $\alpha = .05$. Based on this result on data collected from employees for hypothesis 3 was rejected, $t (74) = 5.955, p < .05$ on employees.

Table 4

Paired sample t-test analysis between management of SOEs and their performance in the Kenyan economy.

Pair 1	<i>t</i> -value	<i>df</i>	<i>p</i> -value
Management of SOEs- Performance in the Kenyan economy	5.955	74	.000

$p < .05$; $df=74$; Critical $t = 1.99$

9. Discussions

In decentralized states like Kenya, privatization of enterprises is an acceptable undertaking. While this is seen in the light the constitution, the inheritance of capitalism from the British who colonised Kenya makes it naturally accepted by the Kenyan society. When data from employees of Kenya Pipeline Company were analysed, it indicated that there is a relationship between privatisation of SOEs and their performance in the Kenyan economy. Results of the analysis indicate that there is a relationship between the criteria used to select SOEs for privatisation and their performance in the Kenyan economy. From the analysis it is also emerged that there is a relationship between management of SOEs and their performance in the Kenyan

economy. This confirms the literature review in the way privatization is done elsewhere in the world and that privatization has room in the Kenyan economy. The performance of the privatised SOEs in Kenya must be seen in the context of the overall economy, taking into account factors such as consumer purchasing power, international competition, financial results obtained by SOEs, among others.

The overall level of privatisation in Kenya is steadily increasing. This phenomenon is in line with the results of hypothesis one (see Section 8.1). It is therefore prudent to argue that the main trends and patterns adopted by the Kenyan government are similar to those adopted by other governments (see literature review). As it stands now, not all governments have privatised all SOEs. Privatisation must be seen as a process with its own pitfalls along the process. The methods observed in the international debate are also being used in Kenya (see sections 2 and 5). In the Kenyan context according to the results of hypothesis two, not all SOEs are selected for privatization. It is only those SOEs that are not performing well among other criteria that need to be privatized so as to improve their performance and the Kenyan economy. This is in line with Mwaura (2007) who argues that non performing SOEs should be restructured. In other words, there are and there should be laid down guidelines for selection of the SOEs for privatization.

The aim of privatisation is to reduce government's budget deficits and improve SOEs performance. The results of this study indicate that management of the SOEs is essential for the production of positive outputs and outcomes and that proper management of SOEs has direct links to positive contributions to the Kenyan economy. This confirms research by Gori (2015) who found out that decentralized human resources has a relationship with the performance of organizations. However, it should be noted that SOEs' being privatised need to adhere to regulatory changes made so that minimum less time is spent in the process. This will require minimum restructuring through acceptable, accountable and reliable means.

10. Summary and Conclusions

This study was about the effects of privatisation and its relationship to performance in the Kenyan economy. To conduct this research, survey research design was used along with quantitative research methodology. Three hypotheses were used to guide this research. Questionnaires were used by the researchers and administered to 75 sampled employees of Kenya Pipe Line Company. Analysis of data was done using paired samples *t*-test with the help of SPSS software. The findings revealed that there was a relationship between privatisation of SOEs, criteria used to select SOEs for privatisation, and management of SOEs and their performance in the Kenyan economy. It was revealed that privatisation, proper selection of SOEs for privatization and management of the SOEs were essential for SOEs performance in the Kenyan economy.

11. Recommendations and Further Research

Earlier researchers including Gori (2015) and Bush and Middlewood (1997) found out that there is a link between management organizations and performance. Privatisation of SOEs which was found essential and

acceptable in Kenya just like many parts of the world is essential for Kenyan economic growth and development. Based on this study, the following recommendations were made:

- First, the government officials who form the committee that select SOEs for privatization should comprise of people from all the counties in Kenya or at least cover many counties if not all.
- Secondly, the selection and privatization of SOEs should be distributed to all counties (regions) within the country. This will avoid regional imbalance of SOEs distribution.
- Thirdly, the managers of the SOEs should not be based on where the SOE is located but should be people who are experts and knowledgeable of what the SOE does or produces. This means that with qualified people, there is likely to have higher productivity and quality output from SOEs for improvement of the economy.
- It is recommended that research should be done to ascertain to what extent privatization of SOEs helps to improve the Kenyan economy.

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