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## **Testing the Applicability of a Privatization Model on State Owned Enterprises in Namibia**

**Astro K. Kabuku<sup>1</sup> and Jacob M. Nyambe<sup>1\*</sup>**

<sup>1</sup>*Department of Economics, Faculty of Economic and Management Sciences, University of Namibia, P/Bag 13301, Windhoek, Namibia.*

### **Authors' contributions**

*This work was carried out in collaboration between both authors. Author AKK designed the study, wrote the protocol, managed the searches for the study and managed the literature review and wrote the draft of the manuscript and managed the statistical analysis. Author JMN managed the oversight of the study and imputed policy direction. Both authors read and approved the final manuscript.*

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### **ABSTRACT**

Namibia has several State Owned Enterprises (SOEs) some of which are sustainable while others are state-revenue draining. This study was conceived to explore the factors that lead to success and failure of SOEs in Namibia to attempt to develop a privatisation model that could serve as a pilot model for future privatization efforts within the Namibian context. In Namibia, SOEs are faced with a myriad of challenges ranging from politically motivated appointment of poorly skilled boards, lack of monitoring and evaluation mechanisms, ineffective performance management systems, high remuneration for executives which is not paralleled to productivity of the SOEs, corruption, unsustainable debts, burdensome expenditures, financial mismanagement and poor financial performance. Within the Namibian context, SOEs are classified into four categories, namely regulatory enterprises, service rendering enterprises, general enterprises, and economic and productive enterprises. The economic and productive SOEs were selected by their potential for self-sustainability. A semi-structured questionnaire was used to collect primary data from 31 respondents who occupied management positions within the various departments from the 12

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\*Corresponding author: E-mail: [dnyambe@gmail.com](mailto:dnyambe@gmail.com);

economic and productive SOEs. An Exploratory Factor Analysis model was applied for analytical purposes using a Statistical Package for the Social Sciences version 23. The results of this study have several implications for Namibia in the sense that the privatisation model identified the factors attributable to the private sector as follow: service experience, organisational learning and operational efficiency. The study also identified the following factors with attributes to the public sector: poor corporate governance, low levels of risk management and lack of enterprise sustainability. Reform initiatives in the form of privatisation would, therefore, lead to an improvement in sound corporate governance, improve risk management and enterprise sustainability.

*Keywords:* SOEs; privatization; fiscal austerity.

## 1. INTRODUCTION

Globally, SOEs play an important role in the economic development of the countries in which they operate. They also serve to advance government national agenda aimed at contributing to social equity through job creation, poverty reduction and income distribution. However, despite the economic role they play, SOEs face numerous challenges which amongst others include political instability and interference, poor management, government controls, over-protection, poor attitude to work and financial mismanagement [1,2]. Since SOEs are a drain on the limited state financial resources, they are therefore universally viewed as enterprises of disinvestment [3]. Within the Namibian context, poor performance of the SOEs has in some instances resulted in their exposure to unsustainable debts and burdensome expenditures.

The International Monetary Fund (IMF) and the World Bank's (WB) Structural Adjustment Programs (SAPs) postulates for privatization as a basis for SOEs reforms. The SAPs hinges on three pillars namely, fiscal austerity, liberalization and privatization, with the latter postulating for the role of the private sector in the economy. Therefore, fiscal discipline through privatization is viewed as an important step towards the containment of government spending [4].

Privatization is therefore viewed as a driver for SOEs' economic efficiency, reduction of government meddling, promotion of a wider share ownership, raising state revenue, promotion of competition that subjects SOEs to market discipline and providing for an opportunity to help build capital markets.

## 2. UNDERLYING THEORIES

### 2.1 Efficiency Theory

Abdulla ARA [5] argued that privatization does generate a significant allocative and productive efficiency benefits. Further argument is made that public ownership inhibits efficiency outcomes due to the lack of direct shareholders interest in the operations of a SOEs. This implies therefore that the tax-payers are not in a position to exert real pressures on management to operate efficiently. As a result, public managers have no incentive to operate a viable financial basis, a measure that is further compounded by a lack of a market mechanism which implies that SOEs can never go out of business.

### 2.2 Principal-Agency Theory

Agency theory which is used for corporate governance disclosure assumes that managers (agents) and the owners (principals) interest are not always aligned. The theory states that managers or directors are more interested in maximizing their own prestige while shareholders are more concerned about the maximization of the value of their shares and asset holdings. This difference in the alignment of interests results in what is referred to as the agency loss. Agency loss occurs when the returns to the shareholders is less than their expectations due to the indirect control of the corporation [6].

### 2.3 Rent-Seeking Theory

The theory on rent-seeking is associated with corruption emanating from the principal-agent problem. Corruption represents a way to influence policies to one's advantage by escaping from the invisible hand of the market mechanisms. Rent seeking behaviour is therefore an attribute of resistance to good corporate governance with its common

occurrences visible through the transfer costs involved in transactions [7].

### 3. LITERATURE REVIEW

#### 3.1 Theoretical Literature

Privatization involves a series of measures taken to cede partially or wholly the control, ownership and management of the SOEs to the private sector.

According to [8] the determining factors for privatization amongst others include: firstly, that privatization should be considered for the less efficient SOEs. Secondly, privatization should be considered contingent upon the country's social, economic and political environment. Thirdly, privatization should be considered for the strategic SOEs that manage critical sectors of the economy.

Agabi and Orokpo [9] argued that privatization which began in Nigeria in the 1980s became a policy objective tool for use to curb the wastage that the SOEs have laid on the national treasury. [10] argued that privatization brings efficiency to the enterprises, reduce government budgetary costs, reduce the role of government influence and business decisions, and broaden the ownership of productive assets and resources. [11] argued that privatization is not an end itself but a means for the government to undertake the division of responsibility between the public and the private sectors. [12] argued that within the global context, developing countries lack insulation against external shocks generated by the developed economies. As a result, privatization of the SOEs becomes important as it unifies national and international resources.

#### 3.2 Empirical Literature

Mohammed AAE et al. [13] argued that privatization empowers the citizens of a country and increases foreign investment opportunities. For example, privatization in the countries such as Britain, Malaysia and France was based on a nationalization model where the local citizens, employees and managers of the SOEs were given priority to buy shares in the companies. Whereas in countries such as Mexico, New Zealand, Brazil and Egypt, privatization was based on the need to connect to foreign markets, access to new modern technologies and attracting foreign capital investment.

Chen CJP et al. [14] argued that privatization of certain SOEs in China, discouraged managers from the self-rent seeking behaviours which breeds corruption [15] explained that privatization in Bulgaria resulted in the liberalization of the market thereby allowing competition to take place which eventually improved the firms' profitability. Jiang Y et al. [16] examined that privatization has an incentive to attract the MNEs and that with their attraction helps contribute to political stability of countries hence the need to protect foreign investment.

Ochieng and Ahmed [17] employed the regression analysis using the SPSS on the impact of privatization on the Kenyan Airways limited on a sample of 37 financial experts employed by the airline using a semi-structured questionnaire. The study found that privatization had a significant effect on the financial performance of the aviation industry. Ochieng and Ahmed [17] further argued in their finding that the hiring of foreign experts at the company was one of the contributing factors to the financial performance of the airline.

Ilegbinosa IA et al. [18] using an Augmented Dickey-Fuller (ADF)-test empirically tested for the impact of public and private investment on economic growth in Nigeria using a time series data from 1970-2013. The Johansen co-integration test was carried out in the study to test for the relationship between public and private investment on economic growth. The study showed a statistically significant relationship between an increase in government expenditure on economic growth and the crowding in of private investment. This shows that government should earmark and concentrate its resources on developmental programs such as infrastructure development that would serve as an incentive to attract foreign investment.

Ogbuagu AR [19] using a regression analysis empirically tested the impact of privatization on the Nigerian fiscal policy. The study had an adjusted R-Squared equal 0.9893 meaning that privatization led to an increase in government revenue by around 13.49 % while the government expenditure fell by 6.3%. This is because government spending on the SOEs has decreased after privatization. This is supported by [20] whose study on the impact of the privatization policy in Nigeria for the period from 1999-2015 found out that

privatization has indeed helped redress government expenditure after privatization of the SOEs.

Fan JPH [21] found out in their study of the SOEs and partially privatized firms in China that firms that had chief executive officers (CEOs) that were politically connected performed poorly than the ones with politically unconnected CEOs. The study showed that there was growth in the operating measures of performance for the partially privatized firms with post-privatization sales and earnings averaging 106% for sales and 89% for earnings relative to the pre-privatization period. As a result, the firms that were led by politically connected CEOs experienced more substantial drops in return on shares (ROS) and slower sales and earnings growth than the partially privatized firms.

Khalaf AT [22] after undertaking a study on the impact of privatization on the financial and operational performance of the Jordanian Cement Factory Company (JCFC) found out that privatization did not lead to the financial performance and profit of the company. However, the firm recorded improvement in liquidity, debt reduction and improvement in investment. The study used secondary data obtained from the firm's annual reports for a period of five years before and five years after privatization. For example the mean value for asset turnover before privatization was 0.57 compared to 0.60 after privatization. The mean change due to privatization was 0.03 representing an increase in investment.

Bakar R et al. [23] used statistical models to study the impact of privatization on tax and dividends disbursements of 17 Malaysian and 23 Jordanian companies from 2003-2013 with the data obtained from Bloomberg, Amman Stock Exchange and Bursa Malaysia. The study showed that privatization had resulted in an increase in the payment of dividends in both the countries. Tax payment was still higher in Malaysia than in Jordan irrespective of the 2008 global financial crisis.

Hassen and Abdelwahed [24] found out after a study done on corporate governance of privatized SOEs in Tunisia that the existence of private investors and independent boards was crucial for the successful privatization process in that country. Independent boards were therefore an important instrument towards the formulation of good principles on corporate governance.

## 4. MATERIALS AND METHODS

### 4.1 Analytical Techniques

Descriptive analysis of data was used by employing the factor analysis model with the application of the SPSS, version 23. Factor analysis model is a data reduction tool that removes duplication of factors from a set of correlated variables by selecting one representative factor. Factors that are relatively independent of one another are clustered into categories based on their factor scores. In this study, factor analysis model was used to capture the factors that lead to the success and failure of the performance of the SOEs. The general theoretical form of the factor analysis model specification is given by:

$$X_I = \lambda_{I1}F_1 + \lambda_{I2}F_2 + \dots + \lambda_{In}F_n + e_I$$

Where:

$F$  = Factors,

$I$  = Observed variables,

$e_I$  = Measurement error for  $X_I$

$\lambda$  = Unobserved (or underlying) factors

$\lambda_{Ij}$  = Loading for  $X_I$

The above implicit function is a form of a polynomial function which associates one variable (the value) with the others (the arguments).  $X_I$  changes as one or more of the other variables changes.

The outcome of the factor analysis model would therefore constitute the development of a privatization model based on best practices elsewhere.

### 4.2 Data and Sources

Primary data was used for the study. Data was obtained from 31 respondents who occupied management positions in the various departments from the 12 economic and productive SOEs.

## 5. RESULTS AND DISCUSSION

### 5.1 Exploratory Factor Analysis

The study tested for reliability of the constructs using Cronbach's Alpha and Exploratory Factor Analysis (EFA). The properties of the questionnaire items were assessed by exploring the dimensionality of the relevant variables and

internal consistency of the scales. The analysis focused on two main issues in determining whether a particular data set was suitable for factor analysis. These were sample size, and the strength of the relationship among the variables or items [25]. Generally, there is need for a large enough sample for the estimates obtained in the sample survey to be reliable enough to meet the objectives of the study. Estimators with low variance tend to be more precise, by producing values that center increasingly on the expected value. This usually occurs as the sample size ( $n$ ) increases [25]. Table 1 presents the results of the EFA of questionnaire items.

Table 1 shows the results for the EFA done on the questionnaire items. However, the sample size of 31 limited the analysis to a maximum of six factors per each run. The strength of the relationship among the variables (or items) was tested using the Kaiser-Meyer-Olkin (KMO) test, which must produce a value larger than 0.5. Table 1 shows that the KMO values ranged from 0.533 to 0.601. Some of the factors were not considered because the Bartlett's test was not significant. [25] notes that the items within the scales should adequately correlate and should have a significant ( $p < .05$ ) Bartlett's Test of Sphericity.

EFA was also used to group common factors around a single latent variable and Cronbach's Alpha was used to test for the reliability of the scales derived from the EFA. However, not all latent variables were reliable. Table 1 shows items shaded in grey, which were removed by using Cronbach Alpha's (If item is deleted) value to determine which variables needed to be deleted for reliability to improve. As a result, six latent factors were extracted, these include the service experience factor explained by an 80% of the total variance of two items, which were the number of years the SOE has been operational and does an enterprise provide a good or service?

The risk management factor explains total variance of 70% of the level of conflict of interest at board and management level, level of corruption, management level of remuneration and CEO's level of remuneration while the corporate governance factor comprises of items related to politically motivated appointments and

political interference in decision-making process as well as compliance to the Public Enterprises Governance (PEG) Act and government price controls. These factors were then computed into composite variables guided by privatization composite variable. Fig. 1 in the next section specifies a privatization composite model variables developed from the above factors.

## 5.2 Issues for the Privatization Model

This section presents a prototype privatization model for SOEs based on the perceptions of managers interviewed and the EFA factors extracted. Table 2 represents the descriptive statistics of the computed variables. The composite variables are a product of its items, which means that the questionnaire items were combined by multiplying them. The values ranged from a minimum of 1 to a maximum of 256 (28), which is a product of the answer ineffective (2), to 8 questionnaire items under the operational efficiency factor. The factors like operational efficiency (16.54) and sustainability (14.26) had a high kurtosis values which were expected considering their high variances.

Subsequently, Table 2 results were used to compute a privatization composite variable that can be used to determine the level of privatization within an SOE, by using the questionnaire items. In this study, the privatization composite model is defined as the function of the product of private sector attributes divided by the product of public sector attributes. The public sector attributes refers to factors that exhibit values that are greater than 1 and closer to the maximum of 256. The questionnaire coding was such that negative attributes related to inefficiencies, poor risk management and financially dependency on the government.

On the other hand, the private sector attributes were coded 1 (effective or yes). This coding used a positivist approach, which ensured that the positive responses were closer to the minimum of 1. The functions used to calculate the value include the LN or log of 2, as a way to reduce the range of results. As a result, the privatization composite model range was reduced, with a rating of 1 for private and rating of 10 for the

**Table 1. Exploratory factor analysis results for research factors**

Factor	Questionnaire item code	Mean	Std. Dev	communalities	Loading	Cronbach alpha	% Variance explained	KMO
Service experience	part_b_10	4.10	0.91	0.290	0.725	0.670	80%	0.545
	part_b_11	2.16	0.52	0.294	0.708			
	part_b_13	1.10	0.30	0.101	0.494			
	part_b_8revised	6.65	3.48	0.104	0.567			
Sustainability	part_c_14	1.48	0.51	0.767	0.919	0.572	84%	0.533
	part_c_15	1.52	0.51	0.762	-.924			
	part_c_18	1.61	1.02	0.303	0.737			
	part_c_20	1.81	0.60	0.290	0.695			
Organization learning	part_d_22	1.42	0.50	0.180	0.385	0.610	60%	0.584
	part_e_26	2.77	1.80	0.195	0.531			
	part_e_29	2.16	1.27	0.363	0.569			
	part_e_30	2.68	1.38	0.252	0.877			
Operational efficiency	part_d_24	1.87	1.23	0.370	-0.583	0.715	71%	0.573
	part_e_27	1.84	1.37	0.433	0.640			
	part_f_31b	1.29	0.46	0.765	0.847			
	part_f_31d	1.29	0.46	0.828	0.929			
Corporate Governance	part_f_31e	1.55	0.51	0.296	0.464	0.598	70%	0.601
	part_f_31c	1.26	0.44	0.441	906.000			
	part_f_31f	1.26	0.44	0.392	0.548			
	part_f_31g	1.48	0.51	0.363	0.580			
Risk Management	part_f_31h	1.48	0.51	0.310	0.659	0.614	70%	.0559
	part_f_31a	1.32	0.48	0.320	0.478			
	part_f_32h	1.45	0.51	0.211	0.593			
	part_f_32i	1.61	0.50	0.265	0.722			
Risk Management	part_f_32b	1.16	0.37	0.127	0.492	0.614	70%	.0559
	part_f_32k	1.61	0.50	0.193	0.665			
	part_f_32a	1.68	0.48	0.245	-0.515			
	part_f_32j	1.39	0.50	0.332	0.896			
Risk Management	part_f_32l	1.74	0.44	0.559	0.830	0.614	70%	.0559
	part_f_32m	1.68	0.48	0.523	0.850			
	part_f_32n	1.26	0.44	0.184	0.453			

**Table 2. Descriptive statistics of the computed variables**

Factor	SPSS Variable computation	Item Code	Description	Min	Max	Mean	Variance	Kurtosis	Skewness
Service Experience	Serv_Experience= part_b_10 part_b_10*part_b_11.	part_b_10	no. of years operational						
		part_b_11	does enterprise provide good service	2	15	9.10	12.82	-0.03	0.26
Sustainability	Sustain=part_c_14 *part_c_18*part_c_20.	part_c_14	is the enterprise financially independent						
		part_c_18	is the enterprise established to make profit						
		part_c_20	government bailout during 2012/13 to 2016/17	1	20	3.42	13.45	14.26	3.48
Organization Learning	Org_Learn=part_d _22*part_e_26*part _e_29*part_e_30.	part_d_22	any obligation to pay annual corporate tax to government						
		part_e_26	enterprise total number of employees						
		part_e_29	do managers moonlight						
		part_e_30	do managers undertake tertiary	4	100	25.84	673.07	1.10	1.38

Factor	SPSS Variable computation	Item Code	Description	Min	Max	Mean	Variance	Kurtosis	Skewness
Operational Excellency			studies and further						
	Op_Eff=part_f_31	part_f_31b	level of management capacity						
	a*part_f_31b*part	part_f_31d	level of working relationship between ceo and managers						
	_f_31c*part_f_31								
	d*part_f_31e*part	part_f_31e	level of performance management system						
	_f_31f*part_f_31g*								
	part_f_31h.	part_f_31c	level of working relationship between board and ceo						
		part_f_31f	level of internal communication strategy						
		part_f_31g	level of external communication strategy with stakeholders						
Corporate		part_f_31h	level of investment decisions	1	256	24.19	2483.89	16.54	3.88
		part_f_31a	level of perception level of board capacity						
	Corp_gov=_f_	part_f_32h	level of politically motivated						

Factor	SPSS Variable computation	Item Code	Description	Min	Max	Mean	Variance	Kurtosis	Skewness
Governance	32h*part_f_32i*part_f_32b*part_f_32k.		appointments						
		part_f_32i	level of political interference in decision making process						
		part_f_32b	level of compliance to the public enterprise act						
Risk Management	Risk_Mgt=part_f_32a*part_f_32l*part_f_32m*part_f_32n.	part_f_32k	level of government price control	1	16	5.10	19.49	1.51	1.43
		part_f_32a	level of conflict of interest at board and management level						
		part_f_32l	level of corruption						
	part_f_32m	part_f_32m	management level of remuneration						
		part_f_32n	ceo level of remuneration	1	16	7.00	26.40	-0.58	0.77

public sector. The range between these two extremes is considered the level of privatization of SOEs in Namibia. The model was computed as follows:

$$\text{Privatization} = \text{LN}((\text{Serv\_Experience} * \text{Org\_Learn} * \text{Op\_Eff}) / (\text{Corp\_gov} * \text{Risk\_Mgt} * \text{Sustain}))$$

Where:

Serv Experience = Service experience  
 Org Learn = Organizational learning  
 Op Eff = Operational efficiency  
 Corp gov = Corporate governance  
 Risk Mgt = Risk management  
 Sustain = Sustainability

The model above describes the factors that leads to the failure of SOEs as firstly, poor corporate governance. Secondly, low levels of risk management and thirdly, lack of enterprise sustainability. On the other hand, the following factors would lead to the success of the SOEs once they have been privatized. These factors are: service experience, organizational learning and operational efficiency.

The explicit explanation to the model above is explained to mean that an improvement in corporate governance, improvement in risk

management and enhanced sustainability will have desirable outcomes on privatization since service experience, organizational learning and operational efficiency would all improve within the context of privatization.

Fig. 1 shows the privatization composite (PC) values for SOEs under study. The results show that SOEs that are monopolies in their sectors exhibit the public sector attributes with PC values above 3. While, those operating along commercial lines scoring PC Values below 3. The model shows prospects in terms of categorizing SOEs by the level of privatization. As a result, the study used SPSS AMOS version 23 to validate the model through Confirmatory Factory Analysis (CFA).

The study followed a CFA procedure suggested by [26] which relies on associated plugins, which makes it easier to run iterations of possible models quicker.

The cut off criteria and model fit measures are derived from the [26] model fit measures. The results show a satisfactory privatization model that passed four out of the five criteria model fit. In addition, standardized total regression effects in Table 3 below supports the model fit measures above.

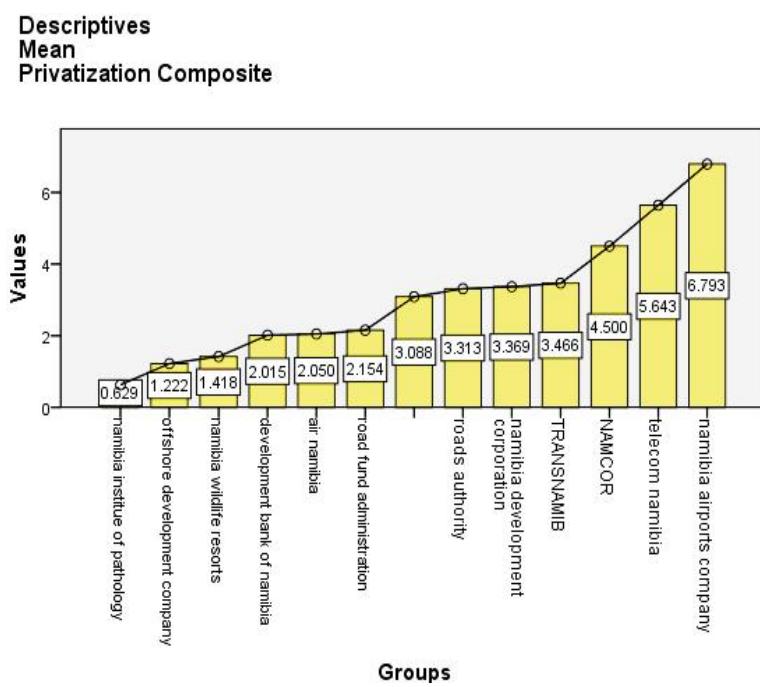
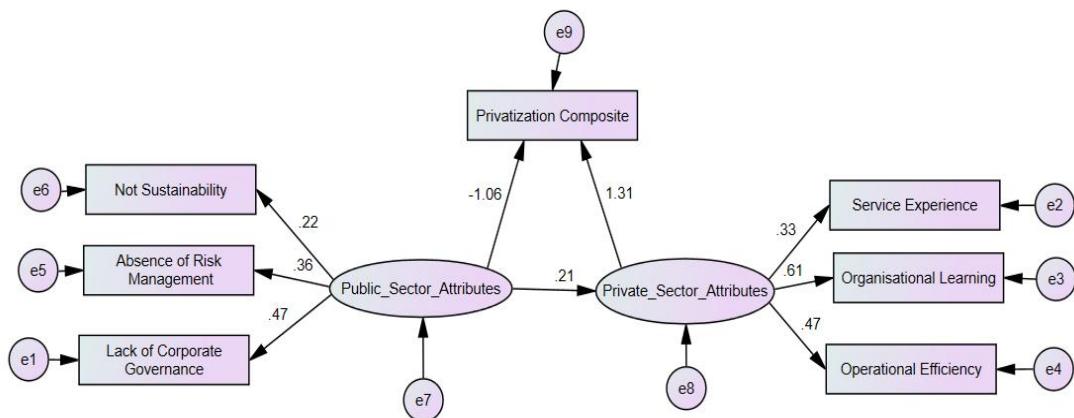


Fig. 1. Privatization composite perception by SOE comparison

**Table 3. Standardized total effects**

	<b>Public sector attributes</b>	<b>Private sector attributes</b>
Private sector attributes	.206	.000
Privatization	-.791	1.309
Sustain	.223	.000
Risk_Mgt	.360	.000
Corp_gov	.470	.000
Op_Eff	.097	.468
Org_Learn	.125	.608
Serv_Experience	.069	.335



### Model Fit Measures

Measure	Estimate	Threshold	Interpretation
CMIN	11.234	--	--
DF	12	--	--
CMIN/DF	0.936	Between 1 and 3	Excellent
CFI	1.000	>0.95	Excellent
SRMR	0.105	<0.08	Terrible
RMSEA	0.000	<0.06	Excellent
PClose	0.577	>0.05	Excellent

### Cutoff Criteria\*

Measure	Terrible	Acceptable	Excellent
CMIN/DF	> 5	> 3	> 1
CFI	<0.90	<0.95	>0.95
SRMR	>0.10	>0.08	<0.08
RMSEA	>0.08	>0.06	<0.06
PClose	<0.01	<0.05	>0.05

**Fig. 2. Proposed privatization perception model**

## 6. CONCLUSION

The results of this study have several implications for Namibia in the sense that the privatization model identified the factors with private and public sectors attributes. Within the context of privatization, excellent service experience could help improve on risk management and organizational learning would redress corporate governance failures, while operational excellence would help contribute to enterprise sustainability. The outcome of the study is therefore seen from the angle that

supports privatization of the economic and productive enterprises in Namibia. Finally, privatization would help mitigate the longstanding dependency of the SOEs on government funding by freeing some resources to finance other equally important national programs.

## COMPETING INTERESTS

Authors have declared that no competing interests exist.

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