MANAGEMENT CONTROL AFTER PRIVATISATION: ILLUSTRATIONS FROM LESS DEVELOPED COUNTRIES

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1. INTRODUCTION

The effect of neo-liberal economic reform programmes in less developed countries (LDCs) upon management accounting systems is controversial. A striking facet is the pressure the World Bank and the IMF put on many LDCs to pursue privatisation policies (Cook and Kirkpatrick, 1995; Craig, 2000; Parker et al., 2003). Often this was an inescapable condition for loans, which LDCs often are in a weak position to decline (Uddin and Hopper, 2003; Goldman, 2005). Some LDC governments have adopted privatisation programmes of their own volition but others have done so grudgingly under external pressures.

Many development economists and agents of the World Bank assume that such reforms will produce more effective controls, increase enterprise efficiency and, in turn, boost national development (World Bank, 1993, 1995, 1996b; Cook and Kirkpatrick, 1995; Toye, 1994; Parker et. al, 2003; Goldman, 2005). Advocates of privatisation emphasise the lack of financial accountability and transparency in state owned enterprises (SOEs), and their immunity from market discipline and the scrutiny of legal institutions (World Bank reports, 1995, 1996, 1997). They recommend fostering an “Enabling Environment” that promotes accountability, transparency and efficient companies. This entails: liberalising domestic and foreign trade; relaxing price controls; balanced government budgets; and maintaining a legal framework and financial reporting and accountability systems conducive to the functioning of a market economy. The justification for these policies is that private ownership is more efficient than public ownership (Adam et al., 1992; Goldman, 2005).

However, research on the effects of privatisation in LDCs is inconclusive (Cook and Kirkpatrick, 1995; Ramamurthu, 1999). Some report that SOEs are less profitable than their

private sector counterparts in the same industry (Ayub and Hegstad, 1986; Killick, 1983); and SOEs in LDCs fail to generate significant contributions to GDP and are less profitable than the private sector (Kikeri, Nellis and Shirley, 1994; World Bank, 1981, 1983; IMF, 1986; Ayub and Hegstad, 1986; Killick, 1983; Kim, 1981; Funkhouser and MacAvoy, 1979). However, others have found the public sector to be more efficient and SOEs outperforming private firms (Milward, 1988; Ramaswamy, 1988; Wortzel and Wortzel, 1989). Others claim that SOEs cannot be evaluated by private sector criteria because governments require them to pursue non-commercial objectives. Whatever, opinions are divided on the effects of privatisation on the economy.

Much research on the outcome of privatizations has tended to be at the financial-macro level - examining its impact on the economy in terms of GDP and government revenue. For instance, a study on behalf of the Organization of Economic Cooperation and Development by Megginson and Bouchkoua, (1999) used economic indicators to evaluate the outcome of privatization programs in 15 countries. Similarly, a study conducted by Bouton and Sumlinski, (1997) sponsored by the International Finance Corporation on the impact of privatization in LDCs based its analysis predominantly on financial indicators. However, financial profitability may not be a good yardstick for measuring the performance of SOEs, since their objectives may be to promote social welfare and not to generate profit (Akinsanya, 1981; Megginson, *et al.*, 1994; Boubraki and Jean-Cleade, 1998; Prager, 1992; Cook and Kirkpatrick, 1988; 1995). By focusing only on financial indicators, the success or failure of privatization programs is viewed merely through one lens. Even the World Bank (2000) has recently identified the need to evaluate post-privatization performance not by short-term financial measures but by long-term qualitative analysis focusing on human, social and environmentally sustainable development. This is supported by other researchers, including Prizzia (2001) who argues for a balance of economic and social measures of performance.

In most LDCs privatization is complicated and requires a multi-dimensional analysis of its outcomes for several reasons. First, privatization is usually a condition imposed by the IMF, the World Bank and other Western donors on governments in LDCs (Uddin and Hopper, 2003). Second, most privatized firms in LDCs are sold to foreign investors with minimal participation by indigenous investors (Prizzia, 2001). Third, there are inadequate regulatory structures and weak financial markets in most LDCs. Performance measures based on financial indicators alone may distort the measurement of outcomes. Financial indicators may be

adequate for reporting returns on invested capital to the parent company and hence the economic viability of the investments; and they may satisfy the IMF's and the World Bank's need to determine the ability of an LDC to repay borrowed funds. However, these measures are inadequate for assessing the full impact of privatization upon those intended to benefit from it.

Whatever, privatisation advocates presume that the improved accounting that underpins their prescriptions will materialise (Uddin and Hopper, 2003; Wickramasinghe and Hopper, 2005; Hopper et al., 2009). But often research on this is myopic and does not capture the full impact of privatization. Despite purporting that desired results of privatisation are contingent upon management control changes, development economists display little interest in studying whether this occurs at a micro-level. However, a growing number of accounting studies have incorporated micro level analyses of management controls in privatized firms in LDCs (Uddin and Hopper, 2004; Wickramasinghe and Hopper, 2005; see Hopper et al., 2009, for a review) Even in the West such studies are sparse (Ogden, 1995a, 1995b, 1997; Ogden and Anderson, 1999; Letza and Smallman, 2001; Cole and Cooper, 2006; Carter and Mueller, 2006). They point out that accounting controls are not neutral, objective systems that unequivocally flow from rational choice or environmental determinants (Uddin and Tsamenyi, 2005). Rather, they are also shaped by other controls over production and labour, managerial choices and political conflicts within or without the organisation. Moreover, accounting controls complement, interact with and are substitutable by other controls, e.g. internal labour markets (Uddin and Hopper, 2001; Hopper et al., 1987; Hopper and Armstrong, 1991). Privatisations in LDCs may change management accounting and control systems but they can also have unanticipated and unsought consequences. Whether this induces more effective controls; improves enterprise performance, accountability and transparency in firms and government; and enhances development goals remains contested. For example, Uddin and Hopper (2003) found only one of thirteen companies privatised in Bangladesh following World Bank recommendations saw commercial success. In all but one contributions to state revenue declined; transparent external reports required by law failed to materialise; untoward transactions affecting minority shareholders, creditors, and taxation agencies emerged; and more commercial internal controls wrought declining employment, wages, quality of working life, and employee rights. Catchpole and Cooper (1998, 1999) also present a gloomy story of privatisation in South Africa claiming that management controls bore harshly on workers, and were used to rationalised redundancies and reduced benefits. Uddin and Tsamenyi (2005)

and Rahman et al., (2004) recount similar stories in Ghana. This chapter examines these debates. It draws from case studies of management accounting changes by the authors following privatisations in Bangladesh, Ghana¹ and Sri Lanka to delineate whether they met policy expectations, especially with respect to accounting changes. Thus the issues are whether privatisations improved management controls and whether this not only improved financial performance but also served broader development goals with regard to employment, e.g. wages, job creation; and society, e.g. increased taxation revenues.

2. THE NEO-LIBERAL AGENDA ON PRIVATISATION

Arguably, the roots of privatisation policies lie in the ‘Austrian School’ of neo-liberal economics led by the political philosopher Friedrich Hayek. His books strongly influenced the conservative governments of Margaret Thatcher in the UK and Ronald Reagan in the USA and struggles to overthrow communism during the 1970s and 1980s in Eastern Europe. This work challenged prevailing beliefs about the benefits of ‘welfare’ economies, state intervention according to ‘Keynesian’ economic precepts, and state central planning of commercial enterprises. *Inter alia*, neo-liberals argued that state decisions are politically biased and use information contrary to market signals (Harvey, 2005). The agenda, especially by UK and USA governments, became rolling back their welfare economies and promoting market ideals (Parker, 2009). Given their prominence economically and politically, other countries followed suit, and neo-liberal discourse became more global, especially in economic institutions advising LDCs. The failures of centralised state planning and management control mechanisms within SOEs, and from SOEs to government agencies left fertile ground for the promulgation of market solutions incorporating of privatisation to better development (Adam et al, 1992; Rose-Ackermann, 1996).

Frequently arguments for privatisation rest on economic theories of productive and allocative efficiency that stress the micro-economic benefits of property rights and sound contractual relationships between agents and principals, and macro-economic benefits of private ownership and markets for public finances and capital investment (Adam et al., 1992; Cook and Kirkpatrick, 1995). Technological efficiency is a necessary but insufficient condition

¹ Ghana is particularly interesting as it was an early implementer of such reforms in Africa and is often cited by the World Bank as a ‘success’ story.

for efficient resource allocation (Rees, 1984). Allocative efficiency theories claim that SOEs cannot match the efficiency of private firms under market competition, as politicians, managers and workers within SOEs will divert performance into other channels to pursue their personal goals. Competition enhanced by private ownership is seen as essential as it reveals information crucial to efficient input usage (Adam et al., 1992). Without these market references principals cannot determine the correct performance of management or the appropriate rewards. For example, falling profits could be due to lower demand or managerial inefficiency. In a market, published profits and price information from competitors helps principals to analyse this, derive input-output links that are important to internal efficiency, and design control systems accordingly. In contrast, managers of SOEs enjoy a tranquil life under monopolies that convey weak signals of managerial performance leading to inefficiency, the pursuit of non-commercial goals and even state fiscal crises due to loss making SOEs (Adam et al., 1992).

Productive efficiency theory claims that private ownership enhances business performance because its narrower objectives facilitate devising efficiency-enhancing incentive contracts. This is fleshed out in agency and property right theories. Property right theory claims that private owners induce more efficient managers because they design management controls and incentives to maximise profits and thence the value of property rights. If they fail to do so then their business will compete ineffectively and eventually suffer market failure or a takeover. In contrast, it is alleged that SOEs lack effective links between owners and management as no-one has an incentive to design controls that align interests. The perceived costs of doing so will outweigh benefits since benefits do not accrue to individuals (Hanke, 1986). Moreover, because public assets are not individually owned, they lack transferability characteristics (Hanke, 1986, p. 16) and are buffered from competition.

Agency theory makes similar points. Its basic tenet is that agents act in their self-interest. Therefore principals must structure incentives to make them act in congruence with their aims. This is rendered more complex by information asymmetries. Principal-agent relationships in the private sector may be simpler than in SOEs because shareholders have access to information to monitor management and sanction its actions accordingly (Adam et al, 1992). In an efficient capital market, failure to perform to potential leads to low share values rendering the company liable to hostile takeover bids. This threat creates a self-regulating incentive scheme (Jensen and Meckling, 1976; Baiman, 1991) which is absent in the public

sector. Moreover, performance-related pay systems, central to agency theory, are more difficult to implement and devise in SOEs than private sector organisation (Rees, 1985).

Privatisation advocates see public financing, efficiency and privatisation as intertwined. Privatisation is claimed to reduce net budgetary transfers, eliminate contingent external debt liabilities and reduce the adverse effects of deficit financing. In reality, neither sector conforms to these stereotypes (Adam et al., 1992). For example, such economic theorisation may be relevant for classical small firms but not in the modern large limited liability corporation where the property rights of owners are diluted. This reduces owners' control over managers who may have considerable discretionary power to further their own interests (Commander and Killick, 1988; Adam et al., 1992). Moreover, capital markets may be weak in LDCs and the state is often the major source of capital. Finally, policy exclusively based on neo-classical economics neglects the social, political, and cultural context of LDCs, may not reflect broader development goals such as health and education, reduces policy to material factors, and treats subjects as self-interested actors whose behaviour is governed solely by economic exchanges.

3. ACCOUNTING CONTROLS AND PRIVATISATION

3.1 Accounting in State Owned Enterprises

Accounting controls of many SOEs in LDCs are ineffective (Hopper et al, 2009). A reoccurring research finding is that management controls often become redundant and/or merely symbolic because decisions follow political rather than commercial criteria - politicians bypass formal accountability systems and intervene into operational decisions (Xu and Uddin, 2008; Hopper et al., 2009; Uddin and Hopper, 2001, 2003; Wickramasinghe and Hopper, 2005, Wickramasinghe et al., 2004; Uddin and Tsamenyi, 2005). For example, Xu and Uddin (2008) found state officials determined the costs and prices, completion of projects, availability of materials, and the production capacity in Chinese SOEs. In Bangladesh SOEs accounting appeared to exist to legitimate state activities to external aid agencies by demonstrating the appearance, rather than the substance, of financial accountability (Hoque and Hopper, 1994; Uddin and Hopper, 2001). Apparently rational and soundly designed, if dated, accounting systems operating within central state planning were symbolically maintained to gain legitimacy from external actors such as donors and citizens. But they were irrelevant for managers as they bore little semblance to operational realities. Managers prepared the necessary reports but perceived them to be unreliable and not

reflecting the daily uncertainties they confronted – hence they often neglected them in making decisions. The running of enterprises came to rest with a fluctuating coalition of union leaders, managers and nominated outsiders with deleterious effects. Political rather than commercial criteria drove decisions and politicians intervened for political ends and to exercise patronage. – accounting data played little part in decisions, control and accountability. The issue, examined below, is whether privatisation and the management accounting changes it prompts wreak the changes anticipated and serve broader development goals. This is discussed with respect to our case studies from Bangladesh, Ghana, and Sri Lanka. We do not claim that these constitute a representative sample – intensive case studies must sacrifice depth for breadth – but we believe they are illustrative of similar research elsewhere (Hopper et al., 2009).

3.2 Historical context of the privatised firms

In Bangladesh the privatisation programme commenced with the fall of its socialist government (Uddin and Hopper, 2003). Military governments, especially the vulnerable Ershad one, formulated market-based industrial policies to curry Western support in the face of domestic opposition. The government needed external finance from the World Bank and the IMF to cover fiscal deficits. They had little alternative but to accept loan conditions demanding privatisation of SOEs (whether loss-making or not). The military governments initiated a wholesale privatisation programme and established a divestment board that divested or privatised 255 SOEs, including “abandoned” and vested properties between 1975 and 1981 (World Bank, 1997). In 1986 many SOEs became joint stock companies in a holding company (Board of Investments) responsible for selling subsidiary companies’ shares under the ‘51-49 Plan’ (49% of shares sold to private buyers and 51% retained by the government). The number of privatisations was large but involved mainly small factories and mills that were economically and politically insignificant and thus easy to privatise. Most large SOEs were unionised, had strong links to political parties, and labour militancy could overthrow governments: they were not privatised due to their political sensitivity. Nevertheless, influential World Bank reports (1993, 1995, 1996, 1996a, 1996b) argued that Bangladesh SOEs were inefficient. In 1993, the government established the Privatisation Board following World Bank pressure for speedier and more independent privatisations but from 1991 to 1996 only 13 of the 40 SOEs targeted by the Aid Group were privatised. The 1996 Awami League government promised donor agencies to intensify privatisation

programmes (The Bangladesh Observer, 1 January, 1997) but from 1996 to 2001 only 9 small SOEs were fully privatised. Since 2001 more than 60,000 employees of 42 SOEs (large and small) were made redundant but only 4 SOEs were handed over to private owners (The Daily Star, 23rd February, 2004). Again, this fell short of expectations. The Bangladesh case involved a soap company (Uddin and Hopper, 2001).² It was partially privatised in 1988: the state retained a majority shareholding. Partial privatisation merely increased political factionalism, bringing a sharp deterioration in performance. However, still being profitable and thus saleable made it a privatisation candidate. It underwent full privatisation in 1993 with one family holding 75% of its shares.

Privatisation in Ghana began after the fall of the socialist government of Dr. Nkrumah (1957 to 1966). SOEs had been instrumental for capturing the ‘commanding heights of the economy’ but state ownership was also attributable to the lack of effective and capable local entrepreneurship, and fears that commercial returns from public investments would not attract private sector funding, and entrusting the economy to foreigners could bring “quantifiable neo-colonialism” (Killick 1978). Many SOEs were established under an “import substitution program and depended on protection and preferential access to foreign exchange. From 1957 to 1966, employment in SOEs increased ten-fold, rising from 11,052 to 115,826 (Adda, 1992). These enterprises became characterized by large operating losses, low production levels due to under-utilization of capacity and low productivity, large debts, and serious liquidity problems. Most SOEs became a financial burden on the State rather than contributing to government revenue. The performance of the Ghanaian economy generally proved to be poor, characterized by high inflation, balance of payment problems, high unemployment, low productivity and GDP.

Between 1966 and 1972, successive governments pursued a policy of shifting the emphasis by developing the private sector. The military National Liberation Council (NLC) and the civilian Progress Party (PP) governments instituted IMF/World Bank led economic reforms in the late 1960s. The PP government recommended privatisations in 1970 but was overthrown in the backlash to their economic reforms. The military government of Colonel Acheampong that assumed power in 1972 abandoned the reforms. It encouraged private

² Thirteen other companies privatised in the same tranche as the soap company were also examined subsequently, though in less detail (Uddin and Hopper, 2003).

sector development but with little success. The public sector continued to dominate economic activities (the number of SOEs exceeded 350 in the late 1970s). Governments felt compelled to maintain the non-performing SOEs despite the failure of their efforts to make them profitable and viable corporate entities. By 1981, the continuous poor financial performance of SOEs threatened the economic stability and development of Ghana. Subsidies, subventions, and loans to SOEs averaged around 12% of total government expenditures from 1980 and 1982 (Adda, 1992); subventions increased from ₵1.1 billion in 1982 (10% of government expenditure) to ₵7.35 billion 1986 (8% of government expenditure). Outstanding government loans to SOEs increased from ₵500 million in 1980 to ₵1.9 billion in 1985. Virtually no interest or principal repayments were made by these enterprises: they generated insufficient returns to sustain themselves let alone to redeem debts. The 1984 census revealed that 240,000 workers were employed in SOEs.

Killick (1978) and Pozen (1976) attributed the poor financial performance of the SOEs to poor project planning, faulty selection of product lines, inadequate working capital and undue interference by the government into their management. Adda (1992) attributed it to an unsatisfactory policy framework such as extensive price controls and labor laws restricting lay-offs; the lack of competent managers in most SOEs; an almost total absence of management information due to poor accounting and budgetary control systems; poor remuneration packages and hence an inability to attract competent and experienced personnel; the ineffectiveness in coordinating and supervising government agencies and ministries; the lack of an effective process for monitoring and evaluating performance resulting in poor accountability; and the large size of the SOE sector and its dispersed nature.

The inefficiency of the public sector, drought and falling export revenues, and the decline of the Soviet bloc meant Ghana had to turn to Western financial institutions and it became one of the first Sub-Saharan African countries to adopt structural adjustment programmes. The IMF/World Bank led economic reforms were reintroduced in 1983 by the military government of Flight Lieutenant Rawlings. International aid agencies encouraged his administration to adopt programmes to minimise and eliminate government interventions in markets, encourage domestic savings and foreign investment, privatise SOEs, and improve the balance of payments. A Divestiture Secretariat was established in 1987 though no sales were made until 1991 (Leith and Soderling, 2000). To date over 300 SOEs have been divested - over 55% by the outright sale of assets. The government still holds majority shares in over 50

companies (IMF, 2003). The mining sector, a major source of foreign exchange, and banking were particular targets for privatisation.

The first Ghana case, a gold mine, was corporatised and partially privatised in the mid 1990s (Tsamenyi and Hopper, 2003). The government's shareholding fell from 51% to 20% to 20% to attract more private capital and satisfy the listing requirements of the London, New York, and Sydney stock markets. It became the first African company listed on Wall Street. The remaining two cases were researched because they have been proclaimed by the authorities as the most successful cases of privatization in Ghana.³ One, anonymised as PC Ltd is a processing firm which was partially privatized in the mid-1990s and fully privatized in early 2000s. It is now 100% owned by a Western multinational. The second, anonymised as SC Ltd, is a service firm which was fully privatized in the early 1990s. It is now owned by an African multinational firm but is managed by a Western multinational under a management contract. Seven of the eight executive team members are Western expatriates. PC and SC employ approximately 700 and 350 people respectively. The performance of both companies pre- and post-privatisation was evaluated by a range of financial and non financial measures derived from the balanced scorecard framework of Kaplan and Norton (1992). Five sets of indicators so derived covered financial outcomes, customers, internal business processes, learning and growth, and serving the community.

Sri Lanka followed a similar pattern. In 1977, a new right-wing government marked a transition to market capitalism labelled the 'open economy'. It criticised its left-wing predecessor for promoting "closed-economic policies" whereby SOEs acted as vehicles of employment and political patronage. SOEs were portrayed as loss-making entities infected with dysfunctional management control, corruption and undue government intervention. The deficits of SOEs strained the government budget: they accounted for budgetary transfers amounting to 10% of GDP in the mid-1980s. Over a decade later, the privatisation programme gathered momentum with a divestiture of 43 public enterprises that raised Rs. 11.6 billion by 1995 (Knight-John, 1995). The policies followed IMF and World Bank pressure (Kelegama, 1995). Even when a left-wing political party assumed power in 1994 the open economic policies and

³ Both companies as SOEs exhibited poor performance in terms of operating profit, return on capital, asset turnover, customer satisfaction, sales growth, contributions to community including no contribution to government revenue, and internal management controls.

the privatisation programme continued. As a result, by 2002, the government had raised Rs. 46.2 billion by privatising 86 public enterprises (Annual Reports, Central Bank of Sri Lanka, 2003). Government statements indicate that the aims of these divestitures were to alleviate fiscal deficits and to improve enterprise efficiency by encouraging management controls based on a private sector ethos (Budget Speech, 1987). They tried to facilitate privatisation by introducing an institutional framework that included new institutions such as the Presidential Commission on Privatisation, the Public Investment Management Board, and the Commercialisation of Public Enterprises Division (within the Ministry of Finance). The first Sri Lankan case discussed here was a textile mill that was fully privatised in 1992 and new Indian managers and owners took over (Wickramasinghe and Hopper, 2004). The second case follows the partial privatisation in 1997 of the Sri Lanka state telephones – previously a government department renowned for poor service and inefficiency. A Japanese telecommunications company became a minority shareholder and undertook its management (Wickramasinghe et al, 2004).

3.3 Accounting and accountability changes

In general, privatisations brought improved management information systems through investments in more accurate, quicker, computerised internal controls, especially directed at improved market information, short-run planning, and matching production to market demand. In the Bangladesh soap company, the new owners computerised management information systems and linked market information to production schedules. Budgets became centralised, market oriented and all financial information became the preserve of the owning family. They exercised direct and arbitrary control reinforced by their power to hire, fire, and promote at whim. Physical, tighter budgets were imposed down the line and ultimately upon the labourers. Management destroyed the internal state through redundancies, installing a puppet union, and using subcontracted, low-paid, casual labour (Uddin and Hopper, 2003). Managerial actions were often justified by accounting claims arbitrarily fed downwards stating the need for cost savings, productivity and profitability. However, it is dubious whether these were internalised by workers or even supervisors though they could not ignore them without imperilling their jobs. The swingeing redundancy programme was justified using accounting data and the trade union leaders permitted to remain justified their acceptance of virtually destroyed internal state accordingly. For instance, the General Secretary of the dominant trade union faction commented that redundancy programmes were necessary to revive profitability.

Despite company law and stock exchange listing requirements to the contrary, published annual reports ceased after the first year of privatisation (1995) without redress. Legal problems were not confined to capital providers. Workers' claims for redundancy payments, non-payment of pensions, and other issues since privatisation have been brought to the labour court by trade unions but the state and regulatory bodies have failed to take action. Alongside allegations of irregular financial transactions and exploitation of minority shareholders, state tax officials and banks have brought prosecutions against the company for financial irregularities. The Securities Exchange Commission of Bangladesh, a government agency, has considerable powers over listed companies but these are rarely enacted for irregularities like failing to hold annual general meetings, paying dividends as promised, or making misleading statements. Executives complain of long judicial delays and small investors have little redress over defaulting companies. Given the absence of published financial reports required by law it was impossible to discern whether performance increased after privatisation.

In the Ghana gold mine, greater private ownership brought updated Western management controls. The budgeting system was computerized, and an integrated accounting software package (Business Planning and Control System) and activity-based costing were introduced. The listing on international stock exchanges and the new controls only marginally changed employees' beliefs that accounting was subservient to mining. However, the subsequent fall in gold prices and rising production costs (due to the exhaustion of economic reserves) the company came close to bankruptcy. Management introduced cost cutting measures and emphasised the role of accounting controls: budget performance reports constituted the major part of managerial performance evaluation; courses in budgeting were introduced for all managers; and redundancies and reduced benefits ensued justified mainly using accounting data. Regular accounting reports required by law were maintained. However, regulation of the mining sector had been reduced to attract foreign investors (Canadian Council for International Co-operation, 2003), bringing neglect of pollution, land degradation, and health problems associated with mining by government and mining companies alike. For instance, the gold company shifted from underground to cheaper open mining which has more negative environmental impacts. The Canadian Council for International Co-operation Report (*ibid*) notes: "The weak regulatory regime, which is so

attractive to investors, often results in a situation where government is unable to create local benefits or protect the environment and their people's rights".

In PC and SC organizational objectives changed after privatization. Under state control, there had been little emphasis on cost control and profitability - the organizations just prepared aggregated budgets to estimate government subventions and subsidies. There were no budgets for sales, production, cash and other activities. After privatization, both firms automated their accounting and information systems to support planning and to monitor results. Both implemented commercially oriented budgetary control systems and formed budget committees, comprising all department heads and the finance staff. Department heads became responsible for preparing their departmental budget estimates and implementing and monitoring their agreed budgets, which were linked to the strategic plans of each firm. Decisions on issues like investments, products and pricing became guided by cost and accounting information.

The preparation and auditing of financial reports improved following privatisation. Information on their activities and annual financial statements became available on a regular and timely basis, something considered alien under state control. For example, both firms regularly prepared quarterly financial statements. Before privatization, the Audit Service was responsible for auditing the SOEs (including PC and SC) but they often failed to do so or did so two or three years in arrears. Upon privatization, both organizations have had their accounts audited periodically by one of the big four accounting firms. They have also established internal audit departments: these were not in place under state control.

The privatisation programme in Sri Lanka relieved fiscal burdens on the government budget but the money saved was diverted to defence (Knight-John, 1995). There were no severe labour retrenchment issue (retrenchment packages were offered) but privatisation removed state subsidies and brought price increases in many public services such as transport and telecommunications. Accounting became more visible in post privatisation regimes in Sri Lanka. State led 'good governance' campaigns induced more market-based management control systems, organisation structures, and performance evaluation systems in the focal cases and beyond. This was manifested in the two case studies. The Indian owners of the Sri Lankan textile mill changed its organisation structure and controls considerably. A Corporate Planning Manager at HQ became responsible for revitalising management accounting practices and budgeting emphasising commercial rather than legal and bureaucratic criteria.

After preparatory meetings with key managers, heads of departments were briefed on the forthcoming budget and new policy decisions. Department heads sent their draft budgets to the Cost Accountant and Finance Manager and a budget committee reviewed these with heads of departments to check their feasibility, whether they conformed to corporate policies, and to recommend remedial alterations. The Cost Accountant circulated the eventual master budget to heads of departments. The Mill Manager, a long-standing Sri Lankan manager in the mill became responsible for short-run budget adjustments and budget targets. He was assisted by a new Production Planning Manager who collected information on daily production, quality, and finished goods inventories, which was forwarded daily to HQ by a courier who brought back market information from the marketing division. Production schedules were adjusted accordingly. Machine utilisation and cost budgets became the main controls in production. Machine and labour utilisation forms, and shift production formats recorded daily performance against budget. Daily instructions were issued to production managers and supervisors who modified budgets in ad-hoc meetings as necessary. Each head of department prepared monthly reports highlighting variances prior to a monthly accountability meeting with top managers. Budgetary control now appeared impeccable from an accounting perspective.

In the Sri Lanka telecommunications firm its post-privatisation Japanese chief executive exercised a directive but consultative style of management, worked within the prevailing trade union structure, and changed performance appraisal and rewards to recognise achievement. This was a drastic change. The rule-bound bureaucratic management controls were replaced by a more efficiency-oriented system that appraised performance. The company became a more flexible organisation that provided efficient and customer friendly services. Prima facie, in each instance, privatisation appeared to induce management control changes consistent with expectations of proponents of market solutions. However, as is discussed below, these changes proved to be transitory for cultural and political reasons.

3.4 Capital Investment

In each instance, private capital brought significant investment in technology. In the Bangladesh soap factory, capital investment was limited, possibly due to the indigenous owners having inadequate access to capital. Instead they intensified work practices. In the Ghana gold mine, considerable mechanisation had occurred before majority private ownership. However, a World Bank/IFC loan guaranteed by the government financed further

capital investment and operational improvements, encouraged by a new minerals law that allowed it to retain 45% of its export earnings. In PC, upon privatization, long-term finance from three major Ghana banks supplemented additional capital from the foreign shareholder. This was invested into research and development, product development and market research, and long-term assets, such as additional production plants, delivery vans and trucks. This significantly improved sales growth, market share, operating profits, returns on assets, lead-times between order and delivery, and reliability of deliveries. The company entered the top 10 of the 2003 list of Ghana's Club 100. Similarly, following SC's privatization, capital injected by the foreign owners and loans from international financial institutions enabled it to address the deplorable and unattractive state of its premises, the poor attitude of employees, and low customer satisfaction and retention. This produced improvements similar to those in PC.

In the Sri Lanka telecommunications firm, massive capital investments were made after privatisation, especially in new technologies and expanded service centres. This required the hiring of younger, more technically qualified staff, often from the private sector. The Indian owners of the Sri Lankan textile mill also invested in new machinery. They hired Indian managers with engineering backgrounds and strong beliefs in technical solutions, who began to overhaul and modernise its machinery and improve operations, especially quality. Loans from a state bank were given to further these improvements. However, when the owner fled the country having fraudulently used the loans to invest in machinery in other ventures abroad, the company collapsed and returned to state control.

In summary, privatisation brought greater investment from private and state funds. This tended to be greatest and most effective when the new owners were large corporations with dispersed ownership. The privatisations resulting in ownership concentrated in families were more susceptible to a lack of capital and financial irregularities though we would not wish to infer that this is invariably the case.

3.5 Employee relations and culture

Changed accounting practices reflecting and reinforcing market relations post privatisation can conflict with employees' traditional cultural beliefs on what constitutes legitimate rights and obligations. In the Bangladesh case, culture was not a major issue, partly because the factory was in an urban area and, given the precarious economic position of workers, managers could stamp out any vestiges of traditional culture and obligations, such

as worker absenteeism during harvests. Cultural issues were not studied in the cases of PC and SC but insofar as they existed they appeared surmountable. However, in the Sri Lanka textile mill and the Ghana gold mine, ethnic tensions intertwined with cultural issues fused with and permeated industrial relations conflicts that were intertwined with persisting issues of political patronage.

In the Ghanaian gold mine, traditional cultural values still permeated production relations but the new mining equipment isolated miners and thence weakened cultural bonds. Moreover, whites and 'southern' Ghanaians continued to dominate management and they received more fringe benefits and enjoyed better working conditions than predominantly 'northern' miners (northern and southern miners tend to have different ethnic identities). After the listing, the culture and language of mining continued to dominate that of accounting. Hence management gaming involving overstated budgets, understated production targets, and spending budget allocations to avoid budget cuts persisted despite accounting gained greater prominence. The General Mines Workers Union's power diminished: miners recognised their dependence upon international capital and the union became less confrontational. Management tried to facilitate negotiation, transparency, and cordial relations by appointing two union representatives to the board. On the other hand, it also tried to infiltrate the union and it established an industrial relations unit in each mine to monitor and discipline miners, and report imminent strikes. Miners viewed industrial relations officers with suspicion, seeing them as spies and controllers. Although the company could dismiss individual miners, the major redundancy programs often brought strikes and government interventions. The financial crisis in the late 1990s when gold prices collapsed brought tighter controls that allegedly bore more heavily on miners. Following checks by metal detectors at the mines, miners sought compensation for the loss of previously smuggled gold, which they had traditionally perceived as legitimate rewards. This led to further strikes with ethnic overtones.

However, in PC; despite new controls linking rewards to performance, increased labour cost efficiency and lower job security; labour relations were not a major issue, possibly due to increased training, growing employee numbers, and a more favourable public image of the company following its increased effectiveness, community involvement, and contributions to government revenue. Prior to privatisation, SC had poor labor cost control; an information system not conducive to meaningful planning and control; weak supervision;

and no means of disciplining employees or channelling their grievances, other than through the government ministry. After privatization, the new management emphasized discipline and introduced formally defined responsibilities and reporting structures. Labour costs were better controlled and became a smaller proportion of total revenue. Employees received more competitive but performance based remuneration and improved benefit packages (e.g. for health, education, clothing). Schemes were introduced to recognise outstanding employees and provide training and career development, and whenever possible, filling vacancies through internal promotions. However, some employees alleged discrimination of indigenous managers in appointments and promotions compared to ‘Westerners’; and others complained of restrictions on forming a union or association, especially given the General Manager’s absolute power to fire staff, few means of challenging this, and the cessation of guaranteed job security.

The effect of culture was most marked in Sri Lanka. In the Telecom firm older employees were habituated to the slow pace of work in a public enterprise, rule-bound behaviour, minimal performance evaluation, and exploiting delays to customers to gain undue rewards. Following the partial privatisation, by exploiting their powers within legislation, trade union and political leaders continued to exercise patronage and intervene into everyday management on behalf of disgruntled workers, though it became more difficult and less prominent. After initial hostility to privatisation, trade union leaders initially undertook little direct militant action against the Japanese management who took pains to gain their confidence. However, ensuing management changes precipitated bitter and violent clashes between the ‘younger’ and ‘older’ (often previously civil servant) workers.⁴ As will be discussed, the politicians intervened to block the changes and remove the new manager. In the rural textile mill, traditional values had influenced working practices since its foundation in the 1950s. Indigenous managers reciprocated ‘kingship’ expectations of workers and enabled traditional obligations to be reciprocated through padded budgets. This continued after privatisation but was supplemented by ethnic tensions. Workers attributed the sale of the textile mill to Indians to politicians’ desire to placate Tamils. Allegations (unsupported) that the owners supported Tamil rebels precipitated an alliance of workers and indigenous

⁴ Post privatisation the firm recruited newer, younger, and more technically qualified staff often from the private sector who were often superior to staff recruited during its civil service era.

managers against the new owners. The mill workers were not normally militant but they still expected trade unions and their political affiliates to intervene on their behalf post-privatisation. When the mill failed employees successfully (but ephemerally) got political and trade union leaders to intervene and reopen it. In Sri Lanka, the trade unions remained influential after privatisation and the party-based trade union structure remained intact.

Industrial relations were an issue in the Bangladesh case. SKOP (the combination of all trade union federations) dropped their opposition to privatisations (whether in part or in full) and concentrated on protecting worker interests. Their efforts to prevent worker layoffs had little success in the soap factory. The new private owners exploited inadequacies in the drafting and enforcement of the Industrial Relations Ordinance (1969) to the full, assuming its managerial prerogative to hire and fire at will but ignored its protections of temporary contract labour and their trade union rights. A government trade union appointed to mediate labour and capital conflicts within the firm proved to be a puppet that acted at the behest of new owner-managers. In this instance privatisation broke collective bargaining systems and revoked improvements in worker rights or conditions.

In summary, in each case, except for the Sri Lankan textile mill, privatisation brought a rationalisation and sometimes a reduction in employment, and tighter controls over labour. As in most organisations, managing the change was difficult, especially when it challenged employee's traditional cultural beliefs and expectations of political patronage. Employment changes associated with cost reduction could amplify industrial relations conflicts. This is not surprising given privatisation seeks to increase performance in arguably inefficient SOEs with bloated labour forces. However, such conflicts appeared more prevalent when employees perceived few of the benefits stemming from privatisation percolating down to society in terms of government revenue and community support, or to employees in terms of increased employment and remuneration, and employee rights. Drives for greater efficiency are a policy aim of privatisation but they are particularly worrisome when accompanied by a denial of worker and trade union rights under existing legislation. Moreover, if politicians retained powers over the firm they could reassert political intervention and patronage, and thence potentially overturn many management reforms.

3.6 Political intervention

In the Bangladesh company political influence persisted after privatisation. Political agents acting as employees at the behest of politicians disappeared but political influence

took new forms. Politicians used their powers within regulatory frameworks to favour investors amenable to granting political favours. The new owner-managers of the soap company price had to reward political support for ousting trade unions and militants by recognising a token government party trade union and appointing staff recommended by ministers. Privatisation brought family control exerted through direct, physical, and sometimes coercive controls but to maintain their ultimate power within production the owners had to accede to political power.

Despite the Ghanaian mine company's listing on international stock markets, the government's minority share ownership and strong board representation (a government minister is the chairman of the board of the company) enabled politicians to veto decisions; and intervene in labour relations, explorations for new mines, and mining methods. Party disputes spilt over into organisational matters. For example, the chief executive was at loggerheads with the president of Ghana due to allegations that he was a member of the opposition political party and supported a traditional chief objectionable to the government. Government probes were frequent. For example, in 1993 the Head of State, Jerry Rawlings, inspected the mine and by midday he had expressed his dissatisfaction with conditions and immediately replaced the Deputy Managing Director. The government, through its minority holding, vetoed financiers' and private shareholders' attempts to merge the company with another large foreign mining company to avert a financial crisis. In December 2001, dissatisfied with political interventions and constraints, the company demanded the government relinquish its 20% shareholding. However, in PC and SC no major issues concerning continued political intervention after privatisation were raised, and the regulatory structure appeared to be working effectively. The difference between the gold mine and PC and SC may in part be attributable to the government having fewer means of intervention following full rather than partial privatisation.

In Sri Lanka political interventions continued in the telecommunications company but took a different form after partial privatisation. The new management could not eliminate the politicised trade union culture and subsequently a new government and its trade unions formed an alliance to act on behalf of mainly older, previously civil servant employees. Several Board members and the Chairman were political appointees and the new government used its power to replace the Chairman with a party supporter critical of management changes. Major conflicts with the chief executive ensued. The management reform

programme was halted when a coalition of recalcitrant workers, some trade unions, state officials, and government nominated directors eventually overthrew the Japanese chief executive. This was made possible through political capture of the regulatory process and remaining state regulations over the enterprise. Politicians can use their powers within regulatory frameworks to favour investors willing to grant political favours. If regulatory bodies are so captured, and enforcement is weak, then political interventions, disputes between firms and government agencies, and the growth of political links between owner-managers and regulators are exacerbated. For example, the head of Telecom Regulatory Commission was an ex MP appointed by the Minister. Managers of the telecom company complained that the Commission refused their requests to reduce prices of products and new connections to protect small telecom service providers. Moreover, fully privatised enterprises can find political support is still essential (Ranuthge, 2001; Uyangoda, 2000). For example, when the textile mill was fully privatised the minister responsible for the sale helped the new owners secure loans from the state bank. Thus whilst the diminished political intervention into enterprises expected following privatisation could be reduced considerably, especially in full privatisations not subject to market regulation, it did not necessarily disappear totally and could reappear through new conduits. For example, privatisation of the Sri Lanka telecommunications company did not remove political interference – rather it shifted it from operations to regulatory issues.

In addition, greater accountability and governance induced by more developed capital markets did not invariably materialise as anticipated. In at least two cases weak regulation by the state and market institutions led to failures to publish financial information as stipulated, which may have encouraged corrupt financial practices. The privatisations of the Bangladesh soap factory and the Sri Lanka textile mill culminated in financial malpractices fostered by weak enforcement of reporting requirements based on statute and/or stock exchange rules. In weak capital markets with poor governance, accurate financial information and regulatory enforcement may be absent, leaving creditors and minority shareholders with little protection.

4. CONCLUSIONS

This chapter set out to evaluate the changes to management accounting controls in the context of structural adjustment programmes in LDCs drawing on the existing literature and empirical illustrations from Bangladesh, Ghana and Sri Lanka. In each country prior research

indicated major economic problems with SOEs due to dominance of political rather than commercial criteria in decisions and a lack of accountability and control. We do not wish to assert that this is inevitably a corollary of public ownership but to date it has been a recurring finding of the small but growing accounting research on SOEs in LDCs. The aims of privatisation were to alleviate fiscal burden and to improve enterprise efficiency through adopting private sector ethos of management control. Our examination suggests that the anticipated changes and positive outcomes, especially to accounting systems, tended to occur after privatisation. These included the recruitment of new staff capable of establishing private sector management ethos; improved management information systems and performance appraisal methods; enhancement of market friendly products and services; greater investment in operations and marketing; and greater staff development. However, these outcomes could have unintended consequences. These include cultures and ethnic tensions at odds with the expectations of the new management rationality; state bureaucratic controls that reassert continuous political intervention (especially within partial privatisations) rather than the state shifting its efforts to supply-side economics and regulation; increased volatile industrial relations; and financial irregularities during the privatisation process and after. Throughout our research we have failed to find any examples of formal management accounting systems in large to medium sized organisations that significantly differ in design and intent to those in similar Western organisations. Differences in practice have lain in their usage which is a product of the socio-political context. Management controls following privatisations in LDCs have tended to improve and be more commercially oriented. They are a necessary but not sufficient condition for effective privatisations to materialise. However, like their predecessors in SOEs their effectiveness remains susceptible to cultural and political ramifications. Without pertinent changes in regulation by the state and capital markets, careful and legal handling of industrial issues affecting employees who can feel the brunt of changes, and a transparent privatisation process that encourages ownership with the necessary capital and ethical management expertise to wreak commercial improvements, then the anticipated accounting changes may not materialise.

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