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THE IMPACT OF OWNERSHIP ON THE FINANCIAL PERFORMANCE OF ETHIOPIAN FINANCIAL SECTORS

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ABSTRACT

In 1994, in Ethiopia, privatization has been started in the form of transfer of ownership form public to private enterprises ranging from decreasing political intervention on the operation of enterprises to sale of the enterprises to the private investors. Specifically, the financial sector reform in Ethiopia has been started with the Proclamation Number of 84/1994 that permits private enterprises to invest in financial sector. Consequently, the financial sector is increasing in number and currently (as of 2017) there are 16 private companies, 1 public insurance company, 16 private, and 3 public commercial banks in the country. These privatizations present an opportunity for the investigation of the impact of ownership on firm's performance. This study was conducted on the impact of ownership on the financial performance of Ethiopian financial sector. The data set contains 12 (2005 to 2016) years' data of 18 financial institutions. Return on Assets and Return on Equity are used as proxy of financial performance and dummy variable for ownership is used. Size, Volume of capital, Leverage, and Liquidity are also used as control variables. Ordinary List Square regression has been carried out and the result shows that private financial institutions reported higher Return on Assets and Return on Equity than public institutions, which means the result of this study, confirms Agency theory, property right theory and many empirical studies. The study further revealed that ownership has strong and positive impact on the Ethiopian financial institutions' financial performance. The study suggests that the Ethiopian privatization Agency should consider the performance of public and private financial sector so that the agency can make right decision with respect to privatizing the institutions. The study further suggests that future researchers should conduct research on ownership and profitability of non-financial sectors in Ethiopia.

KEYWORDS

financial institutions of Ethiopia, financial performance, impact of ownership.

1. INTRODUCTION

In Africa, in 1960s and 1970s governments widely involved in the operation of firms believing that the firms' operation should be in line with developmental goal of the states. According to Martin and Charles (1998), the financial reforms of the 1980s and 1990s in Africa strongly argued that development would be better if firms are operating without any government interventions. Africa requires more vigorous private firms, well-developed infrastructure and promoted investments from both local and overseas sectors (John Nellis, 2005) and privatization is the best way to achieve these required conditions. Consequently, from 1991 to 2001, African governments' share of equity declines from 89.1% to 10.3% from the whole sectors and from 86.7% to 8.2% from financial sector after privatization (World Bank, 2002 as sited in John Nellis, 2005) and indicates that there was a remarkable change in ownership from public to private firms in the region.

Similarly, in Ethiopia, privatization was began in 1994 that involves the transfer of ownership form public to private enterprises in the form of sales, lease, management contracts, liquidation, and deregulation with the aim of achieving major, offering competition, enhancing performance of public firms, creating adequate income, and decreasing political involvement on the operation of firms (John Nellis, 2005). More specifically, the financial sector reform in Ethiopia has been started in the year 1994 with the Proclamation Number of 84/1994 that permits private enterprises to invest in financial sector. As a result, financial institutions are increasing in number and currently there are 16 private companies and 1 public insurance company and 17 private and 2 public commercial banks. However, Ethiopian financial sector is not opened to the foreigners to invest with the persistent fear that privatization might eventually lead to uncontrollable takeover of key sectors of the economy (financial institutions) by foreign investors (Eshete Tadesse). These privatizations provide possibility of investigating the impact of ownership on firms' performance in different nations and time.

This research is initiated by the debate on the performance of public and private firms. The property right theory of the firm suggests that public enterprises should perform less efficiently and less profitably than private firms (Anne O. Krueger, 1990 and Kathryn et al, 2001). Anthony et al (1989) found that public firms are less efficient or less profitable compared to private firms as politicians causes public firms to employee excess labor inputs and such firms might be tends to hire politically linked persons rather than those who best qualified to perform anticipated jobs. Despite, public firms may sacrifice maximum profit in the quest of social and political purposes. Hence, public firms are supposed to be less profitable than private firms. However, the relationship between ownership and financial performance of firms is remained controversial. Vickers and George Yarrow (1991) found that agency problems arise in private firms. In most large private firms managers own little of the stock as monitoring managers is costly, a divergence arises between their objectives and those of private shareholders. Private shareholders basically hold a small stake in the firm and it may not pay any shareholder to afford the cost of monitoring management. Yidersal and Wang (2017), Kenenisa and Chawla (2015) also found that privately owned commercial banks are less profitable than public commercial banks in Ethiopia.

There are also other some empirical evidences; Millward and Parker, (1983), Borins and Boothman (1985), and Boyd (1986) that found no difference between the performance of public and private firms. As a result of this controversy, examining the impact of ownership on financial performance of firms is an important financial management studies. Moreover, the issue of ownership is important for the regulators and policy makers (privatization agency) in Ethiopia for making better decision with respect to privatization. Despite, only few empirical studies (Yuvaraj and Abatae, 2013; Demis Hailegebreal, 2016; Daniel Mehari and Tilahun Aemiro, 2013; *Simon Nahusenay Ejigu, 2016)* carried out an examination of firm specific and macroeconomic determinants of profitability of Ethiopian insurance industry and any of those didn't include ownership as the determinant variable of insurance industry's profitability in Ethiopia. On the other hand, empirical studies of Kokobe Seyoum Alemu and Birhanu Diriba Negasa (2015), Kenenisa Lemie Debela and A.S. Chawla (2015), Yidersal Dagnaw Dinberu and Man Wang (2017) and *Ermias Bogale(2017) investigated the relationship between commercial banks performance and ownership, however none of the above studies consider profitability and ownership of insurance industry in Ethiopia.*

This study is vital since information on the relationship between ownership and firm performance is critical in privatization issues in Ethiopia. Moreover, this study is justified on the grounds: (1) relatively little is known about the relationship between ownership and firm performance in the Ethiopian financial institutions; that is important for policy makers and regulators in relation to privatization by providing information about the relationship between ownership and firm performance; (2) there is no comparative empirical investigation on financial institutions in Ethiopia. As a result, we tried to compare the financial performance of publicly and privately owned financial institutions and (3) the study may contribute to the literature and may provide suggestions for future researchers in investigating the same on other sectors. Accordingly, the purpose of this study is to investigate the impact of ownership on the financial performance of Ethiopian financial institutions bay taking data from the year 2005 to 2016 of 18 financial institutions. The financial institutions include publically and privately owned banks and insurance companies. The study used Return on assets (ROA) and Return on Equity (ROE) as measure of financial performance of the above stated institutions. The explanatory variable of this study is ownership dummy variable based on the purpose of the study. Following several previous empirical studies, size, leverage, liquidity, and volume of capital are considered as control variable to show the clear impact of ownership on financial performance of the aforementioned sectors of Ethiopia. Correlation among variables, Multicolinearity and Heteroskedasticity tests have been carried out and the result of the tests shows that there is no serious autocorrelation, Multicolinearity and Heteroskedasticity problem in this study. OLS regression has been carried out and the result shows that ownership has positive and statistically significant impact on financial performance of Ethiopian financial sector. This study also confirms the property right and agency theories as regression analysis indicates that private financial institutions reported better financial performance compared to its competitors. The rest part of this paper is organized as follows. Part 2 of this study discuss the theoretical and empirical literature related to ownership and firms' financial performance. The 3rd part of the study incorporates the methodology of the study including the definition of variables with its measurements and econometric model. The 4th part of the study presents the profitability of financial institutions of Ethiopia. The 5th and 6th part of this paper presents different diagnostic tests and descriptive statistics. The 7th and 8th part of the study presented the regression result and conclusion of the study respectively.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

In the economics, finance, and management literatures, agency theory embodies a leading theoretical framework for examining the relationship between ownership and performance (Shleifer & Vishny, 1997). This theory climaxes the idea that principals and agents often have conflicting goals and different capabilities to effect corporate behavior and consequences (Milgrom & Roberts, 1992). An important contribution of agency theory is that it promotes an organized approach to the analysis of economic encouragements and the inducements of managers and shareholders (Eisenhardt, 1989). This theory further stated that ownership difference in any kind of firms affects its financial soundness and proposes private firms have been more profitable than public firms. Many previous empirical studies favored the assumption of this theory. Similarly, the property right theory of the firm states that private firms perform better in efficiency and profitability than public firms.

Eric Gedajlovic and Daniel M. Shapiro (2002) investigated the relationship between ownership structure and financial performance of 334 Japanese firms starting from1986 to 1991. The study documented a positive relationship between ownership and Japanese firms' performance leading to a conclusion that agency theory is relevant in Japan. Likewise, Alexander Pivovarsky (2003) investigated the relationship between ownership concentration and performance of 376 partially and fully privatized Ukrainian firms. The result of this study shows that that ownership concentration is positively related with firms' performance and concentration of ownership by foreign companies and banks shows better performance than ownership concentrated by the domestic owners in Ukraine. Again Abdelmohsen and Gehan (2013) explored the relationship between ownership concentration and identity on firm performance using a sample of 99 publicly listed companies on the Egyptian Exchange (EGX) using ROA and ROE as firms' performance measurement. In this study both Ordinary list square and two stages List square (2SLS) regression have been employed and they found that ownership concentration has significant impact on Egyptian firms' performance. The study further investigated the impact of ownership identity on firms' performance and found that the overall ownership identity has a significant influence on firm performance. Moreover, ownership identity and firm performance as proxied by ROA had a significant endogeneity problem so that they are forced to use of 2SLS in their analysis.

Worku Gebeyehu (2000) documented a comparative analysis of private and public enterprises in Ethiopia. In his study, a Cobb-Douglass stochastic frontier production function was used and the result shows Private firms are relatively inefficient with a score of 69%, while public and other private industries scored 75% and 71%, respectively. Similarly, Yidersal Dagnaw Dinberu and Man Wang (2017) also examined the effect of Ownership on the Profitability of Ethiopian Commercial Banks using panel data from 2005 to 2014 of 8 commercial banks. The study used ROE as profitability measurement and the result of the study indicated that privately owned commercial banks are less profitable that public commercial banks in Ethiopia. Kenenisa Lemie Debela and Chawla (2015) investigated the impact of size and ownership on financial performance of commercial banks in Ethiopia. The study carried out Pearson correlation, independent sample t-test and multivariate regression analysis and the study period covers from 2000 to 2013 and the result revealed that ownership has no effect on financial performance of commercial banks in Ethiopia. Similarly, Kokobe Seyoum Alemu, and Birhanu Diriba Negasa (2015) documented determinants of financial Performance of Commercial Banks in Ethiopia by using panel data from the year 2002 to 2013. The study incorporated both internal and external factors of financial performance of banks of Ethiopia and found that ownership status has a positive and significant effect on the financial performance Ethiopian commercial banks; which suggests that private banks perform more efficiently than public banks which are the giant banks in the country due to government monopoly.

It has been argued that the financial performance of any firm is not determined only by ownership; there are a number of firm specific and macro-economic factors that influence firm's financial performance (Ng, 2005; Morck et al., 1988; Demsetz and Lehn, 1985; Yuan et al, 2005; Jaafar et al., 2013 and El-Shawa, 2009). Similarly, Yuan et al. (2005) argued that the influence of ownership on firm's performance could vary across industries due to several industry factors.

Omran et al., (2008) and Lins, (2003) used debt ratio as control variable because the possibility that creditors might be able to minimize managerial agency costs and in the process affect ownership. Park and Jang (2009), who expected a positive relationship between leverage and firm performance, used leverage to control the expected positive relationship on firm performance. Furthermore, Jaafar et al., (2013) used leverage, size, and liquidity as control variable so as to control the expected relationship between ownership concentration and performance of Egyptian listed companies. Kokobe Seyoum Alemu, and Birhanu Diriba Negasa (2015) found that an inverse relationship between bank size and Ethiopian commercial banks performance implying that large commercial banks perform lower than smaller commercial banks. Contrarily, Kenenisa Lemie Debela and A.S. Chawla (2015) found that bank size measured by logarithm of total assets has significant positive impact on commercial banks performance in Ethiopia. More importantly, Yidersal Dagnaw Dinberu and Man Wang (2017) used size, liquidity, and volume of capital as control variable to control the expected relationship of commercial banks performance and their ownership structures and found that size and has statically strong effect on commercial banks profitability. Yuvaraj and Abatae, (2013) investigated the performance of insurance companies in Ethiopia and found that leverage, volume of capital, size, and liquidity are identified as most important determinant factors of profitability. Similarly, Demis Hailegebreal, (2016) carried out an investigation on determinants of profitability of Ethiopian insurance Industry and the result revealed that size of company, leverage ratio and liquidity ratio have strong effect on profitability of Ethiopian insurance industry. *Simon Nahusenay Ejigu, (2016) also conducted research on* Internal Factors that influence Financial Performance Of Insurance Companies In Ethiopia and the study indicated that leverage ratio, liquidity ratio, and company size have an effect whereas age of company has no any effect on financial performance of Ethiopian insurance industry. Depending on these previous studies, this study will use the following variable namely Firm size, financial leverage, Liquidity, and Volume of capital as control variable.

It has been explained in the in finance, economics and strategic management literatures that agency theory is a dominant theory that facilitates structural approaches in studying the relationship between ownership and firms' performance. In this theory, it is assumed that agents be it in private or public organizations are supposed to act in maximizing their own incentives contrary to the principal or owner of the organization. The theory further explains ownership difference in any kind of firms affects its financial soundness and assumes privately owned firms have been more profitable than public owned firms. Based on this theory and previous empirical studies, we develop the hypothesis that **(H1**) Profitability of private financial institutions is better than profitability of public financial institutions and **(H2)** there is a significant relationship between ownership and firm performance in Ethiopia.

TABLE 1: SUMMARY OF PREVIOUS STUDIES AND THEORIES ON OWNERSHIP AND FIRM PERFORMANCE

Private firms perform better than public firms		Private firms perform less than public firms	No significant difference
Theories	Agency theory and Property right theory		
Empirical studies	Eric Gedajlovic and Daniel M. Shapiro (2002), Eric Gedajlovic and Daniel M. Shapiro (2002), Abdel-mohsen and Gehan (2013), Kokobe Seyoum Alemu, and Birhanu Diriba Negasa (2015)	Yidersal Dagnaw Dinberu and Man Wang (2017), Kenenisa Lemie Debela and A.S. Chawla (2015), Worku Gebeyehu (2000)	Kenenisa Lemie Debela and A.S. Chawla (2015), Millward and Parker, (1983), Borins and Boothman (1985),

3. METHODOLOGY

3.1 SAMPLE AND DATA SOURCES

There are a total of 17 insurance companies in Ethiopia (1 state owned and 16 private companies) and 18 Commercial banks (there were 19 commercial banks in Ethiopia till 2014 and in 2014, Construction and Business bank and Commercial bank of Ethiopia were merged) operating in Ethiopia. Of the total of 35 financial institutions, 16 insurance companies and 17 banks are owned by the private investors whereas 1 insurance company and 2commercial banks are owned by government and no foreign companies are operating in Ethiopia as Ethiopian financial market is not opened to foreign investors. Hence, 9 insurance companies and 9 commercial banks (a total of 18 companies), which are established before 2005 are included in this study. The period of this study is from 2005 to 2016 and hence, the 12 years data was collected from each company's annual report and the data for banks was accessed from Bank scope and from individual banks annual report. As Commercial bank of Ethiopia and Construction and Business bank are merged together in the year 2014, 10 years data for Construction and Business bank was used because has no separate data for the year 2015 and 2016 which reduces the observation from 216 to 214 (it reduces the observation by 2).

3.2 VARIABLES

Dependent variables: As the main purpose of this study is to examine the impact of ownership on financial institutions' performance in Ethiopia, Return on Assets (ROA) and Return on Equity (ROE) are used as a proxy of financial performance of the institutions as they are extensively used in several previous studies.

Explanatory Variables: Ownership has been taken as an explanatory variable determining firms' profitability. The common argument is that efficiency will be less in the public firms, because ownership objectives differ from profit maximization and because monitoring measures are insufficient when compared to privately owned firms, where stockholders hold management responsible for firm performance or soundness. A dummy variable was used to measure this variable such that the public firm is given a value of 0 and private firms are given a value of 1.

Control variables: ownership is not the only variables that determine the profitability of public and private firms whereas there are other many factors that significantly impact firm's performance. The following variables are considered as control (exogenous) variables in this study which are chosen to control factors other than ownership that have impact on profitability based on previous empirical studies of Eric Gedajlovic and Daniel M. Shapiro (2002), Abdelmohsen and Gehan (2013), Yidersal Dagnaw and Man Wang (2017)**,** Ana and Ghiorghe (2014), Kripa and Ajasllari (2016) and Alexander Pivovarsky (2003). Firm size, measured as the natural logarithm of total assets, is included to measure the potential economies of scale and scope ensuing to large firms. Financial leverage that is measured as the ratio of debt to total assets is considered as a control variable because a firm's capital structure may influence its investment decisions and the choice afforded its managers (Harris & Raviv, 1991). Liquidity is another important control variable, which is measured as current asset to current liability of the firm that shows firm's ability to pay its current debt with its current liability. Volume of capital was also included in this study as exogenous variable, which is, measured as Natural logarithm of equity. Table 1 presents the summary and measurements of variables of the study.

TABLE 2: VARIABLES AND MEASUREMENTS

Variables		Proxy	Measurement
Dependent	Return on Assets	ROA	The ratio of net income to total assets
	Return on Equity	ROE	The ratio of net income to total equity
Independent	Ownership	OWN	Dummy (1=private, 0 otherwise)
	Size	SZ	Natural logarithm of total assets
	Leverage	LEV	The ratio of Total liability to total assets
	Liquidity	LQ	The ratio of current assets to total assets
	Volume of Capital	VOL	Natural logarithm of equity

Sources: Empirical studies

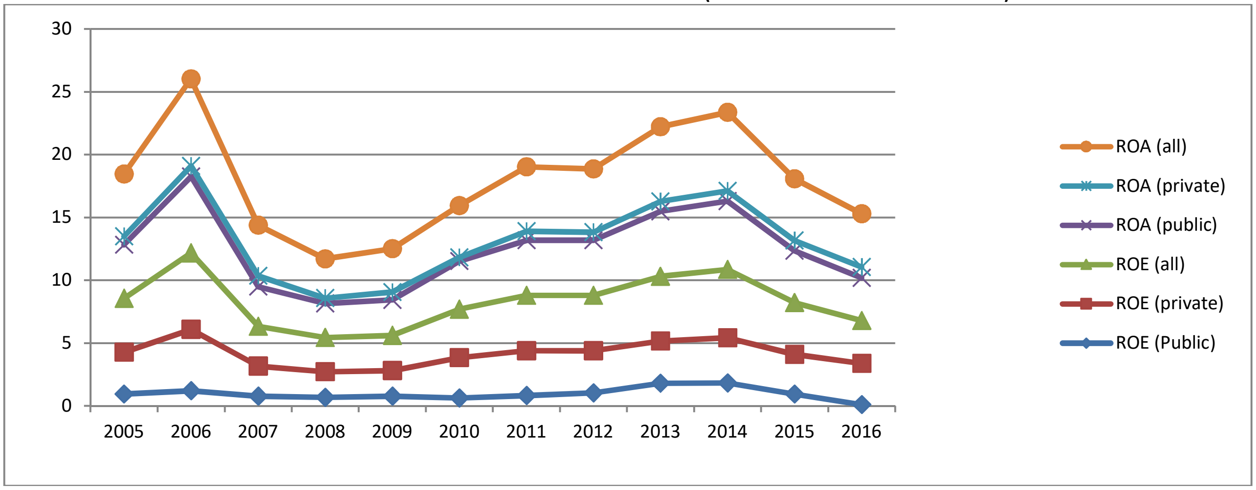
3.3 MODEL SPECIFICATION

The empirical model used to test the impact of ownership on firms' performance is specified as $y = \alpha + \beta_i x_i + \varepsilon$, where y is financial performance proxied as ROA and ROE, β_i is coefficient, x_i is the vector of independent variable (ownership and control variables) and ε is error term. Hence, this model estimates the direct impact of ownership on financial institutions' financial performance holding other variables (control variables) constant.

4. PROFITABILITY OF ETHIOPIAN FINANCIAL INSTITUTION

Figure 1 illustrates the profitability of public and private financial institutions form the year 2005 to 2016. It shows all institutions experienced fluctuation in financial performance over 2005 to 2016. The figure also indicates that the Return from Assets is better than the Return from Equity in the financial institutions during the study period. It has been indicated further that all the financial institutions experienced remarkable fluctuation in ROA during the study period. Relatively, the institutions experienced lower fluctuation in ROE during the period. Figure 1 depicting that private institutions reported better ROA and ROE comparing to Public institutions. The financial performance of public financial institutions turndown from the year 2014 and it is because the two public financial institutions namely Commercial Bank of Ethiopia and Construction and Business bank were merged at the specified year and may incur higher transaction costs. Generally, the figure depicts that private institutions perform better compared to public institutions over 2005 to 2016.

FIGURE 1: PROFITABILITY OF FINANCIAL INSTITUTIONS (ROA AND ROE FROM 2005 TO 2016)



Source: Authors computation based on the Annual reports of the Institutions from 2005 to 2016

5. DESCRIPTIVE STATISTICS

The variables means and standard deviations are presented in table 3. The data set contains 3 public and 15 private financial institutions from the year 2005 to 2014 and 2 public and 15 private institutions form the year 2015 to 2016 (the two public commercial banks were merged in the year 2014). The mean of ROA for public firms is 37.1107139 with standard deviation of 0.2414943 whereas the average ROA of private institutions is 40.168479 with standard deviation of 5.398009, which in turn indicates that private institutions reported 40% and public institutions reported 37% of Return on Assess during the study period.

The average Return on Equity of public institution is 20.43 with standard deviation of 0.43089 and of private sector is 31.26 with standard deviation of 50.308. This indicated that the public institutions reported 20.4% of Return on Equity whereas private institution reported 31.26% of Return on assets. As the standard deviation indicates, the variability of profitability of private financial institutions is higher than the variability of profitability of public financial institutions. Both the average Return of Assets and the average Return on equity of private financial institution is higher than public financial institutions indicating that the private financial institutions of Ethiopia perform better than public financial institutions. On average, the size of public financial institutions (mean of 18.46%) is higher than the private financial institutions (mean of 17.63%) whereas the leverage, liquidity and volume of capital of public financial institutions is lower than private financial institutions.

TABLE 3: DESCRIPTIVE STATISTICS BY OWNERSHIP

	Public	Private
ROA	37.1107139 (0.2414943)	40.168479 (5.398009)
ROE	20.435653 (0.43089)	31.26927 (50.30837)
LEV	10.446016 (0.377132)	30.63234 (149.5312)
LIQ	4.392993 (0.584121)	19.30406 (94.85298)
SZ	18.46369 (3.287589)	17.63552 (3.365803)
VOC	15.41055 (5.251985)	16.02885 (3.993246)

ROA, Return on Assets: ROE, Return on Equity: OWN, Ownership: LEV, leverage: LIQ, liquidity: SZ, size: VOC, Volume of Capital

6. DIAGNOSTIC TESTS

Table 4 presents correlation among variables when two dependent variables which are ROA and ROE are used in the model. Table 4 of column I presents the correlation between variables as ROA is used and column II of table 4 presents the correlation between variables when the model use ROE and in both cases, the correlation between variables is not too high.

TABLE 4: CORRELATION BETWEEN VARIABLES

(I)								(II)						
	ROA	OWN	LV	LIQ	SZ	VOC			ROE	OWN	LV	LIQ	SZ	VOC
ROA	1							ROE	1					
OWN	0.0836	1						OWN	0.0805	1				
LEV	0.0792	0.0841	1					LEV	0.0581	0.0804	1			
LIQ	0.0743	0.0837	0.1993	1				LIQ	0.0576	0.0794	0.6821	1		
SZ	-0.4954	-0.1302	-0.5061	-0.5051	1			SZ	0.1813	-0.0903	0.5201	-0.5015	1	
VOC	-0.0693	0.0319	-0.0787	-0.0786	0.7405	1		VOC	-0.6822	0.0538	-0.1084	-0.1096	0.674	1

ROA, Return on Assets: ROE, Return on Equity: OWN, Ownership: LEV, leverage: LIQ, liquidity: SZ, size: VOC, Volume of Capital

Table 5 presents tests of Multicolinearity and Heteroskedasticity to check whether there exists the problem of multi-colineartiy and Heteroskedasticity or not in the model. Morgan et al, (2004) sated that the variance inflation factor (VIF) above 10 or the tolerance value (1/VIF) below 0.1 is an indication that there exist a multi-collinearty problem among the variables. Collumn I of table 5 shows that there is no VIF greater than 10 and 1/VIF below 0.1; further reveals that there is no a problem of multi-colinearity in the model and hence, all variables can be retained in the model. Column II of table 5 presents Breusch-Pagan / Cook-Weisberg test for heteroskedasticity. Heteroskedasticity can be tested with BreushPagan test showing whether there is inconsistency (Heteroskedasticity) or consistency (homoskedastisty) in the variance of the error terms. The heteroskedasticity problem can be happened if the p-value of the BreushPagan test is below 0.05. However, table 5, column II shows that the p-value of Breusch-Pagan / Cook-Weisberg test is above 0.05 which is 0.342 indicating that the model is free from heteroskedasticity problem.

TABLE 5: MULTICOLINEARITY AND HETEROSKEDASTICITY TESTS

(I)			(II)
Var.	VIF	1/VIF	
LEV	8.51	0.117508	
LIQ	8.36	0.119617	chi2(1) = 0.85
SZ	4.68	0.213686	
VOC	3.54	282847	Prob > chi2 = 0.342
OWN	1.05	0.948761	
Mean VIF	5.228		

ROA, Return on Assets: ROE, Return on Equity: OWN, Ownership: LEV, leverage: LIQ, liquidity: SZ, size: VOC, Volume of Capital

7. RESULT AND DISCUSSION

The result of OLS regression is reported in table 6. The only difference between the two models is that Model I uses ROA whereas Model II uses ROE as dependent variable. The adjusted R-square indicates how well the model variance is explained (Morgan et al (2004). The adjusted R-square nearest to 1 indicates that the model is strongly explained by the variables included in the model. The adjusted R-square of Model I is 96.44% (0.9644) and Model II is 86.72% (0.8672) indicating that the variables included in this study (Ownership, Leverage, Liquidity, Size and Volume of Capital) strongly explained the model developed for this study.

The OLS regression result confirms the expectation of the hypothesis, the agency theory, property right theory and several previous empirical studies. In this study, ownership has positive and significant impact (Ceteris paribus) on the financial performance of Ethiopian financial institutions when it is measured by Return on Assets and Return on Equity. This result is consistent with the previous empirical findings of Eric Gedajlovic and Daniel M. Shapiro (2002), Alexander Pivovarsky (2003), Abdelmohsen and Gehan (2013), Kokobe Seyoum Alemu, and Birhanu Diriba Negasa (2015). We developed the hypothesis that Profitability of private financial institutions is better than profitability of public financial institutions and the result of this study confirm this hypothesis. The coefficient of dummy private is 2.04881 for Model I and 9.68302 for Model II with a p-value of value 0.038 and 0.000 respectively (significant at 1%) indicating that on average, the private financial institutions have reported a Return on Assets of 2% and Return on Equity 9.68% % higher than public financial institutions during the study period. One of the hypotheses developed in this study is that there is a significant relationship between ownership and financial institutions' performance in Ethiopia. And the result of this study confirms that there is statically strong and positive (with p-value of 0.038 when financial performance is measured by ROA) relationship between ownership and financial performance of financial institutions in Ethiopia. The result also exhibit that ownership has a significant and positive impact on the Return on Equity of Ethiopian financial institutions. This result is consistent with agency and property right theory, which postulate that the ownership difference has a strong impact on firm's financial performance. It is also consistent with several previous studies (Eric Gedajlovic and Daniel M. Shapiro, 2002; Alexander Pivovarsky, 2003; Abdelmohsen and Gehan, 2013; Kokobe Seyoum Alemu, and Birhanu Diriba Negasa, 2015)

The OLS regression result also shows the impact of control variables on financial performance of Ethiopian financial institutions. Accordingly, except liquidity, all control variables have strong (at 1% significant level) and positive impact on the profitability of Ethiopian financial institutions when it is measured by ROA and ROE. The reason we use ROE as the second dependent variable in this study is to check whether the relationship between ownership and firm performance is sensitive with the measurement of performance which means we checked the robustness of our finding by replacing ROE instead of ROA. The robustness check shows that whenever ROE is used as a measure of financial performance, there is no difference between the relationship between ownership and financial performance of Ethiopian financial institutions. To be exact, the relationship between ownership, ROA and ROE is positive and statically significant.

TABLE 6: OLS REGRESSION

Model I							Model II						
ROA	Coef.	Std. Err.	t	P>t	[95% Conf.	Interval]	ROE	Coef.	Std. Err.	t	P>t	[95% Conf.	Interval]
OWN	2.04881	0.179879	3.27	0.038*	0.40343	0.305808	OWN	9.68302	5.700523	3.78	0.000*	10.33617	32.81259
LEV	0.023724	0.002493	9.52	0.000*	0.01881	0.028638	LEV	0.164117	0.078992	2.08	0.039*	0.008389	0.319846
LIQ	0.018206	0.00392	0.93	0.321	0.010479	0.025934	LIQ	0.142644	0.124214	1.15	0.252	-0.10224	0.387524
SZ	0.03518	0.041339	-2.54	0.021*	-0.11668	0.046317	SZ	32.60907	1.310075	24.89	0.000*	30.02634	35.1918
VOC	0.027514	0.028672	2.96	0.001*	-0.02901	0.08404	VOC	-32.5417	0.908652	-35.81	0.000*	-34.333	-30.7503
_cons	0.318536	0.4842	0.66	0.511	-0.63603	1.273105	_cons	-60.29	15.3447	-3.93	0.000*	-90.5411	-30.0389
Number of obs = 214							214						
Prob > F= 0.000*							0.000*						
R-squared= 0.9652							0.8704						
Adj R-squared= 0.9644							0.8672						

*significant at 1% significant level, *ROA, Return on Assets: ROE, Return on Equity: OWN, Ownership: LEV, leverage: LIQ, liquidity: SZ, size: VOC, Volume of Capital*

8. CONCLUSION

During the year 1994, in Ethiopia, the issue of privatization has been started in the form of transfer of ownership form public to private enterprises by sales, lease, management contracts, liquidation, and deregulation with the main purpose of achieving major, presenting competition, improving performance of public institutions, generating sufficient revenue, and decreasing political intervention on the operation of enterprises (John Nellis, 2005). Particularly, the financial sector reform in Ethiopia has been started with the Proclamation Number of 84/1994 that permits private enterprises to invest in financial industry. As a result, financial institutions is remarkably increased in number and currently there are 16 private and 1 public insurance companies and 16 private commercial banks and 3 publicly owned banks. However, the Ethiopian financial sector is not opened to the foreigners to invest with the persistent fear that privatization might eventually lead to uncontrollable takeover of key sectors of the economy (financial institutions) by foreign investors (Eshete Tadesse). These privatizations present an opportunity for the investigation of the impact of ownership on firm performance in different nations and different time. This research is motivated by the debate on the impact of ownership on firm performance as it is discussed in the introduction part of the study.

This study was carried out on the impact of ownership on the financial performance of Ethiopian financial sector. The data set contains 12 years data of 18 financial institutions (from 2005 to 2016). ROA and ROE are used as proxy of financial performance and dummy variable for ownership is used. Size, Volume of capital, Leverage, and Liquidity are also used as control variables in this study. Descriptive statistics has been carried out in this study following by different econometric tests such as correlation between variables, Multicollinearty and hetroskedasticiyt tests. The tests show that there is no serious autocorrelation, Multicollinearty and hetroskedasticiyt in this study so that all variables retained in the model of the study. Finally, OLS regression has been carried out in order to show the clear impact of ownership on the financial performance of the institutions and to investigate whether there is a difference on performance of public and private institutions. The regression result shows that private financial institutions reported higher ROA and ROE than public institutions which means the result of this study confirms Agency theory, property right theory and many empirical studies. The study further revealed that ownership has strong and positive impact on the Ethiopian institutions' financial performance.

The study suggests that the Ethiopian privatization Agency should consider the performance of public and private financial sector so that the agency can make right decision respective of privatizing the institutions. The study further suggests that future researchers should conduct research on ownership and profitability of non-financial sectors in Ethiopia.

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