Can the Performance of State-Owned Enterprises improve when privatized?
A Case study of Ghanaian based firms

Master's Thesis in Business Administration, MBA programme

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Abstract

After almost two decades that privatization took place in Africa, especially in Ghana, there is not much empirical knowledge concerning the financial and operating performance of privatized firms. This study is designed to compare the financial and operating performance of pre and post privatization process in Ghana. The indicators examined are profitability, operating efficiency, output, capital investment, employment, leverage and dividend. Since the sample size is small the researcher used Wilcoxon Signed Rank Test to test for the significant of the difference between pre and post privatization performance indicators. The study measures the change in the performance indicators by comparing its average value for five years before and five years after privatization. There is no convincing evidence that suggest significant change in financial and operating performance after privatization.
Acknowledgements

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Chapter One

1. Introduction

1.1. Research Background

The transfer of government owned shareholding in public enterprises to private shareholders is one of the revolutionary innovations in economic policies of both developed and developing countries (Chambers, 2008). This economic policy is a product of neo-liberal economic reforms that becomes popularized and globalised through the World Bank (WB) and the International Monetary Fund (IMF).

During the 1980s Ghana went through severe economic decline. This economic decline took its turn on the State-Owned Enterprises (SOEs) along with some other businesses in Ghana. The government, as a way of addressing the poor performance and inefficient operations of the State-Owned Enterprises launched SOE reform program in 1988 as part of Ghana’s overall Economic Recovery Programme (ERP). The SOE reform program consists of measures to improve the performance of State-Owned Enterprises and the rationalization of the sector by means of divestiture programme. It was envisaged that privatization would improve operational efficiency of SOEs, reduce public sector borrowing requirements arising from corruption, subsidies and subventions to unprofitable SOEs, reduce government expenditure and state role, increase investment and employment as well as ensure job security in Ghana.

The improvement in the privatized firms’ financial and operating efficiency is one of the objectives that are more frequently associated with privatization processes. Though there are various empirical studies on the pre and post performance of the privatization of SOEs. There is not much study in the area of financial and operating performance of privatized firms in Sub-Saharan Africa. This study investigates the financial and operating performance of privatized firms in Ghana to see if it is in line with what we normally envisage.
1.2. Discussion of the Problem

There is always argument for and against the privatization of State-Owned Enterprises in Ghana. Those argue for privatization believe that it contributes meaningfully to government revenue and to the economy as a whole in the form of taxes, increase production of quality goods and services, brings operational efficiency into those firms, creation of more employment opportunities, ensures job security, introduction of modern technology and widen the distribution of wealth in society (Jerome, 1999). But those against privatization argue that the economic reform in Ghana as in other African countries as a ploy by few elites to sell public enterprises to themselves at the expense of the masses. They also argued that the government should improve the State-Owned Enterprises by making them competitive rather than transferring it to private ownership whose main goal is to maximize profit and this cannot bail African from precarious economic situation. There is an important question asked whether the process of privatization or transfer of State-Owned Enterprises (SOEs) to private ownership in Ghana and other African countries for the past twenty years has seen any significant improvement in operating and financial performance in those enterprises after the privatization. They normally asked question about the performance of those enterprises after privatization whether efficiency has increased, production gone up and what has happened to the workers regarding their job security. They argue that the benefits of privatization come at significant cost to society. This study will investigate the performance of SOEs in Ghana pre and post privatization.

1.3. Objectives of the Study

The objectives of this study are to provide empirical evidence on the impact of privatization on State Owned Enterprises performance in Ghana, and also to find out if the critics of privatization are true that, it comes at significant cost to society.
1.4. Basic Hypotheses:

The researcher will examine empirically the general hypothesis that privatization promote performance improvements.

The detail hypotheses to be examined are as follows:

(1) Privatization leads to increase in profitability. La Porta and Lopez-de-Silanes (1997) and Megginson et al. (1994) agree to this hypothesis with their empirical results. Dewenter and Malatesta (1998) do not find much evidence that privatization itself increase firm profitability.

(2) Privatization result in operating efficiency improvements. La Porta and Lopez-de-Silanes (1997) and Megginson et al. (1994) support this hypothesis. With empirical evidence.

(3) Privatization has a positive impact on a firm’s ability to generate revenue growth. La Porta and Lopez-de-Silanes (1997) and Megginson et al. (1994) support this hypothesis.

(4) Privatization leads to employment reduction. The hypothesis is empirically supported by La Porta and Lopez-de-Silanes (1997) but not supported by Megginson et al. (1994).

(5) Privatization reduces the firm’s leverage.

(6) Privatization increase capital expenditure spending of the firm.

(7) Dividend payout also increases after privatization.
Chapter Two

2. Literature Review

2.1. What is Privatization?

Privatization has been defined by economic scholars and jurists “…to encompass a wide range of options for involvement of private capital and management in the running and operations of public enterprises…” It may involve the total transfer of public ownership and assets structures to private companies or conversion of public enterprises to private entities or incorporation of new private entities in place of public enterprises or public-private participation in the running of public enterprises, which can be by management transfers, leases, operational concessions, development leases, build and transfers etc. (Heydari Kord-Zanganeh, 2001) said privatization refers to all initiatives designed to increase the role of private entities for applying society resources to produce products and services by decreasing and restricting government or official’s roles. Mullins (2002) sees privatization as being the creation of freedom from direct state control and the transfer of business undertakings to private hands. Lynch (2000) also defined privatization to be the selling of an organization’s shares into private ownership but the World Bank defined privatization as “a transaction or transactions utilizing one or more of the methods resulting in either the sale to private parties of a controlling interest in the share capital of a public enterprise or of a substantial part of its assets or the transfer to private parties of operational control of a public enterprise or a substantial part of its assets”.

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

2.2. Origination of Privatization

Yarrow (1986) indicated that privatization was first argued by Adam Smith in the year 1776 about two centuries ago that: “In every great monarchy in Europe the sale of the 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 ever afforded to the crown …. When the crown lands had become private property, they would, in the course of a few years, become well improved and well cultivated”. Privatization was not new in the world economics. There were important privatization program in West Germany in the early 1960s and in Chile during the 1970s (Guriev and Mégginson, 2005). They also realized that state-ownership of business enterprise was pervasive and growing during those period. But it was late 1970s, when there was growing disappointment with the dismal performance of state-owned companies, as well as the growth slowdown in the socialist countries, prompted the first privatization attempts by Britain’s conservative Thatcher government. This has spread to all over the world. It has been one of the major economic phenomena in the world economic history. The largest privatization in history took place in Russia between 1992 and 1995 when as many as 75,000 small and medium scale enterprises were auctioned, 14,000 medium to large scale firms were sold (IFC, 1995).

2.3. Why Privatization

Many state-owned enterprises have performed inadequately over the years. According to Divestiture Implementation Committee (DIC), these are some of the factors which contributed to poor performance of SOEs which lead to privatization: (i) over-staffing (ii) decision making at times being paralysed by excessive bureaucracy and a laissez-faire attitude towards state business (iii) lack of technical expertise (iv) absence of the commitment and entrepreneurial direction that private investors bring to business and (v) low incentives for management and inadequate working capital and investment in new plant and machinery and this is why the government is pursuing privatization programme of SOEs.

DIC said privatization programme is an ambitious attempt to unlock the economic potential of Ghana by permitting the human resources, financial and technology to be put to the best use and by increasing efficiency to achieve better living standards for all. They indicated that privatization programme is intended to reduce the public sector burden and to improve the performance of SOEs by mobilizing private sector management and capital. This will reduce the financial and managerial burden on government, which will then be able more efficiently to
manage the business of government, using the proceeds from the sale of SOEs to improve infrastructure, health service and education.

There are other reasons for privatization which can be included in the above reasons and in all grouped into two: The internal and external determinants.

2.3.1. Internal Determinants:

One of the reasons why governments invite private sector to be involved in building a better economy is capital. The private sector can supply capital in return for a profit opportunity. International debts, national deficits, and lack of political will to fund visible and non visible assets are due to lack of public funds. Developing countries in the 1980s were confronted with fiscal crisis that put considerable constraints on the capacity of the state to invest in state-owned enterprises. During the PNDC and NDC governments in 1980s and 1990s an attempt to rectify this problem in controlling and reducing expenditure and increase revenue that the government decided to shed of most of the government’s responsibility on the funding of almost all the State-owned enterprises in the country. Privatization was therefore taken to be the best option, as it was believed to provide an engine for economic growth. According to (Nellis, 1999) privatization has generally proved its worth in Central and Eastern Europe and (Dzakpasu, 2000) also believes that the fundamental thrust of most privatization programmes is to increase efficiency of the economy, reduce government budgetary costs, broaden direct ownership of productive assets, and reduce and reorient the role of government to concentrate on the provision of social and economic infrastructure.

Other reasons why governments privatized are ineffective management practices leading to poor organizational performance, the need to promote competition by liberalizing and deregulating the market, technological gains and access to the global market, and Stock market liquidity.
2.3.2 External Determinants:

Preston (1993) stated that in developing countries, privatization is done as a result of external pressures from International aid agencies, the World Bank and the IMF, rather than the ideological belief that the state role in the economy should be reduced. The IMF and the World Bank have made the privatization of state-owned enterprises and the reduction of employee sizes as a major requirement needed to be fulfilled by countries especially in the developing world as a criterion for qualifying for loans and grants. Sometimes, the IMF and the World Bank even assist those developing countries in the process of privatization. The World Bank gave grant of $25.15 million to Ghana government for public enterprise and privatization technical assistance project to help the government restructure the state-owned enterprises and prepare them for divestiture (World Bank, 2005).

2.4. Arguments For and Against Privatization

(La Porta and Lopez-de-Silanes, 1997) Critics often argue that the benefits of privatization come at significant cost to society. Political and Economic elite also argue that public sector institutions have not been run efficiently due to alleged corruption, bureaucracy, incompetence and it also cost the government so much to sustain those state-owned enterprises. They argue that well performed privatized enterprises can contribute meaningfully to government revenue and to the economy as a whole in the form of taxes, increase production of quality goods and services, creation of more employment opportunities and introduction of modern technology. There are evidence demonstrate that private owned enterprises performed better than state owned enterprises. (Megginson and Netter, 1998) said that, privatization significantly improves the operating and financial performance of divested firms. (Boubakri and Cosset, 1998) review before and after performance of 79 privatized firms in 21 developing countries mostly middle income countries and conclude that on average the firms indicated significant increases in profitability, operating efficiency, capital investment spending, output and employment and a decline in leverage and an increase in dividend. Mokhtar (1998) also review of the post privatization performance of 28 divested firms in Egypt reveals that 71% of the sample increased their sales, 68% increased their earnings, 96% increased average salary per worker and 82% of
the sample reduced both short and long term debt. A study of 218 privatized firms in Mexico found an average of 24% increased in ratio of operating income to sales, profitability and output also improved (La Porta and Lopez-de-Silanes, 1997). Another study also indicates that ten large loss making manufacturing firms privatized in Bangladesh returned to profitability, showing increases in output, sales, capacity utilization, labour productivity, and declining unit cost (Dowlah, 1996). Megginson and Netter (2001) 15 privatized firm studies also show that firms perform better after privatization.

Mwandenga (2000) identifies the arguments for privatization as follows: firstly, sale of public owned assets generates immediate revenue as opposed to drain from public coffers. Secondly, he said, new investors from within and abroad emerging markets are attracted into the economy. Thirdly, Privatization can be justified by providing opportunities for broad access to financial markets by members of the society through the stock exchange. Fourthly, privatization makes investment come from a variety of private capital flows to emerging markets and finally, large external debt which has negative impact of macroeconomic stability can be reduced partly through privatization as the country’s fiscal burden is reduced.

(Boycko,Sheifer, and Vishny, 1993) indicated that there is virtually universal consensus that privatization improves efficiency. Without exception, the empirical findings indicate that the same level of output could be provided at substantially lower costs, if output is produced by the private rather than the public sector (Bennett and Johnson, 1979)

There are others who also argue against privatization. Firstly, they contest that privatization has produced financial and operational benefits, or at least enough to offset the social dislocation it causes but that performance improvements they attribute them to increased competition rather than change of ownership. (Atkinson and Halvorsen, 1986) agree that public ownership is not inherently less efficient than private ownership, but noted that inefficiency of government enterprises stems from their isolation of effective competition rather than their public ownership. (Sheikh, 1985) also found that the average level of performance after adjusting for changes in prices and capital stock is higher for the period under public ownership compared to private ownership regime. (Bishop and Kay, 1989) evaluated consequences of British privatization program and found that most privatized industries grown since privatization and grown more
than those industries that remained in public ownership. But they said, the privatized firms which
grown rapidly, are doing so even before privatization. Secondly, there is fear that privatization
leads to layoffs and a worsening in labour conditions, in the short term in the divested firms and
in the longer run in the economy at large.

Some argue that even if privatization enhances enterprise efficiency, the bulk of the benefits
accrue to a privileged few shareholders, managers, domestic or foreign investors, those
connected to the political elite, where as the cost are borne by the many, particularly taxpayers,
consumers and workers, thus reducing overall welfare. In addition, many are concerned that,
perceived corruption and lack of transparency in privatization transactions have minimized gains
and increased broader problems of governance. There are studies that find little evidence of
improvement in privatized enterprises such as (Caves and Christenson, 1980), (Boardman and
Vining, 1989).

The above arguments supported by literature shows mixed results of performance in cross
country studies or case study of few firms. To the best of the researcher’s knowledge there are
no research studies on operating and financial performance on privatized enterprises in Ghana.
This study will assess the performance of privatized enterprises based on larger parameters and
indicators to compare the pre and post privatization process.

2.5. The Process of Privatization in Ghana

Privatization started in Ghana in 1990/91 and before that there were over 303 SOEs operating in
all sectors of the economy as stated in DIC brochure, 2003. Whilst a large number of them were
in manufacturing and agriculture, others were in the mining, hotel and timber sectors.

The government always selects the SOE to be divested, on the basis of minimizing economic
disruption, while building support for the divestiture program. Information and documentation is
collected on each of state-owned enterprise on the list for divestiture. Once that has been done,
decisions are made as to whether it will be divested as a whole or fragmented for the purposes of
divestiture and the preferred mode of divestiture. From the Divestiture Implementation
Committee brochure, 2003 fragmentation may be appropriate, where the state-owned enterprise
comprises a number of district businesses or divisions. This mode of divestiture will usually be the sale to private sector investors of the SOEs assets by competitive tender but government may sometimes sell it assets directly to investors (Megginson, Nash, Netter, & Poulsen, 2004). Where the SOE already has some private sector shareholders, the government gives the first option to the private shareholders to buy the shares before other investors are considered. Sometimes the government sells the shares through the stock exchange. This happens when the government looks at the strategic importance of the SOE to the public and sometimes the agitation from the public also lead to this mode of privatization.

It is government’s policy, except in exceptional circumstance to terminate the contracts of employment between an SOE and its employees with effect from completion of the divestiture. The government will then indemnify investors against all costs associated with termination including severance payments and end-of-service benefits. Termination permits investors to start with a clean state and most importantly, to select their own levels of staffing. In addition, except where the mode of divestiture is the sale of shares, government usually assumes responsibility for the discharge of the SOE’s liabilities.

As at 31st December, 2003 the divestiture of 335 SOEs in whole or in parts had been authorized by the President’s Office. This increased to 367 SOEs in the year 2008.

2.5.1. Forms of Privatization

There are many forms of privatization. All these entail some form of private sector participation in product or service delivery. The most common once are:

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

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

iii) Management Contract: the responsibility for the provision of services that were to be
provided by the state-owned enterprise is passed on to a private provider. The
ownership however, remains with the state and all required capital investments
continue to be provided by the state. The performance contract is signed with
outsourced management.

iv) Joint Venture: This can take the form of a partnership between an existing public
enterprise and a private investor. Sometimes the government and a private investor
established new organization and take over all assets or part of an existing SOE and
transfer into the newly formed venture enterprise.

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

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

These forms of privatization are mainly used in Ghana. The most highly used form is sale of
assets.
Table 2.1: The breakdown on annual basis highlighting the mode or form of divestiture in Ghana as at December 31, 2008

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Source: DIC Secretariat, Accra

Trend of Privatization:

![Graph showing trend of privatization](image)

Figure 2.1: World Developing Countries Revenue from privatization 2000-2008
Source: World Bank Privatization Data
The above graph shows an increasing interest of the world developing countries in privatization. In 2008, because of the world financial crisis the value of the revenue reduced. (Kikeri and Burman, 2007) indicated that in 2004 and 2005 the privatization in developing countries recorded about 400 transactions worth around US$ 90 billion. They said 10 largest transactions were in banking and telecommunications accounted for 40 percent of the total for those years. In 2006, the total privatization revenue from developing countries increased to US $105 billion (Kikeri and Phipps, 2008). They said that, the two mega Chinese initial public offerings(IPO) generated US $35 billion, which is a third of the total amount. In 2007, privatization generated around US $133 billion from developing countries (Kikeri and Phipps, 2008). There were 51 developing countries carried out 236 privatization transactions, valued at US$132.6 billion. They said the total amount for 2007 was up 26 percent from 2006 and 150 percent from 2005 values. In 2008, because of the world financial crisis, privatization revenue reduced to around US $38 billion from 32 developing countries carried out 196 privatization transactions, down 70% for 2007 figure (Kikeri and Perault, 2010).

One of the methods of privatization is a sale through initial public offering (IPO). (Shirley, 1998) indicated that share flotation or IPO which were almost unused in 1988, accounted for 40% of sales in value from 1991 through 1995. This has been one of the preferred ways to privatized SOEs because, it involves the citizens. In 2006, the privatization through IPO increased to about a third of the total transaction for the year. This increased in 2007 to about US$ 99 billion which was 75% of the total transaction for the year (Kikeri and Phipps, 2008).

From 2000 to 2008, 101 developing countries with 1835 transactions took place which generated around $ 452 billion from privatization.

Looking at the amount of money received by the developing countries to be used for developments through privatization and sometimes opposition to these privatization needs investigation to know the reasons and this research will help us to know whether privatized enterprises perform better or not.
DIC in 2003 assessed the impact of privatization on stakeholders, including investment and production levels in divested companies, employment and compensation packages and views of policy makers, investors and employees. Some of the findings of the study show that: (i) Privatization has resulted in considerable increase in sales as a result of improved productivity arising from injection of new investment and improved management practices into several of the divested companies. The new investment has increased installed capacity as well as capacity utilization. (ii) Privatization has increased employment by 59% in the surveyed enterprises. This increment of employment is due to an increase in capacity utilization of the new investment. (iii) They said that, privatization process has brought a non-financial benefit to government through the relief of the burden of administering and supervising SOEs, which is no more required in respect of divested companies. (iv) The study has shown that Ghanaian entrepreneurs have acquired 79% of enterprises divested. (v) Technology transfer in Ghana is benefiting from the divestiture programme as many divested firms have made efforts to introduce new equipment to replace old equipment they inherited. They are taking steps to invest in their workforces by upgrading their skill levels to help build the technological capability required to efficiently and effectively utilize all their production resources and to improve them over time.

DIC concluded that divested companies are making headway in performance, contrary to fears of job loss associated with privatization. They said privatization rather created more jobs as a result of new investment and improved management practices resulting in improved productivity.

From the above study, the researcher realized that, DIC concentrated on performance of privatized enterprises on job creation.

Privatization cases studied most times show higher level of efficiency but such claims cannot be substantiated always. Megginson et al. (1994) researched into sixty organizations revealed that a substantially improved performance in 75% of the cases studied. It shows that about 25% were not improved in terms of performance. The performance improvement in privatized organizations is also the same in a number of countries such as Togo but cases in other countries
such as Mali did not yield similar results (Pamacheche and Koma, 2007). They indicated that lack of improvement in efficiency and productivity was explained by the poor handling of the privatization process itself.

Many authors argue that much more research is needed to get a better view of effectiveness of privatization (see e.g. Megginson and Netter, 2001). Among other things these authors point at the utmost importance of closely examining the process of privatization by means of country case studies, the importance of precisely calculating the employment effects of privatization and the need for additional empirical studies on the effects of privatization of firm performance.
Chapter Three

3. Research Methodology

This research seeks to find out whether the performance of privatized enterprises improves after privatization with special reference to Ghana’s privatization programme.

3.1. The case study approach

This case study method help the researcher investigate a contemporary phenomenon with its real life context, as the boundaries between the two were not clearly defined (Yin, 1994). In this respect, the case study method enable the researcher to gain access to various data sources, and to process an extensive variety of material, such as documents, artifacts, transcripts from interviews, and observations. The case study method also allows a systematic observation of the policies, structures and context of an organization (Birnberg et al, 1990).

3.2. Selecting a research setting

When adopting a case study method the selection of a research site is a major concern (Yin, 1994). In view of the study’s final objectives, Ghana was selected for a number of reasons. Firstly, Ghana is a developing country and the author is also a Ghanaian who is acquainted with the Ghanaian environment and culture. Secondly, it was easier for the researcher to approach the various authorities and firms that would have been difficult if the researcher had chosen another country considering the time frame of this thesis.

3.3. Selection of the case firms

The researcher compiled the list of firms privatized around 1990 to 2006. The sources of the list were Divestiture Implementation Committee and Ministry of Finance. The list compiled shows that about 90% of the state owned enterprises privatized cannot be compared using before and after privatization data, because of the following reasons:
(i) Some of the organizations who have assets located in more than one region were privatized to different investors.

(ii) Most of the organizations were liquidated

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

(iv) Some of the organizations are not in operation

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

Because of the reasons above, the selection was limited to those SOEs that are fully or partially privatized to private investors through public share offering. This method of privatization generates post financial and accounting data that is directly comparable to pre-privatization data and also they are reliable data. The researcher also limited the selection to those organizations which have 51% or more of government shares before privatization, because a private majority shareholder has more influence than when the government shares are less than 51%.

There are thirty-five (35) firms listed on the Ghana Stock Exchange (GSE). There are six (6) out of the 35 firms in which the state has 51% or more shares before privatization. Two of the firms were excluded, because they were privatized after 2006 which is not within the targeted range.

Three of the firms were randomly selected out of the four, which were used as case study for this dissertation.

These firms are:

(i) Ashanti Goldfields Company Limited which is now known as AngloGold Ashanti.
(ii) Ghana Commercial Bank Limited, and
(iii) Cocoa Processing Company Limited.

These selected companies are in those sectors which are the main pillars of the Ghana’s economy.
3.4. Selection of participants

The researcher selected people in the case firms and the governmental and non-governmental institutions. The researcher selected those possessed the knowledge and experience relevant to this research topic and who had sufficient time and were willing to participate in the interviews (Morse, 1998). The officials such as branch managers, administrators, production and sales departments, employee representatives and others were involved in these interviews. The researcher also had access to the lower levels of the firm’s organizational structure and some of the staff working at the lower levels was also interviewed.

The researcher also selected some participants outside the case firms. The government ministries, non-governmental institutions and some individuals were also interviewed. The Ministry of Finance, Ministry of Trade and Industry, Ghana Statistical Service and Ghana National Chamber of Commerce and Industry participated in the interviews.

3.5. Data Collection

For the purpose of this dissertation the author used both primary and secondary data which were collected within a month from 4th October to 29th October, 2010. Primary data was collected in a form of semi structured interview through direct observation and in-depth face to face interviews with the respondents. Those respondents were staff members and employees of the three firms and the mentioned Government Ministries, Non-governmental organizations and individuals outside these organizations. Random selections were made in the above organizations and individuals outside those organizations for the interview. Each interview on average lasted for about 30 minutes. There were 58 respondents who were interviewed with 15 semi structured questions such as the awareness of the privatization process in Ghana, the necessity of the policy, whether the government has achieved its objective, whether privatization has improved the profitability of the privatized firms, whether it has improved the quality of goods and services and also their prices, whether privatization has improved the efficiency of the firms, whether
privatization leads to reduction of employment and its effect on the society, corporate social responsibilities of the firms and final asked whether privatized SOE perform better than when it was under government?

The secondary data from the companies’ prospectuses and annual reports, statistical reports, books, journals, publications, business and investment plans of the three selected firms were gathered from the Ghana Stock Exchange library, and other stock brokers and investment companies. Yearly economic data such as consumer price index was obtained from Ghana Statistical Service and Bank of Ghana website.

3.6. Data Analysis

The researcher used local currency in the analysis. There were previous studies concerning operations and financial performance of privatized enterprises like (Megglinson, 1994), (Boubakari and Cosset, 1998) and (D’Souza & Magginson, 1999) all used Wilcoxon Rank Test as the test of significance for the change in Median value for assessment of performance parameters. The researcher also used the same method.

The researcher focused on determining whether the privatized firms had indeed achieved the results as predicted with respect to firm performance and the implementation of activities as stated in their prospectus. With respect to their performance, the emphasis was on whether the case firms had managed to improve their profitability, labour productivity, operating efficiency, output, leverage, employment, capital investment and dividend payout of the shares issued by the selected firms. To measure the effects of privatization on firm performance, for each firm, the researcher calculated the performance measures for every firm for the years before and after privatization. The mean of each measure is computed for each firm over the pre-privatization (years -5 to -1) and post-privatization (years +1 to +5) periods. The year of privatization was eliminated from the analysis because it includes both public and private ownership.

Since the sample is small, after calculating absolute value of the sum of all positive signs ranks and all negative sign ranks, the test statistics (W) equals the lesser of the two absolute values.
The test statistics is then compared with the critical value table of Wilcoxon Signed Rank test for small samples using N in this case which is equal to 5, being the number of sample pairs (5 years before and 5 years after). The rule is that the null hypothesis is rejected if the Test Statistics (W) is greater than the critical value.

The empirical proxies and the predicted relationship of the various firms’ characteristics before and after privatization are shown in the table below:

Table 3.2. The indicators to be used to test the hypotheses

<table>
<thead>
<tr>
<th>CHARACTERISTICS</th>
<th>PROXIES</th>
<th>PREDICTED RELATIONSHIP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitability</td>
<td>Return on Sales (ROS) = Operating Profit/Sales</td>
<td>ROS_A&gt;ROS_B</td>
</tr>
<tr>
<td></td>
<td>Return on Assets (ROA) = Net Income/Total Assets</td>
<td>ROA_A&gt;ROA_B</td>
</tr>
<tr>
<td></td>
<td>Return on Equity (ROE) = Net Income/Total Equity</td>
<td>ROE_A&gt;ROE_B</td>
</tr>
<tr>
<td>Operating efficiency</td>
<td>Sales efficiency= Real sales/Number of employees</td>
<td>SALEFF_A&gt;SALEFF_B</td>
</tr>
<tr>
<td></td>
<td>Income efficiency= Net income/Number of employees</td>
<td>IEFF_A&gt;IEFF_B</td>
</tr>
<tr>
<td>Output</td>
<td>Real Sales (SAL) = Nominal Sales/Consumer Price Index</td>
<td>SAL_A&gt;SAL_B</td>
</tr>
<tr>
<td>Employment</td>
<td>Number of Employees</td>
<td>Employees_A&lt;Employees_B</td>
</tr>
<tr>
<td>Leverage</td>
<td>Debt to Assets (TDTA) = Total Debt/Total Assets</td>
<td>TDTA&lt; \text{TDTA}_B</td>
</tr>
<tr>
<td>----------</td>
<td>-----------------------------------------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>Dividend payout</td>
<td>Dividend to Sales (DIVSAL) = Dividend/Sales</td>
<td>DIVSAL_A &gt; DIVSAL_B</td>
</tr>
<tr>
<td>Capital Investment</td>
<td>Capital Expenditure to Sales (CESA) = Capital Expenditure/Sales</td>
<td>CESA_A &gt; CESA_B</td>
</tr>
<tr>
<td></td>
<td>Capital Expenditure to Total Assets (CETA) = Capital Expenditure/Total Assets</td>
<td>CETA_A &gt; CETA_B</td>
</tr>
</tbody>
</table>

The researcher also analyzed the data gathered from the interview using excel.

### 3.7. Limitations of the Research

The first problem that confronted the researcher was access to information. It is normally difficult in access data in developing countries like Ghana. They consider it as sensitive issue in releasing information to outsiders.

Some of the documentary records of the organizations when they were privatized could not be found which was attributed to the restructuring that came with the privatization, and also the authenticity of the information collected cannot be assured which can affect the result of the study.

Finally, too much time was wasted in the collection of the data.
Chapter Four

4. The Background of the selected Firms

As mentioned earlier, this study involves three enterprises, Ashanti Goldfields Company Ltd. now known as AngloGold Ashanti Company Ltd., Cocoa Processing Company Ltd., and Ghana Commercial Bank Ltd. These companies represent major sectors of the Ghanaian economy. The major sectors of the economy are Mining sector represented by Ashanti Goldfields Company Limited, Agriculture sector in which cocoa can be found represented by Cocoa Processing Company Ltd. and Service sector represented by Ghana Commercial Bank. Each enterprise also presents a reasonable picture of substantial market share, significant government equity holding prior to privatization.

Ashanti Goldfields Company Limited

In 1897 an English company named Ashanti Goldfields Corporation Limited was listed on the stock exchange in London and raised funds from the public to develop a mining concession in the Ashanti region of what is now Ghana. In late 1968 Ashanti Goldfields Corporation Limited was the subject of a recommended offer from Lonrho, a UK listed company. In early 1969 it became a wholly-owned subsidiary of Lonrho and ceased to be listed on the stock exchange in London. Later that year, the Government of Ghana acquired a 20 percent shareholding in Ashanti Goldfields Corporation Limited from Lonrho in exchange for agreeing to extend the term of the mining lease over the concession.

By legislation in 1972, the Government of Ghana increased its interest when a new Ghanaian company, Ashanti was established to take over the assets, business and functions in Ghana formerly carried on by the English company. By virtue of that legislation, the Government of Ghana obtained a shareholding of 55 percent in the Company and Lonrho retained the balance of 45 percent. The Government of Ghana became the majority shareholder in the company. Ashanti operates one of the largest and richest gold mines in the world. As at 30th September, 1993 the company’s gold reserves were estimated to be 18.1 million ounces.
In March 1994, the share structure of the company was reorganized in preparation for the offers and the company became a public company. The reorganization included the issue of a Golden Share to the Government of Ghana to enable it to safeguard the national interest.

On 26th April, 1994 the company was listed on the London Stock Exchange and also listed on Ghana Stock Exchange on the 17th May, 1994.

The capital raised by these two flotations (the London IPO alone was worth $454 million) allowed the company to pay its debts to the IFC and begin its expansion in Ghana and in other African nations. By the end of the 1990s, in addition to the original mine in Obuasi, Ashanti operated the Ayanfuri, Bibiani, and Iduapriem mines in Ghana, the Siguiiri mine in Guinea, and the Freda-Rebecca Mine in Zimbabwe.

Cocoa Processing Company Limited

Cocoa Processing Company Limited (CPC) established in 1965, situated in the picturesque port city of Tema in Ghana. The company comprises three factories: two Cocoa factories and a Confectionery factory.

CPC is a limited liability company incorporated in Ghana on November 30, 1981. The shares of the company started trading in the year 2002 on the Ghana Stock Exchange.

The Cocoa Factories have an annual input of 64,500 metric tonnes of Premium Ghana cocoa beans which it processes into Cocoa Liquor, Cocoa Butter, Cocoa Cake and Cocoa Powder.

Ghana Commercial Bank Limited

Ghana Commercial Bank Limited (GCB) started in 1953 as the Bank of the Gold Coast under an Ordinance passed by the then Legislative Assembly in 1952 to provide banking services to the emerging nation for socio-economic development. The Bank was to provide special attention to Ghanaian traders, business people and farmers who could not elicit support from the expatriate banks.

In 1957, when Ghana attained independence, Bank of Ghana was established as the Central Bank while the Bank of the Gold Coast was renamed Ghana Commercial Bank to focus solely on commercial banking services.
The Bank was subsequently converted to a public company under the Statutory Corporations (Conversion to Companies) Act 1993, (Act 461). On September 7th 1994, as part of the pre-divestiture activities, a public company limited by shares, Ghana Commercial Bank Limited, was incorporated under the Companies Code 1963 (Act 179) to acquire and take over the assets and liabilities and the banking business carried on by Ghana Commercial Bank as it existed under the Ghana Commercial Bank Decree, 1972 (NRCD 115). Since then GCB branches have been opened across the length and breadth of the nation tapping the potential of the 10 regions that make Ghana. The Bank had been wholly government owned until 1996 when under the economic recovery programme part of the government ownership was divested. Today government ownership stands at 21.36% while institutional and individual holdings add up to 78.64%.

From the one branch of the 1950s, GCB now has over 150 branches and 11 agencies throughout the country. GCB abounds in high quality human resource, which stands at 2,101 as at the end of 2009. This is remarkable when one considers that the Bank started with a staff of 27. Currently there are professionals of various disciplines who work in tandem to achieve the objectives of the Bank.

The growth of the Bank has been synonymous with its customer base. During the first five years of the Bank’s operations, the customers were mainly small Ghanaian traders (now termed SMEs) and other nationals who were expected to maintain credit balance accounts because the Bank was then not adequately capitalized. From the small trader as customer, GCB now has a customer profile that ranges from salaried workers through small and medium scale entrepreneurs to large trading concerns, quasi-governmental institutions and corporate customers. Today GCB can boast of being the widest networked Bank in Ghana.
Chapter Five

5. Research Findings and Discussion

In this section, the researcher presents and discusses the empirical results of the data collected on a case by case (organization to organization) basis using performance measures for the sample of the three privatized firms. The measures include profitability, operating efficiency, capital investment, output, employment, leverage and dividend.

5.1. Profitability:

It is always expected that privatization of SOEs lead to a better performance of those firms after they have been privatized. SOEs lack proper economic incentives for the management and the fact that they are often charge with objectives like maximization of employment or providing good and services at heavily subsidized prices by the politicians and because of that it is difficult for the SOEs to achieve their goal of profit maximization. As a result of that SOEs are often unprofitable. A change to a more private ownership structure leads to profit maximization, which becomes the dominant firm objective. But this is not always the case. To measure profitability, three indicators were computed. These are Return on Sales (ROS) \{\text{operating profit to sales}\}, Return on Assets (ROA) \{\text{Net income divided by total assets}\} and Return on Equity (ROE) \{\text{Net income divided by total equity}\}. All these indicators are expected to increase significantly after privatization.

The profitability result on table 5.3 shows that the mean and median values of all the profitability indicators for CPC and GCB statistically show insignificant based on Wilcoxon test at the significance level of 0.05 in other words the firms are not expanding profit margins after privatization. The Wilcoxon test also shows that, ROS, ROA and ROE of Ashanti Goldfields Ltd. and ROS of CPC decrease significantly after privatization. However the percentage points in ROS, ROA and ROE of GCB and ROA and ROE of CPC increase after the privatization but these increments are not significant.
<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean Before (Median)</th>
<th>Mean After (Median)</th>
<th>Mean Change (Median)</th>
<th>Test statistic (W) for significance of change</th>
<th>Critical Value of Wilcoxon signed rank test</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Profitability-Ashanti Goldfields Company Limited now known as AngloGold Ashanti</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return on Sale (ROS)</td>
<td>0.3540 (0.3428)</td>
<td>0.1579 (0.1579)</td>
<td>-0.1960 (-0.1849)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Return on Assets (ROA)</td>
<td>0.1705 (0.1663)</td>
<td>0.0383 (0.0383)</td>
<td>-0.1322 (-0.1280)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Return on Equity (ROE)</td>
<td>0.3168 (0.3044)</td>
<td>0.0939 (0.0939)</td>
<td>-0.2229 (-0.2105)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Profitability-Cocoa Processing Company Limited</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return on Sale (ROS)</td>
<td>0.1291 (0.1637)</td>
<td>-0.0045 (0.0212)</td>
<td>-0.1336 (-0.1425)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Return on Assets (ROA)</td>
<td>0.1619 (0.2083)</td>
<td>0.0054 (0.0090)</td>
<td>-0.1565 (-0.1993)</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Return on Equity (ROE)</td>
<td>0.3260 (0.4262)</td>
<td>0.0231 (0.0288)</td>
<td>-0.3030 (-0.3974)</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td><strong>Profitability-Ghana Commercial Bank Limited</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return on Sale (ROS)</td>
<td>0.5454 (0.6141)</td>
<td>0.4507 (0.4573)</td>
<td>0.0947 (-0.1568)</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Return on Assets (ROA)</td>
<td>0.0426 (0.0415)</td>
<td>0.0482 (0.0503)</td>
<td>0.0056 (0.0088)</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>Return on Equity (ROE)</td>
<td>0.4004 (0.4505)</td>
<td>0.4239 (0.4351)</td>
<td>0.0236 (-0.0154)</td>
<td>7</td>
<td>0</td>
</tr>
</tbody>
</table>
5.2. Operating Efficiency

For efficiency measurement, inflation-adjusted sales per employee and net income or earning per employee are used. Flowing from the property rights and public choice literature, privatization is expected to increase efficiency after the organization has been privatized. After privatization, firms are expected employ their human, financial and technological resources more efficiently because of a greater stress on profit goals and a reduction of government subsidies (Kikeris, Nellis and Shirley, 1992).

From table 5.4 below, the sales efficiency, the mean and median of AGC decrease after the privatization but it increased for CPC. Wilcoxon test show that the change in both AGC and CPC are not significant after the privatization. This means that the amount of cedi sales generated per employee has not improved and this is making the employees inefficient looking at the resources available to them.

For the income efficiency, both mean and median for AGC and GCB increase significantly according to Wilcoxon test. The income per employee of AGC mean (median) increase from 2,706,217 (2,261,916) to 13,252,948 (13,252,948) and that of GCB also increase from 621 (653) to 3,888 (1955) Ghana cedis. This shows that the management of AGC and GCB are using the employees more efficiently. However the income per employee ratio decrease but does not show any significant change for CPC.

Table 5.4: Performance indicator: Operating Efficiency

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean Before (Median)</th>
<th>Mean After (Median)</th>
<th>Mean Change (Median)</th>
<th>Test statistic (W) for significance of change</th>
<th>Critical Value of Wilcoxon signed rank test</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Efficiency-Ashanti Goldfields Company Limited</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales efficiency</td>
<td>275.2952 (277.0128)</td>
<td>267.0376 (267.0376)</td>
<td>-8.2576 (-9.9752)</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td>Income efficiency</td>
<td>2706217 (2261916)</td>
<td>13252948 (13252948)</td>
<td>10546731 (10991032)</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
### Operating Efficiency-Cocoa Processing Company Limited

| Sales efficiency | 305.5816 (327.1399) | 348.0833 (366.1987) | 42.4017 (39.0588) | 4 | 0 |
| Income efficiency | 2346.1941 (2714.9607) | 777.2406 (1135.4263) | -1568.9535 (-1579.5344) | 1 | 0 |

### Operating Efficiency-Ghana Commercial Bank Limited

| Sales efficiency | - | -- | -- |
| Income efficiency | 621.1102 (653.2330) | 3888.0558 (1955.3889) | 3266.9456 (1302.1559) | 0 | 0 |

### 5.3. Capital Investment

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 (Megginson, Nash and Van Randenborgh, 1994). To access the impact of privatization on capital formation, the researcher computes two indicators: Capital expenditure to sales and capital expenditure to total assets.

Examining the table 5.5 below, the results show that is only CPC which ratio of capital expenditure to sales has increased significantly from about 5.6% to 32% after privatization. The ratio for AGC and GCB show negative signs in mean and median values, neither of them show significant change based on the Wilcoxon test.

On the other hand, capital expenditure to total assets ratio increase for both CPC and GCB but decrease for AGC and according to Wilcoxon test the change in all firms are not significant.

This shows that the firms are not investing much for the future of the organizations.
Table 5.5: Performance indicator: Capital Investment

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean Before (Median)</th>
<th>Mean After (Median)</th>
<th>Mean Change (Median)</th>
<th>Test statistic (W) for significance of change</th>
<th>Critical Value of Wilcoxon signed rank test</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital Investment - Ashanti Goldfields Company Limited</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Expenditure /Sales</td>
<td>0.4434 (0.4079)</td>
<td>0.2887 (0.2887)</td>
<td>-0.1547 (-0.1192)</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td>Capital Expenditure /Total Assets</td>
<td>0.2529 (0.2468)</td>
<td>0.1213 (0.1213)</td>
<td>-0.1316 (-0.1254)</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td><strong>Capital Investment - Cocoa Processing Company Limited</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Expenditure /Sales</td>
<td>0.0512 (0.0494)</td>
<td>0.3166 (0.2765)</td>
<td>0.2654 (0.2271)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Capital Expenditure /Total Assets</td>
<td>0.0569 (0.0558)</td>
<td>0.1559 (0.1250)</td>
<td>0.0990 (0.0692)</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td><strong>Capital Investment - Ghana Commercial Bank Limited</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Expenditure /Sales</td>
<td>0.0605 (0.0634)</td>
<td>0.0578 (0.0501)</td>
<td>-0.0027 (-0.0133)</td>
<td>7</td>
<td>0</td>
</tr>
<tr>
<td>Capital Expenditure /Total Assets</td>
<td>0.0074 (0.0060)</td>
<td>0.0096 (0.0088)</td>
<td>0.0022 (0.0028)</td>
<td>4</td>
<td>0</td>
</tr>
</tbody>
</table>

5.4. Output

Following privatization, output should increase because of greater competition, better incentives and more flexible financing opportunities (Megginson, Nash and Van Randenborgh, 1994). On the other hand, the theoretical model of Boycko, Shleifer and Vishny (1993) predicts a fall in
output since the government no longer subsidizes the newly privatized firm and this would lead to a higher inefficient output levels.

The proxy used is a real sales which is sales divided by consumer price index. From the table 5.6 below, according to Wilcoxon test, the real sale for AGC is significant while that of CPC is insignificant even though the real sale increase after privatization.

Table 5.6: Performance indicator: Output

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean Before (Median)</th>
<th>Mean After (Median)</th>
<th>Mean Change (Median)</th>
<th>Test statistic (W) for significance of change</th>
<th>Critical Value of Wilcoxon signed rank test</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Output - Ashanti Goldfields Company Limited</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real Sales (GH Cedis) in Millions</td>
<td>2.5201 (2.5385)</td>
<td>3.4314 (3.4314)</td>
<td>0.9113 (0.8929)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Output - Cocoa Processing Company Limited</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real Sales (GH Cedis) in Millions</td>
<td>0.1737 (0.1897)</td>
<td>0.2029 (0.2205)</td>
<td>0.0292 (0.0373)</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td><strong>Output - Ghana Commercial Bank Limited</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real Sales (GH Cedis) in Millions</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

5.5. Employment

Governments expect the level of employment to decline once the SOEs which are usually overstaffed turn out private and no longer receive government subsidies. However, in growing sectors, the newly privatized firm could absorb surplus labor through new capital investment and more productive use of existing assets (Kikeri, Nellis and Shirley, 1992).
The results are mixed. From the table 5.7 below, the employment level on average for five year periods -5 to -1 and +1 to +5 demonstrate the employment increase in AGC and CPC after privatization. The wilcoxon test shows a significant average mean and median increase for AGC, but shows insignificant increase for CPC. The average employment mean and median however decrease significantly according to wilcoxon test in GCB. The average employment mean (median) for the five year period after privatization decrease from 3723 (3749) before privatization to 2791 (3201).

Table 5.7: Performance indicator: Employment

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean Before (Median)</th>
<th>Mean After (Median)</th>
<th>Mean Change (Median)</th>
<th>Test statistic (W) for significance of change</th>
<th>Critical Value of Wilcoxon signed rank test</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employment-Ashanti Goldfields Company Limited</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Employment</td>
<td>9172 (9164)</td>
<td>12850 (12850)</td>
<td>3678 (3686)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Employment -Cocoa Processing Company Limited</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Employment</td>
<td>567 (560)</td>
<td>580 (570)</td>
<td>14 (10)</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td><strong>Employment -Ghana Commercial Bank Limited</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Employment</td>
<td>3723 (3749)</td>
<td>2791 (3201)</td>
<td>-932 (-548)</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

5.6. Leverage

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

The proxy used is total debt divided by total assets. From the above explanation leverage should decline but from the result on the table 5.8 below, all the ratios of the firms increase but only GCB which the wilcoxon test shows a significant positive change.

Table 5.8: Performance indicator: Leverage

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean Before (Median)</th>
<th>Mean After (Median)</th>
<th>Mean Change (Median)</th>
<th>Test statistic (W) for significance of change</th>
<th>Critical Value of Wilcoxon signed rank test</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Leverage-Ashanti Goldfields Company Limited</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Debt to Total Assets</td>
<td>0.3173 (0.3262)</td>
<td>0.3824 (0.3824)</td>
<td>0.0652 (0.0562)</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td><strong>Leverage -Cocoa Processing Company Limited</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Debt to Total Assets</td>
<td>0.5076 (0.4341)</td>
<td>0.6388 (0.6892)</td>
<td>0.1312 (0.2551)</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td><strong>Leverage -Ghana Commercial Bank Limited</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Debt to Total Assets</td>
<td>0.5928 (0.5960)</td>
<td>0.8818 (0.8849)</td>
<td>0.2889 (0.2889)</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

5.7. Dividend

Dividend payments should increase because unlike governments, private investors generally demand dividend and dividend payments are a classic response to atomized owned structure which most privatization programmes led to (Megginsong, Nash and van Randendorgh, 1994).
The proxies for dividend are the dividend to sales ratio and dividend payout ratio (dividend payments divided by net income). According to the result in table 5.9, two out of the three firms have dividend payment decrease and Wilcoxon test shows that those decrease are not significant in both ratios but GCB increase significantly after privatization.

Table 5.9: Performance indicator: Dividend

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean Before (Median)</th>
<th>Mean After (Median)</th>
<th>Mean Change (Median)</th>
<th>Test statistic (W) for significance of change</th>
<th>Critical Value of Wilcoxon signed rank test</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dividend-Ashanti Goldfields Company Limited</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividend to Sales</td>
<td>0.0648 (0.0610)</td>
<td>0.0091 (0.0091)</td>
<td>-0.0558 (-0.0520)</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Dividend to Net Income</td>
<td>0.2284 (0.1934)</td>
<td>0.1255 (0.1265)</td>
<td>-0.1020 (-0.0670)</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td><strong>Dividend -Cocoa Processing Company Limited</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividend to Sales</td>
<td>0.0470 (0.0534)</td>
<td>0.0060 (0.0091)</td>
<td>-0.0410 (-0.0443)</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Dividend to Net Income</td>
<td>0.3236 (0.3000)</td>
<td>0.2925 (0.3488)</td>
<td>-0.0311 (0.0488)</td>
<td>7</td>
<td>0</td>
</tr>
<tr>
<td><strong>Dividend -Ghana Commercial Bank Limited</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividend to Sales</td>
<td>0.0437 (0.0353)</td>
<td>0.1156 (0.1282)</td>
<td>0.0719 (0.0929)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Dividend to Net Income</td>
<td>0.1275 (0.1484)</td>
<td>0.4153 (0.4586)</td>
<td>0.2878 (0.3102)</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
5.8 Findings from the interviews:

The participants who were interviewed were 58, out of these 24 (41.38%) were from the three organizations selected, 8 (13.79%) were former staff members and 26 (44.83%) were non staff members. Selected questions that were asked during the interview are as follows:

Table 5.10: Is Privatization necessary?

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage (%)</th>
<th>Valid Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes (Valid)</td>
<td>25</td>
<td>43</td>
<td>47</td>
</tr>
<tr>
<td>No (Valid)</td>
<td>28</td>
<td>48</td>
<td>53</td>
</tr>
<tr>
<td>No Idea</td>
<td>5</td>
<td>9</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>58</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Normally, those employed in privatized firms will say that privatization is very necessary and those laid off will against privatization. The result shows that privatization is not necessary in Ghana. From Table 5.10 above, 47% of the valid interviewees believe that privatization is very necessary because it will create more jobs, pay more taxes for the government, and the revenue from the sales will make more funds for the government and 53% indicated that privatization is not necessary. They also believe that the performance before and after privatizations of most of the firms have not changed significantly. They said few companies that have performed better were already doing well before the privatization. They said the government should have restructured and reformed SOEs and also set performance targets and reward schemes for them to perform well rather than privatized them. This support the above analyses that performance of privatized firms have not change significantly after the privatization.

Table 5.11: Asked whether the government has achieved its objective of privatization?

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>22</td>
<td>38</td>
</tr>
<tr>
<td>No</td>
<td>36</td>
<td>62</td>
</tr>
<tr>
<td>Total</td>
<td>58</td>
<td>100</td>
</tr>
</tbody>
</table>
From Table 5:11, 22 (38%) of the respondents believe that government has achieved its objective of privatization because, it has raised the overall efficiency of the economy while 36 (62%) respondents indicated that government has not achieved its objective. This result support those who against the privatization policy in Ghana. They think that privatization policy is the World Bank and International Monetary Fund (IMF) conditionality for those countries involve to access loan from those organizations or for the government officials to enrich themselves and not for any other objective. Some of the respondents indicated that privatization has become an objective in itself rather than a means of increasing access to services, enhancing equity, helping the poor and increasing the overall performance of the economy. They believe that before and after privatization performances have not changed much.

Table 5.12: Asked whether the profitability of those privatized SOEs will improve?

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>38</td>
<td>66</td>
</tr>
<tr>
<td>No</td>
<td>20</td>
<td>34</td>
</tr>
<tr>
<td>Total</td>
<td>58</td>
<td>100</td>
</tr>
</tbody>
</table>

From Table 5.12, 20 (34%) said profitability will not improve while 38 (66%) of the respondents indicated that privatized firms will improve their profitability. Those who said profitability will improve indicated that the main goal of private organizations is to maximize profit and because of that they will do everything possible to increase their profit. They noted that sometimes successful SOEs which are making profits end up in private, often foreign hands and they continue making more profit instead of being available for the common good of the society.

Table 5.13: Asked whether the privatization will improve the quality of goods and services?

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>25</td>
<td>43</td>
</tr>
<tr>
<td>No</td>
<td>33</td>
<td>57</td>
</tr>
<tr>
<td>Total</td>
<td>58</td>
<td>100</td>
</tr>
</tbody>
</table>
From Table 5.13 above, 25 (43%) of the interviewees indicated that privatization will lead to improvement in the quality of goods and services while 33 (57%) said that the quality of goods and services will not change. Those who indicated that privatization will not improve the quality of goods and services believe that privatization will not always result in true competition if a natural monopoly exists. This monopoly will result in poor goods and services to the society with high prices. This will reduce the efficiency of the company.

Table 5.14: Asked whether the prices of goods and services will increase due to privatization?

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>37</td>
<td>64</td>
</tr>
<tr>
<td>No</td>
<td>21</td>
<td>36</td>
</tr>
<tr>
<td>Total</td>
<td>58</td>
<td>100</td>
</tr>
</tbody>
</table>

37 (64%) of the interviewees indicated that privatization will lead to price increases of goods and services while 21 (36%) said prices will not increase as shown in the table 5.14 above. Those who said that prices will increase argue that SOEs tend to produce more public goods and services and that, they do so by targeting both the rich and the poor in society which makes the prices low as compare to private companies who will produce less and price them high, target only those who can afford in order to make more profit. This shows that public goods and services are provided more efficiently for the society as a whole by SOE than private organization. This brings some cost to the society when those goods and services are provided by private organization.

Table 5.15: Asked whether privatization will lead to employment reduction?

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>39</td>
<td>67</td>
</tr>
<tr>
<td>No</td>
<td>19</td>
<td>33</td>
</tr>
<tr>
<td>Total</td>
<td>58</td>
<td>100</td>
</tr>
</tbody>
</table>
From the above Table 5.15: it shows that privatization will lead to reduction in employment. 39 (67%) of the respondents indicated that privatization will lead to employment reduction while 19 (33%) said privatization will not lead to employment reduction. Those who support that argument believe that since private companies main goal is to maximize profit and since the government also provides room for those who will be laid off, the private company will reduce the employee strength in order to reduce its expenditure and make more profit. They said that this normally put pressure on individuals who will be laid off, their family members and the society as a whole. This will lead to unemployment and this can lead to act like arm robbery, divorce, school dropout and others. These are some of the cost to the society when SOEs are privatized.

Table 5.16: Asked whether privatization will increase capital expenditure spending of the firms?

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>28</td>
<td>48</td>
</tr>
<tr>
<td>No</td>
<td>30</td>
<td>52</td>
</tr>
<tr>
<td>Total</td>
<td>58</td>
<td>100</td>
</tr>
</tbody>
</table>

From table 5.16 above, it shows that privatization will not increase capital expenditure spending. 28 (48%) of the respondents indicated that privatization will increase capital expenditure spending while 30 (52%) said will not increase it. Those who said it will not increase believe that any time government sells its asset, it will not invest into that company again and the new owner has to pay for price of the asset and get extra funds to invest into the company. Since a private company will borrow from the financial market which is more expensive than the government which can raise funds from the financial markets cheaper to re-lend to SOEs. This will not change much capital expenditure spending in most of the situation for the first 4 or 5 years after the privatization.
As asked whether privatization will affect the society?
The respondents believe that privatization will affect the society negatively. 30 (52%) indicated that privatization will affect the society negatively while 28 (48%) think otherwise. They think that privatization will increase unemployment situation in Ghana and this can lead to arm robbery, divorce, school dropout and others as mention above. It will also increase the prices of goods and services which will affect the unemployed and low income earners. They also said that there are some essential services when the government privatized those services, it could lead to the abandoning of the social obligation to those who are less able to pay or to areas where those services are unprofitable. These affect the society significantly.

Table 5.17: In you view, will privatized SOE perform better than when it was under government?

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>27</td>
<td>47</td>
</tr>
<tr>
<td>No</td>
<td>31</td>
<td>53</td>
</tr>
<tr>
<td>Total</td>
<td>58</td>
<td>100</td>
</tr>
</tbody>
</table>

Table 5.17 shows that privatized SOEs will not perform better than when it was under the government as indicated by 31 (53%) of the respondents while 27 (47%) think otherwise. This support the earlier analyses that the performance of SOEs will not improve significantly when privatized.
Chapter Six

6. Conclusion and Recommendation

This study investigated the financial and operating performance of three privatized firms in competitive sectors in Ghana by comparing pre and post privatization performance. The indicators used are profitability, operating efficiency, capital investment, output, employment, leverage and dividends.

The results show that on the average there are no significant improvements in the performance indicators after the privatization. Even though there are significant improvement in income efficiency in AGC and GCB. These improvements are due to higher exchange rate from US dollar to cedis and employment reduction respectively. One out of three firms also shows significant improvement in other indicators like output, employment, leverage and dividend.

This research contradicts most of the earlier empirical studies both in developed and developing countries but it supports some studies like (Caves and Christenson, 1980), and (Boardman and Vining, 1989).

These results add to the growing empirical evidence that, after privatization firms may not become profitable and efficient. The researcher could not determine whether this is as a result of other factors like the economy, privatization process, or prices like gold and cocoa in the international market.

This result also support the agitation of civil society that state owned enterprises should not be privatized because the social cost of privatization affect the society significantly.

Even though the sample size does not represent large portion of the privatized firms in Ghana, these three firms represent major sectors in the economy of Ghana.

The researcher concludes that over almost two decades of privatization process in Ghana not significant changes resulted in financial and operating performance in achieving the objectives of privatization in Ghana.

The researcher recommends that there should be an intensive research to ascertain the financial and operating performance of privatized firms in Ghana. There should also be an investigation
into the processes and mode of privatization since all the three firms were offered through Stock exchange it can happened that those offered through other methods will perform better than this.
REFERENCE:


