Privatization of Public Enterprises: Advantages, Disadvantages and Its Impact on the General Public

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Abstract: This paper assesses the advantage and disadvantages of privatization and its impact on public general public. The paper tries to advocate the different aspects of privatization starting from its definition. In addition to this the paper investigates the case of Ethiopia particularly with respect of Limmu coffee plantation enterprise the now Horizon coffee plantation plc. The study used convenience sampling methods in order to gate the intended data with interview with the employees of the company. The findings of this study shows that privatization in Ethiopian particularly in limmu kossa coffee plantation have a negative impact on the communities of the company because the communities in the plantation didn’t have any information, advantages and awareness of privatization. In addition to this the inattention of privatization is to increase the profitability of the company which advocates the fittest will survive but to implement this issues on this kinds of community will injure the generation.

Keywords: Advantage and disadvantages, privatization, general public & profitability.

1. Introduction

It is mainly devoted to comparisons between privately and publicly owned enterprises, which is not quite the same as comparing privatized enterprises with them (pre-privatization) or with public or always-private firms. (Berg, Cowan, Gasparo, Rawlings, & Snide, 1996). According to Dimgba (2011) Privatization is a phenomenon which has been a necessary concomitant to the principle of liberalization, which involves the transfer of control in terms of ownership and management from the government to private investors. (Mercy, 2011)

The concept of privatization is based on the neoliberal school of thought. It is based on the doctrine of competition and profit motive founded on free market pricing and freedom from the interfering hands of state regulation (Wikipedia, 2011). Privatization according to this theory could reap the advantages of the market system and competition, namely; effectiveness, productivity, and
efficient service. Privatization would thus, strengthen market forces with some degree of deregulation, economic liberalization, relaxation of wage and price controls (Ugorji, 1995: 543). Privatization and in some cases commercialization have grown in popularity and acceptability globally. (Mercy, 2011)

Financial records of privatized firms are often not audited or at best incoherent. Due diligence is conducted at the data room of the BPE instead of a full physical and financial audit of the Government firm creating room for manipulations and distortions. (Mercy, 2011). Privatization is defined by a dictionary of economics and business as sale of public corporations and assets to the private sector. (Denek, 2001).

Privatization in Ethiopia has gained both opponents and proponents. Proponents go to the extent of saying that state owned enterprises should be privatized at any cost. This comes from the hatred they developed for the preceding system. On the other hand, opponents express their views that errors do not correct errors. Privatization for the sake of privatizing does not help unless it brings socio economic change in the society. At the same time they admit that privatization cannot be carried out flawlessly. However, its contribution to development could have been maximized if genuinely done. Major points of departure are the following:-

Most of the action plans and guidelines of privatization were not discussed by the public at large. They were designed and implemented behind closed doors. In this exercise, many express their fears that interests of certain individuals might have been served rather than the benefit of the stakeholders in general.

Detailed study and broad participation should have been conducted to determine the exact mode of selling publicly owned enterprises. Most of the enterprises were old and above all, they were operating in distorted market environment. On top of this essential information was not disseminated to the public on time.

Many employees were made jobless by the investors due to the fact that they did not want to employ the services of ‘inefficient workers’. Furthermore, the new owners wanted to restructure the enterprises they purchased. Profit being their motive, the social aspect of the workers was neglected. In fact some of the enterprises are temporarily closed down for innovation purposes. Development efforts in a given economy aim at achieving two major economic objectives: employment creation and income generation.

Privatization efforts in Ethiopia, many people contend, did not achieve much on these lines. Privatization failed to take into consideration tough competition between domestic production and imports of consumable goods such as leather, textile, food, beverages, tobacco, steel, chemicals, furniture, stationeries etc. On the other hand smuggling of consumable goods and services seem to be taking tall from time to time. There is a high resentment by most investors on privatized enterprises for what they say that there is no equal playing field for both domestic and imported goods to compete in the domestic market. (Denek, 2001)

2. Literature review

The privatization process started in 1995 in Ethiopia. Before then, Ethiopia had a command economy which affected private investment inflow. However, there came about a turn around, a policy change from a command economy to one determined by market forces. (W/yohannes, 2015)

Any large scale privatization program will affect broad sections of society, ranging from government ministers and civil servants to the managers and workers in industry. Those employed in privatized factories and organized labor whose leaders have gained both power and privileges within medium and large firms owned by the state are two of the many groups both positively and negatively impacted by privatization. Donor organizations are eager to encourage economic liberalization and stabilization, and view privatization as one means by which these goals are reached. Measuring the impacts of privatization on an enterprise, on an industry, and on an economy, is essential in order to reinforce the benefits of privatization. No less important is the measurement of privatization impact on labor, since a positive impact can elicit support for the reform package, while a negative impact can bring reform programs to a standstill.
Accordingly, donors pay particular attention to programs which address the impacts (real or perceived) of privatization, and devise programs through which they hope to offset any negative impacts. (Berg, Cowan, Gasparo, Rawlings, & Snide, 1996) In the current literature, there is considerable diversity in the interpretations of privatization owing to varying practical experiences, expert opinions, and academic views in this regard. Thus, Daintith (1994:43) mentions that “Privatization is coming to mean all things to all men (and women) as it is adopted in different countries as a conveniently topical and attractive label for a wide variety of steps in economic and social policy.” (Haque, 2000)

2.1 Impacts of privatization

Among the national and international policy circles, there is not only a dominant tendency to portray privatization as one of the most desirable policies and to present its objectives or rationales in favorable terms (discussed above); there is also an inclination to view its results or outcomes mostly as beneficial. First, in terms of internal economic implications, the privatization period hardly saw any significant improvement in the developing world in terms of eradicating poverty, reducing unemployment, accelerating economic growth, overcoming trade imbalance, and reducing external debt and dependence.

2.2 Positive impact of privatization

The shift from a socialist-oriented economy to that of the market oriented Economy clearly recognizes the crucial role of the private sector in the economy. The monopoly powers of PEs in controlling price of inputs and outputs will be curtailed through the privatization process. Consequently private enterprises are enabled to freely compete not only among themselves. In a liberalized market will create an enabling environment, where resources are rationally and efficiently utilized by means of correcting the distortions in prices and markets. Through privatization, the monopoly or monopsony privileges of parastatals will be abolished and the PEs will be forced to compete on more equal terms with private enterprises. Private enterprises are driven by the profit motive and the fear of bankruptcy. Thus, the profit approach will enhance the rational and efficient use of resources in both the public and the private sectors of the economy and will ensure the increase in output and productivity.

2.3 Negative impacts of privatization

The impact of privatization can be positive or negative. An overview of the negative impacts of privatization has already been encountered in the analysis of the major constraints of pitfalls of privatization.

In the first place, privatization is always associated with the reduction of redundant labor, resulting in unemployment. At the end of the EFY 1982 the total number of permanent employees working in public enterprises was more than 206,000, out of which 59,000 were working in the major loss-making PEs.

Secondly the problem of determining the appropriate value of each PE becomes conspicuous. The choice has to be made whether to rely on book values or market values, in order to reflect the real values of the shares of PEs.

Thirdly the institutional problems that are related with the transfer of the ownership of shares from the public to the private are non-existent in Ethiopia. Fourthly, because of low savings and lack of capital, the availability of domestic private capital is in constraint. This fact undoubtedly creates the fear that privatization would of necessity result in “foreignization”, which is not desirable.

Fifthly, the business confidence of private entrepreneurs in the last eighteen years has been shattered. The “fair compensation” which was promised for the former owners of nationalized enterprises has not been paid at all, in spite of the fact that the foreign nationals were paid through hard negotiations and international political pressures. (Tadesse, 2001)

2.4 The major pitfall of privatization

The major pitfalls of privatization process must be clearly understood by the policy makers before embarking on privatization. These problems are:
The absence of developed capital market: the transfer of shares from public to the private sector requires the presence of developed capital market. This transfer generally takes place through the mechanism of the stock exchange. The process also requires the intervention of the investment banks and securities brokerage firms. However, in underdeveloped countries such as Ethiopia, the required capital market and the institutional infrastructures necessary for the privatization process are non-existent.

The problem of valuation: before the share of the public enterprises can be sold to the private individuals, it is necessary to determine the price of each share and by implication, the value of a company concerned. However, it is generally difficult to determine the value of a company where accounts were not kept regularly or systematically, or whose accounts were not regularly audited. Nevertheless, proper valuation remains of critical importance, because the Government has a public responsibility of insuring that the property of the society is not undersold to private individuals. At the same time, the Government has the social responsibility of insuring that it is not selling a fictitious asset of no value.

Social equality: the privatization process involves the transfer of assets that belong to the entire public, to a small and exclusive class of individuals that possess wealth. There could be a danger therefore, where key sectors of the economy on which the lives of the majority depend, would come under the control of the small class of wealthy individuals who are primarily motivated by profit, at the possible expense of social equality.

The distribution of dilemma: the distribution dilemma relates to whether the best interest of the country is served by insuring the widest distribution of shares or one that is restricted. If the widest distribution of shares is allowed, it is generally feared that foreign shareholders who would generally control large blocks of the shares will be able to wield uncontrollable power. On the other hand, a much more restricted distribution of shares might result in the overconcentration of economic power in the hands a few individuals, who may use the economic power to pursue objectives that may be at variance with the national good.

The problem of unemployment: public enterprises in Ethiopia are generally unprofitable due to the fact that their employees enjoy a semi-civil service status which makes it difficult for management to compress the labor force. Moreover, PEs tends to be overstaffed with unproductive labor because of the employment creation objective pursued by the Government. In many instance, many PEs were subsidized in order to protect jobs. Therefore, in the pursuit of privatization, the new owners and managers of the privatized company must be allowed to operate freely. They must be allowed to reduce the labor force based on the standard of labor productivity which will be consistent with the profit motive.

As a result, the prospects of the massive redundancy cannot be underestimated. The social and political repercussions of massive redundancies are a serious problem that requires urgent solutions. In addition to this, the transferability of the various social benefits such as social insurance, pension benefits and disability insurance has to be studied carefully, in order to protect the rights and privileges of workers. This is the main reason why the new economic policy of the transitional Government has stated that in order to minimize the problem of unemployment in all sectors of the economy, privatization will be gradual, based on appropriate studies.

Business confidence: as previously noted, business confidence in the private sector during the last 17 years was systematically destroyed. The slogan of the day was “private wealth and entrepreneurship were equate with greed and obstacles to economic growth.” In view of building the appropriate business confidence in the community, some practical measures including the restitution of property rights to previous owners by the Government must be taken, along the implementation of the new investment proclamation of May 25/1992. As of today, the promised “fair compensation” for already nationalized enterprises has not been paid for Ethiopian nationals. (Tadesse, 2001)

2.5 The case related with existing situation

When we relates our cases of privatization with our country. Let us take so far the so called Limmu coffee plantation the now horizon coffee plantation private enterprises (plc) before it is privatized it serves a lot of societies which has no access to get the necessary parts of their life. This
plantation is found in Limmu suntu, Gumar, Gomma one, Gomma two, Cheleleki, Bebeka and Limmu kossa which was under the control of the Government but now they are privatized to Horizon plantation private enterprises. (Own survey 2016)

Even when we see the profitless of the plantations after it is privatized the income statement shows that losses. So that it shows privatization have its own impacts on the public budget. The other things with related to the social aspect before privatization the peoples are more familiar with others neighbors but after that the whole societies become afraid of others, which affects the social security in the area. The effects that the communities public budget before it is privatized the Government was provide them coffee for home consumption, other as facilities for home, but now they will give 2kg coffee beans for home consumption once for four months, they decrease the other facilities which was provided by the Government so far. This means privatization have impacts on the public budgets. On the other hand the communities of the enterprise are now almost they have not a sense of belongings to the enterprises. And also the enterprises have its own rules and regulations to be operated in the organization which beyond the power of the employees. (Interview, 2016)

The enterprise is composed of six sub unit enterprises from this enterprise now a day lot of employees are dismissed without any excuse. This implies beyond the impacts it have, there is a problems in its application of the rules and regulations.

Finally, the current status of the enterprise is under question marks especially for those of educated populations of the enterprises. Honestly speaking I can prepare more than this information but I cannot because the enterprise refused me to get the data, these information is what I know why because I were there for minimum 6 years in working with my family.

3. Conclusion and recommendations

As the literature and the current status of the case area tells us the case of privatization in Ethiopia is risky specially the population which are live under the minimum requirement of basic things. Even though when we see our Ethiopian overall economic development it is dependent on some developed country, rich peoples or families then they will conclude we make this much percent of development. In addition to this, the development rate of our country does not consider the whole issues in the country. Generally to conclude this work some papers find that privatization have a negative impacts on the general public.

4. Recommendations

In order to have more civilized term of privatization there is a requirement to be fulfilled by the concerned body for the communities. The expected things that have to be fulfilled are recommended as follows.

❖ The first thing the Government has to insure the living conditions of the communities before privatizing the public enterprises.
❖ In order to privatize the public enterprises the Government has to inform, discuss and participate the communities of the enterprises then finally get in to started work. Let us take the developed countries they have already privatized the public enterprises, because of they have fulfilled their interests before; when we come to our country we don't have an extra means to get basic things.
❖ The other thing that is expected is our peoples are not fully educated therefore we have to encourage the people to have educational chances.
❖ On the literature parts we have seen one thing once the enterprises are privatized there is a problems in operations, that means the private companies motives is profit maximization the public companies motives of the public interest satisfaction so that these problems have to minimized by the Government.

5. References


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