

**THE IMPACT OF PRIVATIZATION ON THE  
PROFITABILITY OF BUSINESS ENTERPRISES.  
CASE STUDY, UMEME COMPANY, KAMPALA, UGANDA.**

**A RESEARCH DISSERTATION TO BE SUBMITTED IN PARTIAL  
FULFILLMENT OF THE REQUIREMENT FOR THE DEGREE  
BACHELOR OF INTERNATIONAL BUSINESS ADMINISTRATION OF  
KAMPALA INTERNATIONAL UNIVERSITY**

**BY**

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BIB/3671/32/DF**

**FEBRUARY, 2007**

## **DECLARATION**

I, Ayieko Damaris declare this work original and as a result of my personal effort. This project has never been presented before to any institution of learning for award of a degree.

**STUDENT:**    **AYIEKO DAMARIS**

**SIGN:**        *Ayieko*  
.....

**DATE:**        12/03/07  
.....

## **APPROVAL**

This project has been submitted to examination with my approval as Kampala international university supervisor for the candidate.

**SIGN:** Mr. Ruteganda      **DATE:** 12/03/07

Mr. Ruteganda Michael, BBA (U.S.A.), MSC FIN & ACC (UK), A.C.I.S (U.K)

## **DEDICATIONS**

This project is a special dedication to my loving and caring parents, Mr. and Mrs. Ayieko jowi. Thanks so much for making me what I am today. May the lord bless you.

## **ACKNOWLEDGEMENT**

I thank the almighty lord and give him glory because he has made me proud and kept me whole and healthy and enabled me in the completion of this research project.

I acknowledge the efforts of my lecturer and supervisor Mr. Michael Ruteganda for his support and guidance which contributed to the successful completion of this project

I also acknowledge the efforts of my dear parents (Mr. and Mrs. Ayieko Jowi) for their financial and moral support they offered over the years, my sisters and brothers for their love and inspirations and not forgetting my dearest Nelly, thanks for being always there for me.

Lastly but not least i thank the management and staff of Umeme Company especially the human resource management for their support. Much gratitude to them all.  
May the lord be with you and bless you all.

## **ABSTRACT**

The title of this project is the impact of privatization on the profitability of business enterprises. This research was conducted under the hypothesis that privatization positively affects the profitability of business enterprises.

The study was carried out to analyze firm's performance after privatization, assess the impacts/effect of privatization in regard with profitability and evaluate the responses to the policy.

Both the qualitative and quantitative methods of collecting data were used in the study. They included interviews, questionnaires, sampling, and literature reviews. The sample unit includes umeme company employees.

Conclusions and recommendations were made by the researcher at the end of the research.

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## **CHAPTER ONE**

### **1.0 INTRODUCTION**

#### **1.1 Background Of The Study**

Privatization has been a worldwide trend since the 1980's though there has been a sharp increase during the 1990's. This research study is confined to the company in Uganda i.e. umeme company (power distribution company). Before privatization, there was a huge inefficient performance from the company which led to decrease in profits. This is why the private sector driven growth was adopted whose main objective was to improve the efficiency and performance of the company.

However, even though from this research privatized firms provide better services to consumers and the economy, there are some concerns about it such as inadequate distribution of benefits and loss of jobs

Research on the "impact of privatization on the profitability of business enterprises" is very critical and significant since it helped in comparing profits i.e. before and after privatization. Whether the profits have been decreasing or increasing. Also it helped in knowing the governments' revenue/tax base i.e. whether it had been decreasing or increasing.

During this research, the researcher focused on profitability of business enterprises through privatization, however any other issue stated is paramount important because of the close relationship.

## **1.2 Statement Of The Problem**

Impact of privatization on the profitability of business enterprises is important since it has determines whether the privatized organization will exit or remain privatized. well designed private sectors will always improve on their efficiency and performance hence increases their profits.

One should be concerned with how privatization affects profits of organizations since the community, the government and business enterprises as a whole will benefit through various ways in the long run. For the sustainability of business enterprises, this research is very important.

## **1.3 Main Objective Of The Study**

The broad/overall research objective is to find out the impact /effect of privatization on the profitability of business enterprises.

## **1.4 Specific Objectives Of The Study**

The researchers' specific objectives of the study are as follows:

- To find out if privatized business enterprises do meet their social and economic goals.
- To find out if there is other factors that affect the profitability of an organization apart from privatization.
- To what extent has privatization benefited the community as a whole.

## **1.5 Research Questions**

- Does privatization solve the problems of profitability that business enterprises face?
- Is there any other policy that can be used to solve these problems apart from privatization?

## **1.6 Significance Of The Study**

The research study is very important and has an implication to several areas like the following.

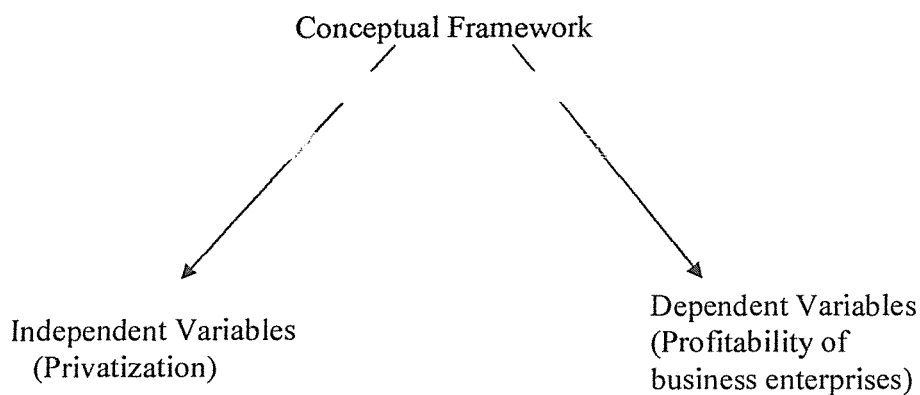
- The main contribution of this research is to the academic field. This research is beneficial to students and educational administrators who want to do further research on privatization and also on other factors affected by privatization apart from profits in business enterprises.
- This research also has major implications to public business enterprise sectors. E.g. national water which are still government parastatals. By understanding the impact of privatization, they can decide whether they should adopt the policy of privatization or not.
- Another contribution of this research is to the government. These findings will help the government especially under the ministry of finance, planning and economic development to solve the problem of deficit where the expenses exceed revenues.

## 1.7 Scope Of The Study

This research has been conducted in umeme company head offices, Rwenzori house (2<sup>nd</sup> floor), Kampala city in central Uganda region. It explains whether or not privatization is the preferred policy to adopt for the improvement of organizations profits.

## 1.8 Conceptual Framework

It explains the research process in terms variables.



From the diagram above, profitability of the business enterprises depends on privatization, it may either decrease or increase, and therefore it is the dependent variable. On the other hand, privatization is the independent variable, it is on its own, and it doesn't depend on the other. Though many scholars have different views on the impact of privatization on the profitability of business enterprises, we have found out what it's all about from this research.

## **CHAPTER TWO**

### **2.0 LITERATURE REVIEW**

#### **2.1 Introduction**

In this chapter of the dissertation, we briefly talk about relevant literature on the impact of privatization on the profitability of business enterprises. This research draws diverse views of scholars and practioners on how privatization has an effect on an organizations profit. Different scholars have different perceptions on this problem; some feel that privatization has a positive impact while others feel that it's got a negative impact.

#### **2.2 Review Of Previous Relevant Literature**

These are the past studies done on the policy of privatization and its impact on the profitability of business enterprises.

**(Sophie sirtaine, vivien, Maria Elena – 1990's)** have all devoted much time as scholars to study privatization and its impact on business enterprises. they stated "there is growing public hostility of privatization in developing countries, with critics claiming that private operators made large profits at the expense of utility customers. but so far there is little evidence."

Also they went ahead to say that "recent studies measuring the profitability of private organizations reveal a different picture. They show that on average, private operators have not yet made returns comparable to the risks they took on, even after correcting for potential under-reporting profits."

**(global business, by Charles.w.l. hill)** "privatization is seen as a way to unlock gains in economic efficiency by giving new private owners a powerful incentive-the reward of greater profits-to search for increases in productivity, to enter new markets, and to exit failing ones." according to this scholar, privatization is a way of increasing profits to organizations.

### **Studies On Negative Effects Of Privatization**

**(<http://rru.worldbank.org/discussion/penfile>. World bank-1990's)**

"In recent studies privatization is seen to be increasing profits of business enterprises though it adversely affects workers" table-1 below shows the extent of job losses in major parastatals.

<b>JOBS IN SELECTED PUBLIC ENTERPRISES AND PUBLIC SERVICES</b>				
	<b>1995</b>	<b>1999</b>	<b>NUMBER OF JOBS LOSES</b>	<b>% DECREASE IN EMPLOYMENT</b>
Transet	115317	78708	36609	-32
Denel	11243	6363	4880	-43
Telkom	58793	46000	12793	-22
Eskom	39952	37311	2641	-7
public services	1176545	1042392	134153	-11
	1401850	1210774	191076	-14

The table shows that;

- large job losses have occurred during the restructuring process within state owned enterprises
- While privatization process has not occurred in eskom, preparing for privatization has necessitated the reduction of the workforce: and
- Job losses are likely to be higher once consolidated information from local government and parastatals are included.

Apart from that, there is also **reduction in benefits and condition of services**. As privatization process continues, and enterprises ready themselves for competition, a 'race to the bottom' will become the norm.

Proposals from enterprise management are already premised on reducing the costs of employment.

**(world bank report, 1995)** increased unemployment

"Changes in the ownership and management structures of enterprises, local government and public services are likely to exacerbate the unemployment problem in the country. This would have adverse socio-economic impacts particularly in poorer provinces and communities, where public sector employment is the largest source of formal employment. "



### 2.3 Other Alternatives To Privatization

This research is based on privatization for the determination of profits but apart from that, some scholars came up with other alternative policies to be used by organizations that will have an impact on the profits, such as decentralization and nationalization.

**(Rohit khare)** he says "a decentralized system is the transfer of authority and responsibility for public functions from central government to intermediate and local governments. It requires multiple parties to make their own independent decisions."

Another alternative could be nationalization.

**(en.wikipedia.org/wiki/nationalization)** "Nationalization is the act of taking assets into state ownership, usually it refers to private assets being nationalized, but sometimes it may be assets owned by other levels of government, municipalities. This is now the opposite of privatization.

During the research, the researcher critically appreciated privatization as one of the most important policies that determine the impact of profits in business organizations.

## **CHAPTER THREE**

### **3.0 Research Methodology**

In this chapter, the research was conducted using several methods of data collection.

#### **3.1 Research Design**

The types of research that were adopted by the researcher during the research process were both the qualitative and quantitative research. Using the quantitative based research, a questionnaire was used to collect relevant information and also sampling method was used while using the qualitative based research, interviews with and with knowledgeable people was used to collect in depth information. The researcher also used some literature reviews to collect information.

#### **3.2 Questionnaire Method**

The researcher used this method of collecting data whereby a structured questionnaire containing questions regarding privatization was sent to the concerned respondents with a request to answer the questions and return it.

It was very important for the researcher to ensure that the questionnaire was clearly written for the respondent to be able to read and understand the questions clearly to give the required results by answering appropriately.

This method is advantageous because first, it is not expensive to administer. Secondly the respondents feel free to express views they fear might

be disapproved and lastly the respondents answer questions at their own pace so can consider each point carefully rather than reply with the first thought that comes in mind.

On the other hand, the questionnaire had its disadvantages though they are outweighed by the advantages. First, there was low rate of return of the filled in questions. Secondly this method was somehow not satisfying in that there was the possibility of ambiguous replies or omissions of replies to certain questions. this makes the research study inaccurate. Also this method was time consuming because the researcher had to send the questionnaire to the respondents and again wait for it for a long time to be sent back.

Despite all these obstacles, the research was successful because the researcher was able to collect relevant information.

### **3.3 Sampling Method**

Using this method, information was collected from a representative portion of the population of workers at Umeme Company. The sample is normally picked using the accepted statistical methods like the probability. The researcher chose a certain size of sample from the company that was more likely to give information he wanted. The probability of the picked sample giving relevant information was high as compared to the unpicked.

### **3.4 Interview Method**

This is the method of collecting data by asking the participants questions. The researcher used this method through personal interview, whereby the questions were asked face-to-face to the respondents. This enabled the researcher to collect first hand information. In order to get good responses, during the interview the researcher only asked one question at a time, listened carefully to the respondent's answers, avoided suggesting answers to the questions, observed the respondent's facial expression, gestures and tone of the voice and also he took note of answers that seemed to be vague and ambiguous.

This method proved to be very efficient and important because it permitted greater depth of responses since it was face-to-face. The researcher was therefore able to collect more information and in greater depth.

Also since the researcher could see the respondents physically, he was able to collect information on feelings and emotions in relation to certain questions. More with this method, the researcher had an opportunity to restructure questions. This made him able to adapt to the language of the interview to the ability of the respondents and hence avoided misinterpretation of the questions.

On the other hand, this method also had its own disadvantages. First of all it was time consuming in terms of visiting various respondents to see which one would give accurate results. Also this method proved to be very expensive since the researcher had to visit many respondents for reasons of being more accurate. Apart from these limitations, the research was done and data collected.

### **3.5 Literature Review**

During this research, a lot of references from books, magazines, journals, and companies own records were done. All this literature review helped the researcher to obtain more relevant information related to the study.

The advantages of this method of research is that, it was less expensive, the researcher was able to develop more understanding of the research study and also he was able to get more and accurate information based on the facts.

The disadvantages of this method on the other hand are that it was time consuming. The researcher had to complete a reading material to get exact information. Also there was lack of availability of current information.

## **CHAPTER FOUR**

### **4.0 Data Analysis And Presentation**

Both the qualitative and quantitative methods of data analysis were used during this research. This analysis kept into consideration the objectives and research questions of the study, therefore, involved the evaluation of the usefulness of information in the answering of research questions.

#### **4.1 Findings**

#### **4.2 Results of Investigations**

Through the research on "impact of privatization on the profitability of business enterprises," the researcher obtained the following information from Umeme Company.

- ❖ It was through the government condition that the company privatized. Prior privatization period, there was a huge and inefficient public sector that was not contributing its fair share to GDP growth and yet heavily subsidized by government. This is why the government adopted this strategy of privatization with the main objective of improving the efficiency and performance of public sectors.
- ❖ Privatization has had several impacts both on Umeme Company, the government and the community at large.

This policy largely affected the profitability of the company. As compared to prior privatization, there has been a significant improvement in terms of profitability.

This policy also contributed to the development of human resource capacity and has also introduced new technologies and better conditions in the production process hence improvement in workers environment (better pays and benefits).

Privatization brought about increases in indirect jobs. There has been loss of jobs but they are small compared to the total labor force. However, owing to better business performance, privatized firms currently provide indirect employment to thousands of people across the country. For example, Umeme Company provided indirect employment to about 3,700 people across the country. Also through privatization, the government increased their revenue. The governments' revenues doubled in excess of 199 billion after privatization

- ❖ According to the company surveyed i.e. umeme company, so far, privatization policy has been the only link to improve their profits.
- ❖ Again in response to the company employees, there has been no big change in employment. The number almost remained the same. But generally, the overall average employment of other 39 privatized enterprises increased by 16 percent from 6,695 workers in 1997 to 7,770 workers in 1998.

An increase of about 3 percent was registered from 7,770 workers in 1998 to 7,992 workers in 1999. Of the 39 enterprises, 38percent (15 enterprises) had steady increase in employment, 36 percent (14 enterprises) had no change in employment and 26 percent (10 enterprises) had declining employment levels. Thus, it was concluded that employment level was increasing at a decreasing rate.

### **4.3 data analysis**

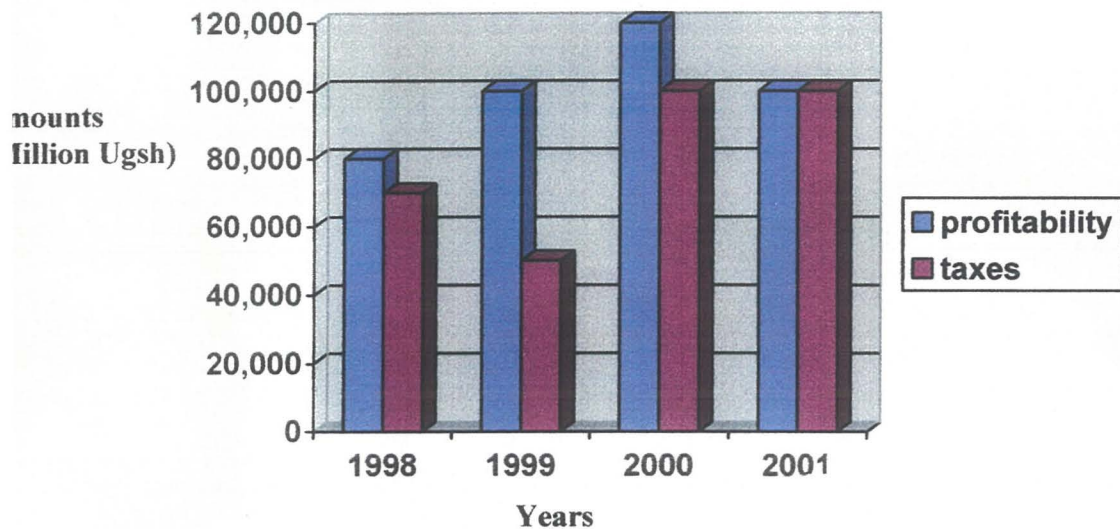
During the research, the following information was obtained. the table below shows evidence on profitability and government tax of the surveyed company between 1999 and 2001.

<b>year</b>	<b>profitability</b>	<b>taxes</b>
1998	80,000	70,000
1999	100,000	50,000
2000	120,000	100,000
2001	100,000	100,000

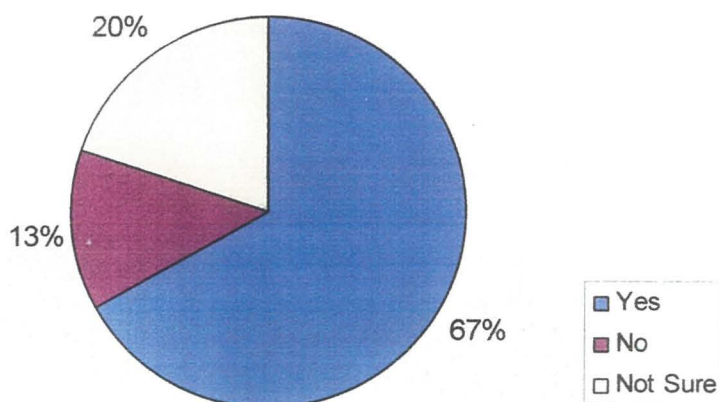
From the data provided, privatization led to increase of both the organizations profits and the government tax base. This data is clearly represented on the graph below.



**Figure 1: selected privatization performance in terms of profits  
(1998-2001)**



Below is a pie-chart showing the responses of umeme company employees on "the impact of privatization on the profitability of the company." the question was, **has privatization led to increased profits?**



Out of 30 employees asked, 20 said yes, 6 said not sure and 4 said no.

## **CHAPTER FIVE**

### **5.0 Conclusions and recommendations**

#### **5.1 Overview of research process**

This research study was based on privatization and profitability of business enterprises, case study of umeme company, Uganda. The main objective of this study was to find out how privatization has affected the profitability of business enterprises.

The methods that the researcher used to collect data include the questionnaires, interviews, sampling and literature review. The pie charts and graphs were used to analyze the data collected.

The researcher established that actually privatization affects positively the profitability of business enterprises basing on the research findings recorded in chapter four. Pertaining the case study of Umeme Company, the researcher came up with the following conclusion. The profit margin of the company increased steadily after privatization.

#### **5.2 Applicability Of The Findings**

Throughout the research study, the facts established are applicable to what the researcher was investigating. That is, to establish whether and how privatization affects profitability of business enterprises.

This is because the researcher obtained information and evidence on how privatization affected profits of Umeme Company annually (As indicated in chapter four).

From the information obtained, it was established that actually privatization affects profits business enterprises.

### **5.3 Suggestions For Further Actions / Recommendations**

After the research was completed, the researcher concluded that actually privatization increased profits of business enterprises though he came up with several opinions that would be fairly good if put into practice.

- ❖ Though Umeme Company were making profits, still the privatization strategy was not quite effective. the researcher recommends, that the firm should try adopt other policies like nationalization and decentralization, then compare and see which one would be the most effective one to be used in terms of benefiting everyone and not the organization only
- ❖ The researcher also recommended that for privatization to be more effective, it has to be combined with appropriate competition and regulatory policies and implemented in the context of broader structural reform.
- ❖ During the research, the researcher noted that the losses made by privatization are generally small relative to the labor force. He said labor adjustment is not privatization phenomena alone, but a neutral dynamic process driven by technological change among other factors. The governments can therefore use various options to minimize the negative impact of privatization. They can offer severance payments, pension arrangements and, retraining programs and other active labor market programs as well as employee share ownership scheme.

#### **5.4 Researchers Conclusion**

The researcher concluded by saying that it is self and clear evident that privatization policy has spurred the growth of many business enterprises in terms of increased profits and not only that, it has also funded public awareness drives in order to get more people involved. Therefore the public sectors that make losses may try to adopt the policy of privatization in the right way and with no doubt they will make profits in the long-run. Also for those enterprises that feel privatization is not effective enough, they could adopt other alternatives such as nationalization and decentralization.

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## **APPENDIX**

### **Appendix A**

#### **Vitae**

- 6<sup>th</sup> October 1984 : Born, Mombassa, Kenya
- January 1990-November 1998 : St. Augustine's Preparatory School,  
Mombassa.
- January 1999-November 2002 : Kenya Certificate of Secondary  
Education (K.C.S.E) Murray  
Girls High School
- August 2003-February 2004 : Access Programme, Kampala  
International University (K.I.U.)
- March 2004-December 2006 : Bachelor of International Business  
Administration (BIBA), Kampala  
International university. (K.I.U.)

### **Appendix B**

#### **Abbreviations**

**P.R.O - public relations officer**

**G.D.P - gross domestic product**

**E.g. - for example**

**i.e. - that is**

**ugsh - Ugandan shilling**

## Appendix c

### Questionnaire

Tick ☒ the correct answer.

#### 1. Why the decision to privatize.

- a) government condition ☐
- b) worldbank conditions ☐
- c) shareholders condition ☐

#### 2. What's the impact of privatization on business enterprises?

- a) worsen the situation ☐
- b) improve the situation ☐
- c) not sure ☐

#### 3. Is privatization the only link to increase profits in an organization?

- a) yes ☐
- b) no ☐
- c) not sure ☐



**4. What's the relationship with the government after privatization?**

**a) good**

☐

**b) bad**

☐

**c) fair**

☐

**5. What's the capacity of employees after privatization?**

**a) increased**

☐

**b) decreased**

☐

**c) remained constant**

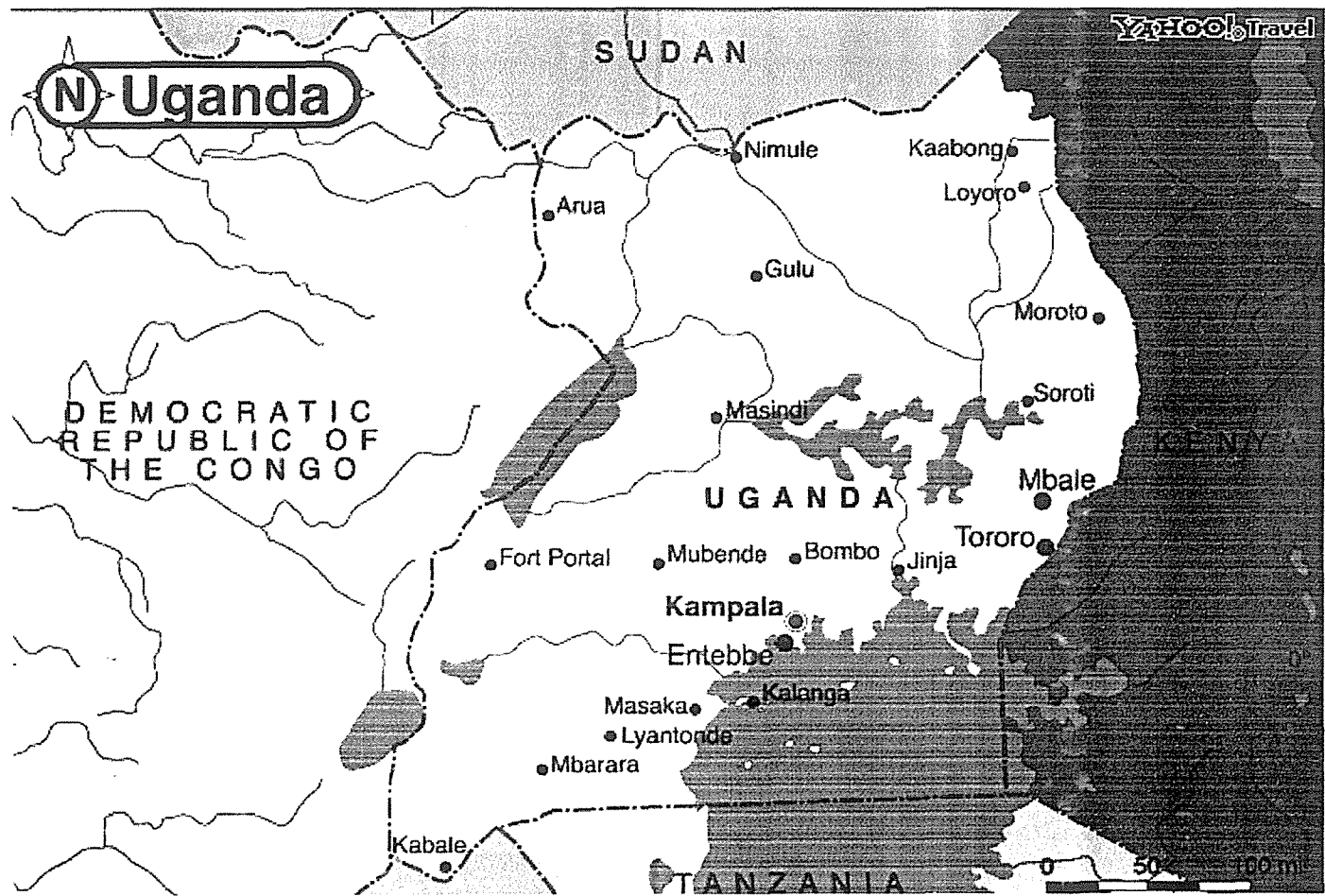
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## **Appendix D**

### Map of the Company

## **Appendix E**

### Transmittal Letter



**OFFICE OF THE DEAN  
SCHOOL OF BUSINESS AND MANAGEMENT**

Date: 12<sup>th</sup> February, 2007

THE HUMAN RESOURCE MANAGER,  
UMEME HEAD OFFICE,  
2<sup>ND</sup> FLOOR – RWENZORI HOUSE,  
P.O.BOX 23841,  
KAMPALA.

Dear Sir/Madam,

**RE: MISS. AYIEKO DAMARIS REG.NO.BIB/3671/32/DF**

This is to confirm and inform you that the above referenced, is a bonafide student of Kampala International University pursuing a Bachelor of International Business Administration Degree programme in the School of Business and Management of the University.

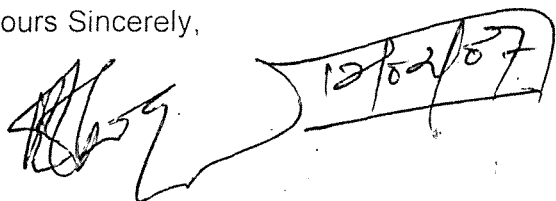
Her title of the Research project is "THE IMPACT OF PRIVATISATION ON THE PROFITABILITY OF BUSINESS ENTERPRISES" A CASE STUDY OF UMEME.

As part of her studies (research work) she has to collect relevant information through questionnaires, interviews and reading materials from your place.

In this regard, I request that you kindly assist her by supplying/furnish her with the required information and data she might need for her research project and also by filling up the questionnaire.

Any assistance rendered to her in this regard will be highly appreciated.

Yours Sincerely,



**DR. Y.B. NYABOGA  
ASSOCIATE DEAN – SCHOOL OF BUSINESS AND MANAGEMENT  
TEL.NO.0752 843 919**