

POST-PRIVATISATION CHANGES IN FIRM ACTIVITIES, PERFORMANCE AND MANAGEMENT CONTROL: AN EMPIRICAL STUDY ON MALAWIAN BASED FIRMS

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ABSTRACT

The Purpose of the study is to explore how internal and external factors affect the relations among privatisation, management control system (MCS) changes and firm performance. The research method took a form of case study method, which allows a qualitative research approach. It gives a description of the data collection analysis methods used. The greater part of the data is collected by means of in depth interviews and various secondary sources. The data analysis method used is mainly qualitative. It also explains the relations among the companies of the conceptual model. Further, an outline is given of the measurement methods to assess firm performance. Focuses on the empirical results of case studies conducted in Malawi, three manufacturing firms: Bakhresa Grain Milling Company Limited, Dairibold Malawi Limited and Illovo sugar company Malawi Limited. This detailed investigation shows how MCS practices are actually evolving, what changes are taking place, and the influence of conceptual factors on the process of change, firm operations and performance. It also explains the challenges that case firms are facing. The limitations of the study are found in its focus on a specific country Malawi and specific companies Bakhresa, Dairibold and Illovo. There is also little literature that explains MCS practices from the perspective of firms in less developed countries (LDC). Neither is there much literature available about the impact of MCS change on firm performance in the context of LDC. It has been argued in literature that there is lack of empirically based research to explore and effectively analyse the perception hold by management and employees within organisations with respect to post privatisation effects. This paper presents the results of post privatisation changes in firm activities, performance and management control as an empirical case study focused on Bakhresa, Dairibold and Illovo. The work allowed the identification of various perceptions held by management and the degree to which these perceptions are similar.

Key Words: Post privatisation changes, firm performance, management control

JEL Codes: M0, M19

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I. INTRODUCTION

Public sector reform, which at the present moment dominates the less developed countries (LDCs), was introduced due to the low level of service provision and excessive demand made on government budget. However, initially it did not bring about substantial improvement, mainly because the measurements taken looked elements of privatisation Nellis (2003).

Therefore, privatisation has been the major policy item in structural adjustment. Nevertheless there is still debate about whether privatisation actually provides better social-economic benefits Cook & Kirkpatrick (1995). The World Bank and IMF have encouraged many LDCs to pursue privatisation policies Craig, (2000), Cook and Kirkpatrick (1995) and Cook (1986), presuming that ownership changes greater productive and allocative efficiency Vickers and Yallow (1988a). On the other hand, the UNDP (1998) and Kikeriet al (1994) argue that the success of privatisation is likely to be influenced by a number of factors. These factors include competitiveness of the market; the macroeconomic conditions and policy frameworks; in other words the prevalent market and country conditions.

So far, a great deal of accounting research linked to privatisation (both financial and managerial) has been conducted within developed countries Ogden (1993), Wright et al (1993), Jones [(1992), (1985)], Espeland & Hirsch (1990). Accounting researchers tend to look in particular of the effects of ownership change and role of management accounting. So the debate about privatisation now also addresses issues such as post privatisation enterprise performance (e.g. Uddin & Hopper, 2003; Weiss, 1995; Karato, 1995 and its impact on societies (Cook & Kirkpatrick, 1995; Fontaine & Geranami, 1995), and the creation of conglomerates through privatisation (e.g. Potts 1995). However most developed researchers have yet not addressed the “internal realities of post –privatisation regimes and remain ambiguous about the results of privatisation. Cook & Kirkpatrick (1995) (1988), for example, are cynical about privatisation results, whereas the World Bank (1992) is positive about them in terms of increased investments, improvement in productivity output growth and diversification. However as stated by Uddin & Hopper (2003), evidence indicates that structural adjustments programmes, globalisation as well as the internationalisation accountability and transparency of companies in LDCs. Similarly, opinions are divided on whether privatisation actually improves the performance of enterprises within LDCs, facilitates development goals, distributes wealth fairly, and induces more effective controls, accountability and transparency.

This study is aimed at obtaining knowledge about Third world accounting in an attempt to shed light on some of the prevailing ambiguities. Generally, the research addresses the relations among privatisation, MCS changes and firm performance, within the wider social-economic and political context of the recently privatised manufacturing firms of Malawi. Specifically the issues covered include a description of MCS practices an assessment of the post-privatisation changes in MCS practice changes and firm performance. Data of the pre and post privatisation periods are compared to enable us understand the changes taking place in the privatised firms.

A. Objectives of the Study and research questions

Studies have shown that the success of MCS is related to external factors, such as social-economic, historical, political and cultural ones ((Hopwood, 1987;Neimark & Tinker, 1986; Burchell et al., 1980; Miller & O Leary, Broadbent & Guthrie, 1992; Broadbent,1999). However, only few papers emphasise the effect of local social,

cultural, and political factors upon accounting in LDCs and are based on the view that MCS in LDCs may operate differently from that in the West (e.g. Asechmie & Ikeri, 1999: cited in Hopper et al. (2004b)). This research starts from a similar line of reasoning, which is that MCS practices in LDCs should be considered in relation to their wider context and be adapted to their new environment in order to be functional. The overall aim should be to contribute to filling this gap in accounting research by presenting empirical evidence that can be used in enhancing the knowledge of accounting in Third World Countries. The current literature on privatisation simply assumes that improved MCS practices and firm performance are the result of privatisation, but fails to show how this process actually takes place during the transition period. This study intends to shed light on this process and the relations among privatisation, MCS changes, and firm performance, while taking into account the influence of contextual factors. This is an area on which accounting researchers should focus in order to clear the existing ambiguities in neo-classical theories, former accounting research, and development studies. These ambiguities refer to issues such as: the role of MCS in development processes, expected changes in MCS after ownership changes [from the perspective of theory and practice], the role of government in the operation of private enterprises, post-privatisation firm performance, and the like.

The researcher addresses the area that has been neglected by the current research. It focuses on the unresolved issues concerning privatisation and its impact. Post privatisation changes in firm activities, performance and management control and the influence of contextual factors. To help find answers to the issues raised and to structure our approach, i pose the following general research question and its sub questions:

General Research Question: How do internal and external factors affect the relations among privatisation firm performance and changes?

Research Sub Question: The above stated general research question can be presented in its detailed forms as follows:

1. What is the level of post privatisation firm performance when compared to that during the public ownership era?
2. How do the internal and external contextual factors influences (changes in) post privatisations firm activities, performance and practices?
3. Which management control systems were used prior to privatisation and what changes have taken place after the change in ownership.

II. RESEARCH METHODOLOGY

In this study I try to gain insight into the development of MCS practices, the way in which the case firms carry out their activities and their performance levels. Further, this paper investigates how the process of transition has been influenced by the various internal and external factors, while taking the social-economic and political context into account. The study's aim is to map out how the privatisation process has changed the MCS practices and firm performance in LDCs. To this end, in-depth data had to be collected on the firms MCS practices, their performance standards, and the influence of contextual factors during both the pre- and the post privatisation periods. These data were gathered by interviews, secondary sources and other means.

The research method used in this study is the case study approach, which enabled the researcher to collect quantitative data. As indicated by the literature, change in MCS practices and firm performance take place after privatisation. However, a large number of issues have remained un-tackled, such as the way in which change actually takes place and the influence of contextual factors, either facilitating or impeding the change process. As described by Flick (2002), this study has benefited more by following a qualitative research approach since it adheres on the use of an inductive strategy. This means that rather than starting from existing theories and testing them, it requires sensitizing concepts for approaching the social contexts to be studied. Qualitative research also helps one to include contextual conditions, and serves as a tool in detecting new issues as well as developing empirically based theories.

Qualitative data is rich, full earthy, holistic and real. It also offers a high level of face validity; it preserves the chronological flow of data and is hardly susceptible to retrospective distortion (Miles, 1979: cited in Ghauri et al., 1995, .85).

The case study approach

This method helped the researcher investigate a contemporary phenomenon within its real-life context, as the boundaries between the two were not clearly defined (Yin, 1994). In this respect, the case study method enabled the researcher to gain access to various data sources, and to process an extensive variety of material, such as documents, artefacts, transcripts from interviews, and observations. The method also allowed a systematic observation of the policies, people, structures and context of an organisation (Birnberg et al, 1990).

Selecting a research setting

When adopting a case study method the selection of a research site is a major concern (Yin, 1994). In view of the study's final objective Malawi was selected for a number of reasons. First Malawi is a less-developed country and the author of this thesis is a Malawian national who is acquainted with the Malawian environment and culture. In this position it was easier for the researcher to approach the various authorities and firms that it would have been if the researcher had chosen another country. Moreover, as the researcher is a native speaker of the local language, it was easy to communicate with the interviewees and translate the interview questions. The researcher conducted the interviews himself in the local language. This advantage was exploited during the whole period of data collection for both the pilot and the final study. It helped the researchers to significantly minimise the social desirability bias and to avoid any misunderstanding and misinterpretation of the concepts used in the interview questionnaire.

Selection of the case firms

The selection of the three case firms was conducted systematically on the basis of a number of criteria: the research objectives, accessibility of the firm, firm size, the composition of the firm's ownership, the business in which the firm was engaged, a mixture of strong (successful) and weaker firms, and the number of years the firms stayed in operation after being privatised. Another criterion was to include privatised firms that were over by former managers or those have retained their former personnel, who acquire good knowledge of operations.

One of the problems of the case study research is getting access to information (Yin, 1994); Smith et al., 1988). In order to deal with this problem, the firms had to be

willing to co-operate fully and give full access to their data. First, the researcher obtained a list of manufacturing companies privatised since 1997. The researcher decided to approach five of the listed firms that had been privatised earliest, and that were relatively large size and fairly diversified with respect to the composition of their ownership and their strength. By selecting firms that have been privatised relatively early, the researcher was able to obtain a maximum amount of data on MCS change and post-privatisation firm performance. It is believed that the longer a firm stays in operation after being privatised, the easier it is to observe MCS change and measure the trend in firm performance. Additionally, firm size was considered important since larger firms are presumed to use more sophisticated management control systems.

Selection of the participants

As participants in the study the researcher selected people in the case – enterprises and the governmental and non-governmental institutions. The researcher selected those possessed the knowledge and experience relevant to my research topic and who had sufficient time and were willing to participate in the interviews (Morse, 1998). The researcher also received access to the lower levels of the firms' organisational structure. Top officials brought the researcher into contact with the staff working at the lower levels of the case firms. The officials included managers, administration officials, heads of the finance and the production and sales departments, various section heads, people from stores, employee representatives and others. The procedure was to approach the top management group of each department to ask them whether they could recommend people whom the researcher could address for my data collection on both the current operations and the pre privatisation period. The systematic way in which the researcher approached the participants in the study is supported by Morse (1989: cited in Flick, 2002), who claims that qualitative samples are goal-oriented rather than random. In addition, the researcher approached some of the interviewees through friends.

For the selection of participants outside the case firms I followed a similar procedure. The government ministries and the non governmental institutions were approached by means of a formal letter. The heads of these organisations then identified the most relevant participants to be approached. The help of friends in approaching some institutions was also helpful as in the case of Malawi revenue authority, the Malawi national statistical office, and the Ministry of Trade & Industry (MTI).

Data Collection

Both primary and secondary data were collected during two periods August and December 2008. Field work provides answers to the “how” and “why” of the issues under study by offering an extensive range of evidence through documents, artefacts, interviews and observations (Yin, 1994; Smith et al., 1988). In this case study the focus was typically on both qualitative and quantitative information delivered by archival data, interviews, information reports, and direct observation.

The Case Studies

Primary data was collected through direct observation and in-depth face-to-face interviews with the respondents. These respondents were staff members and employees of the three firms and the mentioned Government Ministries, parastatal organisations and NGOs. They were firm managers, human resource and

administration officials, department heads (from the Production, Finance, Marketing and Quality Assurance departments), and section heads, Knowledgeable accounting staff, employees and workers union leaders. As stated by Hopper et al. (2004b), conducting interviews is the most common data collection technique in case studies. The interview questions for the final case studies were prepared on the basis pilot interviews, the literature review, and my research objectives. Their form was semi-structured. The researcher believed that this form would provide me with a broader spectrum of information than standardised questions or questionnaires (Kohli, 1978). The semi-structured interview technique enhances the data's compatibility. Although the questions posed in the interviews were predetermined, the respondents were encouraged to elaborate on the issues under discussion. In this way the researcher was able to obtain unexpected additional information related to the research topics. The questions served as guidelines; but of course, in order to avoid superfluous information the researcher maintained some degree of structure. Also Hopper et al. (ibid) underline that unstructured interview questions are preferred to structured questions, because the latter are inflexible and involve the risk of missing important information.

Extensive interview sessions with firm managers were crucial since these participants were the main users of accounting information, and their policies influence the activities of the entire organisation. The interviews with a number of employees from each separate department provided me with useful information regarding the changes in the employees' behaviour, their perception of the new ownership and the MCS changes, their motivation, and their involvement in the firms' decision-making processes.

A major task was to find knowledgeable personnel working in the case firms during the period of public ownership in order to obtain data on past MCS practices. This was not easy, since the majority of the former personnel had been replaced. Secondary data were extracted from company records, audited firm statements, statistical reports, books, journals, publications, business and investment plans of the case firms obtained from the MTI, and annual consumer index reports. Data obtained from sources other than the case firms included documents on privatisation policies, government reports and regulations, newspaper publications on the progress of the privatisation and purchase and sale agreements, reports of the International Monetary Fund (IMF), the World Bank (WB) and other NGOs.

Data Analysis Method

The researcher firm level analysis focussed on determining whether the privatised case firms had indeed achieved the results as predicted with respect to improved MCS practices, firm performance, and the implementation of business plans. In addition, it included the influence of the contextual factors on the MCS practices and performance levels. With respect to firm performance, the emphasis was on whether the case firms had managed to improve their profitability, labour productivity, operating efficiency, output, leverage, employment, capital investment, and tax payments. For each firm I calculated financial ratios and trend computations. During the course of the analysis I also concentrated on the wider context factors playing a role in MCS practices and firm performance, the researcher used the data gathered from the government bodies, parastatal institutions, NGOs and business consultant. In addition, the researcher particularly looked at the way in which government policies and regulations influenced the privatised firms.

III. EMPIRICAL RESULTS

The first section deals with the changes straight after introduction of the privatisation process and the final section deals with the current position. My main focal points are the implementation of the firms business and investment plans, MCS change, and changes in the firms' activities and performance.

Bakhresa Grain and Milling

Privatisation Process

A first attempt at privatisation in 2001 failed when a single, government of Malawi unacceptable, bid was received following the publication of newspaper advertisements inviting bids for the company.

A second effort in 2003 was successful. Privatisation took the form of liquidation of former company and sale of its unencumbered assets. Once again, newspaper advertisements invited expressions of interest to buy. Bakhresa Grain and Milling short list of 13 bidders was accepted and bidders were asked to submit their bids by 13 June 2003. The privatisation commission of Malawi transition advisers, Millennium Consulting Business, had been selected by competitive tender.

A total of five sealed bids were received from local and foreign investors. Important bid evaluation criteria were the quality of the business plan submitted by the bidder and the size of the proposed investment for the rehabilitating the obsolete equipment. The proposed purchase price was also an important criterion, because the government of Malawi was faced with paying off sizeable unpaid debts of the former company.

The bidder scoring highest in the bid evaluation was a foreigner from a neighbouring country. The evaluation team was persuaded by the investor's business capabilities and financial resources: The bidder is the largest grain milling company in all of Eastern Africa, with a total wheat milling capacity of over 1,300 tonnes per day and recorded turnover in excess of US\$100 million in 2003. The group has operations in Tanzania, Zanzibar and Uganda. The company manufactures its own polypropylene sacks in two plants in Dar es Salam and operates its own distribution network. All of these business activities and assets would support the newly-acquired Malawian operation.

Review for Bakhresa Grain Milling Limited

Grain Milling Limited had an effective monopoly of commercial grain-milling operations but still was not operating profitability. The due-diligence report concludes that the company never made a profit and was allowed "to exist for other social and political considerations." The financial records available to me suggest that the company made an average loss of \$1.1 million (in 2005 prices) in each of the three years preceding privatisation.

Pre- vs. Post-Privatisation Enterprise Performance

Table 1. Bakhresa Grain Milling pre vs. post privatisation – snap shot

	Pre-privatisation	Post-privatisation
Business activity	Milling of wheat and maize into flour for the domestic market	Currently: Milling of wheat and maize flour; production of soap
Employment	150 Employees	150-Unchanged from pre-privatisation , but total payroll has doubled
Production:	Capacity: 120 tonnes per day (tpd) Actual production: <ul style="list-style-type: none"> • Wheat flour-zero • Maize flour-25tpd 	Capacity: 400tpd Production: <ul style="list-style-type: none"> • Wheat and maize flour - 320 to 360 tpd (The company has also started to manufacture soap at a separate facility)
Financial and business performance	Company had one profitable year between 1998 and 2002; in each of the other four years, losses approached or exceeded \$0.7million	I have no post-privatisation data, but the company confirms that operations are profitable albeit reduced by high depreciation charges reflecting new investment of \$12 million. Future profitability is expected to be high.
Public sentiment	I have no information	Public sentiment appears conditioned by grossly inaccurate press reports claiming that the company was profitable before privatisation and was sold below value- and to foreigners, when legitimate local bidders made acceptable bids. The facts are different: the company made large losses, was sold at above-going concern valuation, and no local bidder matched the foreign bid

The financial performance of Grain Milling Limited was poor throughout its existence a state-owned enterprise. The following tables show the company's profitability and financial position in the final five pre-privatisation years (in million of Malawian currency nominal):

Table 2. Bakhresa- Summary of pre- privatisation performance

Year	Sales	Gross profit	Operating Profit/Loss	Net Profit/Loss	Interest
1998	276.3	2.6	-85.5	-102.6	18.2
1999	371.3	79.7	18.9	0.6	20.1
2000	326.9	43.2	-58.9	-113.4	56.5
2001	530.5	57.8	-46.5	-97.7	52.9
2002	336.1	37.8	-73.7	-102.3	31.5

Source: Financial statements and company valuation

Table 3. Bakhresa -Pre –privatisation financial position

Year	Long-term debt	Capital and reserves
1998	118	-85
1999	172	-81
2000	217	-197
2001	160	-183
2002	226	-227

Source: Financial statements and company valuation

The tables show a company which is insolvent and seemingly in terminal decline.

Margins in wheat milling were depressed because of the need to import wheat and by the high landed cost of imported wheat; the urban demand for maize flour was low. The company was not competitive with rural artisanal maize millers and posho mills that produced for local consumption (as they continue to do to this day). As losses increased, the company needed to borrow working capital; interest charges added to operating losses, and the company eventually became insolvent.

As of June, 2002, Grain milling limited had large accumulated liabilities of over 740 million in total, as follows (in million of Malawian local currency):

Table 4 Grain Milling Limited- Summary of accumulated liabilities

Type	millions
Long term debt	226
Secured trade creditors	46.5
Unsecured trade creditors	126.4
Accumulated excise tax liabilities (disputed by the company)	40
Accumulated surtax liabilities (disputed by the company)	308.4
Total overdue liabilities	743.3

Source: Valuation report

(Note: the adviser's financial data differ from the company's accounts. The researcher have used the adviser's data, as they served as the basis for the valuation of Bakhresa Grain milling limited and for the valuation of the company and for Privatisation commission action. All financial figures, whether in the company's accounts or from other sources, show a dismal picture).

Unpaid liabilities were growing by the month and the company was producing well below capacity. It had not produced wheat flour for two years, and maize milling was down to 25% of total capacity as the plant was falling into despair. Employment was down to 150 from 250 two years earlier. The company's operations did not cover operating expenses. In the months before privatisation creditors started filing injunctions and winding-up petitions and receiver manager was appointed on 30 September 2003.

According to information provided by the company, the new owners have:

- Invested \$12 million in the milling operations (as against \$8 million promised);
- Increased milling capacity to 400 tonnes per, as against 250tpd envisaged in the business plan;
- Completed the new investment in less than two years (the business plan had shown a three-year investment period);
- Invested an additional \$1 million in a new soap factory;
- Thoroughly modernised and computerised both operations and administration of the business ;
- Not laid off employees but, with the same workforce as at privatisation, increased turnover five-fold;

Bakhresa Grain Milling Limited points to these improvements for the Malawian economy:

- Malawian bakeries enjoy a consistent supply of flour at lower-than-import prices;
- Commercial transport companies benefit from a regular flow of business from the company;
- Approximately 10,000 small bakeries producing a local form of doughnut and scones, each with five to six employees on average, now have a regular supply of flour;
- An estimated 500,000 artisanal producers of doughnut mostly women, also enjoy a regular supply of flour;
- With greater cooperation from the Ministry of Agriculture, more small farmers could grow wheat and earn regular incomes.

While the estimates under the third and fourth bullets represent guesses on the part of Bakhresa management and seem high, there is no doubt that the turn-around of the company has, for many tens of thousands of low-income earning in the country, lowered the risk of earning their livelihoods and improved the profitability of their formal or informal businesses.

Dairibord Malawi Limited

Privatisation Process

The process of privatisation of Malawian Dairy Industries went through several phases between 1998 and 2000. Malawi dairy industries the former company was unbundled into several units.

Pre- and Post-Privatisation Enterprise Performance

The table below highlights the summary performance of the enterprise before and after privatisation.

Review for Dairibord Malawi Limited

Dairibord Malawi Limited seems to be successful and recently commissioned a new plant. Pre-privatisation information on a disaggregated basis is not available, but table 6 below shows the profit and loss account and balance sheets for Dairibord Limited for the first two years immediately after privatisation contrasted with the performance over the last three years to 2005 (in 2005 price term and figures are in millions of Malawian local currency)

Table 5. Dairibold Malawi Limited –Snapshot pre- vs. post performance

	Pre-privatisation	Post-privatisation
Business activity	Milk processing and dairy products such as yoghurt	Additional dairy products include a line of ice creams. Dairibold also processes a variety of fruit juices
Employment	80	150
Financial and business	Detailed pre-privatisation information for the consolidated previous company is not available. However since privatisation the Company B units have performed as follows	
Performance	<ul style="list-style-type: none"> - First unit has more than doubled its turnover from about \$2.1million to about \$5 million per annum in 2005 prices. This is a reflection of the increased production since privatisation - The second unit has struggled to match the pre-privatisation performance. Turnover has decreased from over \$1.4 million at privatisation to about \$0.7 million in 2005. This, as discussed below, is due to weak management and milk supply chain problems - There are no data available for the Third unit and the farms. From my interviews however, I was meant to understand that the performance of the entities has been mixed 	

Since its operations commenced the new company has transformed the loss making First unit operation into a profitable business with seemingly strong growth potential. This has been supported by the growing work force, currently over 150 people most of whom are locals, from 80 at privatisation. The company boasts strong brands and a growing base of highly skilled manpower as a result of a deliberate manpower development programme. The company has also achieved an ISO 9001:2000 certification joining a league of very few such companies in Malawi.

The company has also increased its range of products. First unit manufacturers and markets a wide range of dairy products such as Fresh Milk, Slim line Fresh Milk, a variety of ice cream, a variety of Flavoured Yoghurts, Natural Yoghurt, Fat Free Yoghurt, cheese, ghee, butter and a variety of beverages like fruit juices and ice lollies.

The second and third units on the other hand seem to be facing management and financial strains. In fact the owner of new units has faced problems serving the EIB acquisition loan facility as well as the payment of farmers' milk deliveries, prompting the government of Malawi to re-organise the shareholding of the company to allow farmers more say. At the moment it is not clear who has majority shareholding.

Table 6. Dairibold -Summary Profit & loss (in 2005 prices)

	1999	2000	2003	2004	2005
Revenues	318,539.19	311, 974.51	424,820.87	600,004.33	752,698.00
Cost of Sales	(226,400.33)	(229,323.08)	(264,026.87)	(370,329.45)	(472,719.00)
Gross Profit	92,138.86	82,651.43	160,794.01	229,674.89	279,979.00
Other Operating exp	(68,993.75)	(77,379.27)	(103,434.84)	(130,918.83)	(185,627.00)
Interest income	3,495.43	2,179.53	2,650.10	1,884.60	1,377.00
Interest expense	(6,857.11)	(2,810.76)	0.00	0.00	0.00
Other costs	3,258.80	1,986.99	2,350.35	1,653.78	5,518.00
Profit before taxes	23,103.23	6,627.92	62,359.62	102,294.44	101,247.00
Tax charge	(9,593.78)	(3,092.63)	(19,569.55)	(32,890.99)	(30,838.00)
Profit after taxes	13,508.45	3,535.29	42,790.06	69,403.45	70,409.00

Source: Financial statements & company valuation

Table 7. Dairibold-Summary balance sheets (in 2005 prices)

	1999	2000	2003	2004	2005
Net fixed assets	49,131.47	35,283.38	35,737.72	70,849.50	129,216.00
Intangible long term assets	0.00	0.00	0.00	0.00	0.00
Current assets	93,041.65	95,315.73	185,580.13	198,541.55	183,525.00
Total assets	142,173.12	130,599.11	221,317.85	269,391.04	312,741.00
Current liabilities	79,911.29	79,914.12	116,644.16	119,710.50	128,178.00
Long term loans	11,247.61	7,779.22	2,737.58	7,296.03	12,978.00
Other liabilities	0.00	0.00	0.00	0.00	0.00
Share capital	2,572.06	1,985.00	1,286.45	1,154.07	1,000.00
Revenue reserves	24,542.58	22,476.16	88,695.92	130,506.83	161,293
Other reserves - share premium revaluation surplus	23,899.57	18,444.62	11,953.74	10,723.62	9,292.00
Total liabilities and shareholder funds	142,173.12	130,599.11	221,317.85	269,391.04	312,741.00

Source: Financial statements & company valuation

Industry experts blame the underperformance of the third unit on a lack of milk from the farmers, high costs of production and low milk consumption. During our interviews with government officials within the Ministry of Agriculture the researcher was also informed that there has been a slow down in breeding programmes as owners of the privatised farms converted their breeding farms to other uses.

No pre- or post-privatisation financial or farm production records are available for the three privatised farms. The researcher has however been informed through discussions with various stakeholders that production in most of them has decreased since privatisation.

Illovo Sugar Company Malawi Limited

Three features make Illovo a company of strategic importance to Malawi:

- It is the single largest contributor to Malawi's GDP. Sugar revenues in 2006 were \$104 million, representing 4.86 of GDP.
- It is currently the country's leading export earner, having overtaken tobacco. Illovo exports over one-third of its sugar production and brings in about 10% of Malawi total annual foreign exchange receipts.
- The company is the biggest single employer in the country after the Government. It currently employs 10,000 workers on average- including casual labourers. Malawi's economy has just over 55,000 employees in the private sector; Illovo thus employs 18% of the private sector workforce

Privatisation (Government Disengagement) Process

In 1997 the Government of Malawi decided to sell to the private sector part of its holding in the company, with the following specific objectives in mind:

- To encourage wider Malawian ownership of shares in general and, specifically, to enable private Malawian investors and employees of the company to participate in the equity of Malawi.
- To provide Illovo with access to permanent capital to facilitate future growth and, to that end, establish a ready and transparent basis for the evaluation of Illovo's shares.
- To enhance investors and general public awareness of the company.
- To provide a market for shareholders to realise their investment in Illovo, and
- To obtain the necessary spread of shareholders to enable the listing of Illovo shares on the Malawi Stock Exchange.

At the time the Malawi stock exchange was in infancy and lacked depth and scale to absorb all the shares the Government had decided to sell. The government of Malawi therefore sold 28 million shares, representing 4.23% of the company's capital, through the first public share offers on the stock exchange; the offer price was \$0.02 per share. The offer was oversubscribed by 116%, attracting applications for over 60 million shares.

In May 1998 the government of Malawi decided to place a further 8% of the company's shares with international institutional investors, because it felt that the country's stock exchange did not have the capacity for a second public offer as soon after the first. The transaction was closed at \$0.03 per share, a discount of approximately 4% from the then prevailing market price.

The government was advised on both transactions by Standard Corporate and Merchant Bank (SCMB) of South Africa, jointly with Standard Bank London Limited. SCMB carried out an independent valuation of the shares for pricing the Public Offer,

and for the private placement invited financial bids guided by the prevailing market price of the stock.

Post –GoM – Disengagement Performance

The table below compares the pre- and post-privatisation / disengagement performance of the company.

Table 8. Illovo- pre – vs. post –Government X- disengagement performance

	Pre- disengagement	Post – Disengagement
Name	Sugar Corporation of Malawi	Illovo sugar company Malawi Limited
Products	Raw sugar, refined sugar, and molasses	Raw sugar, refined sugar, molasses and specialty sugar products. The company is now producing biomass to increase factory efficiency and power generation;
Branches/distribution centres	2 warehouses	2 warehouses and 11 depots throughout the country
Customers	120	180
Employment	13,778	10,006
Outsourcing	None	All non-core activities were outsourced as described in the social impact study
Production	1997 (tonnes) <ul style="list-style-type: none"> • Crushed cane: 1,860,00 • Sugar: 233,741 	1996 (tonnes) <ul style="list-style-type: none"> • Crushed cane: 2,134,520 • Sugar: 269,526
Financial Performance	Business was profitable and in reasonable financial condition. The company had a satisfactory cash flow. The company operated profitably, but it was not able to obtain good prices for its sugar, as the brand was not well developed and marketed. It was therefore not able to finance R&D.	Business is very profitable and financially stable; the company has good cash flow, settles bills on time, debt service is up to date. Performance improvements achieved in 10 years, primary by increasing prices with product branding and by entering export markets: <ul style="list-style-type: none"> • Revenues grew by 30% in real terms • Operating costs reduced from 87% of gross profit to 76.25% • Profits declined for most of the years , but are now back to pre-disengagement levels In addition, the company is now exporting over one third of its sugar production, obtaining better prices as well as earning the economy one tenth of its foreign exchange. The company has also recorded significant gains in operational efficiency by: <ul style="list-style-type: none"> • Using R&D and best practice and outsourcing non-core activities;

		<ul style="list-style-type: none"> Expanding areas under cane through increased irrigation and engaging more out growers. <p>While Illovo has reduced the number of its own employees, it has created employment opportunities through outsourcing and increased crop production.</p>
Financial condition	A well balanced capital structure, positive cash flows, and profitable operations	The company's financial position has remained largely the same after the government of Malawi disengagement
Public sentiment	The general public was less aware of the company as it lacked public participation in its shareholding, was less engaged publicly and shouldered minimal social responsibility.	The general public has become aware of the transformation of the company from a "humdrum" national producer of non-branded products to an internationally known, efficient producer of branded quality products. Growers are happy about better terms. Shareholders are delighted with the performance of the company's stock. Local beneficiaries appreciate the heightened social awareness, evidenced by subsidising mission hospitals, maintaining roads, constructing schools, donating to orphanages and colleges activities

Review for Illovo sugar limited

It would be wrong to ascribe improvements and achievements to privatisation since, as the researcher have pointed out earlier, the business was always under private sector management and control. However it is possible to argue that the government of Malawi total disengagement allowed the private owners and managers to make more rational decisions without government interference, e.g. the decision to downsize the workforce. A genuine disengagement-related benefit is that more Malawian citizens now have a stake in a company that is doing well, which is good for Malawi and generates goodwill for the privatisation programme, as long as the public sees the disengagement as "privatisation". Revenues have grown steadily since privatisation, driven by increased cane production and better pricing through exports. Profits increased for two years after privatisation on the better cost management accompanying the exit of old company. In the subsequent three years profitability declined as a result of a harmful inflationary environment (inflation average 35%), while the company made large capital investments to become internationally competitive.

Conclusion

Bakhresa

The privatisation process was handled competently, and the result is probably the best achievable under the circumstances. The net cost/benefit balances favourable for the government of Malawi. And yet, whenever I asked even informed individuals to list privatisations they considered to have been particularly successful, Bakhresa

was not once mentioned spontaneously. Usually it was added to the list of successes at our prompting, it at times reluctantly.

The researcher found out the reason for this to be the “myth” surrounding – which, as was point out above, was repeated to me by an official in a government ministry- that the old company was operating profitably and sold well below its value. Add to that the fact that 100% of the company was sold to a foreign investor of Yemeni origin, even though there were “several local bidders”, and the result is a negative perception of what is arguably one of the most successful privatisations in Malawi.

The broad Malawi public needs to be better informed about the pre-privatisation performance and financial situation of State Owned Enterprises (SOEs) scheduled for privatisation, as well as told convincingly what it will take to resurrect some of the insolvent enterprises.

Finally, the researcher has the impression that the Privatisation commission of Malawi could do more to deal informatively with the broader political issue of foreign ownership of the country’s business assets. The United Kingdom and Spain produce some 2 million motor vehicles a year, Belgium, Poland and the Czech Republic several hundred thousand each, and not of those plants is owned by UK, Spanish, Belgium, Polish or Czech investors. Large banks in several European countries are owned by banks in other countries; similarly, breweries, glass, aluminium and steel manufacturers. In my view it is far more important that company manufacturing assets are modernised and produce efficiently than that they are owned by Malawi. The researcher appreciates that that is not necessarily an easy message to sell, particularly when politicians are also sceptical. But nonetheless the researcher found it an important message to convey; not just for the future success of the privatisation programme, but for the future development of Malawi- few countries these days can be successful without attracting foreign capital.

Bakhresa is a convincing example in Malawi of the benefits that a well chosen foreign private investor can bring – be that in the context of privatisation or a green field venture.

Dairibold

The privatisation of Malawi regrettably provides a stark contrast between foreign and Malawi ownership. It is true that the Northern part of the country is drier part of the country than the southern part, and less conducive to a successful dairy industry, but that aside, it would seem that the new owners of the northern businesses seem to lack the acumen and financial backing to run the businesses successfully.

Whilst it would be inappropriate to draw definitive conclusions, it is appropriate to raise questions, the answers to which fall outside the scope of my study, for example:

- Does Malawi entrepreneurs have sufficient skills, experience and resources to run any but the smallest enterprises are burdened by any past liabilities- reputational, operational, or other- that were incurred under state ownership?
- If it does not have those prerequisites for success, is enough being done to equip them for evaluating the risks inherent in taking on responsibility for owning and operating a PE?
- Are the terms under which Malawi acquires PEs appropriate, or should allowance be made for a possible skills and experience gap? Is there too much emphasis on price, to the detriment of the new owner’s subsequent ability to meet the working-capital and investment needs of the acquisition?

- Are the acquiring entrepreneurs sufficiently aware of the potential impact of, and pressures from competition?
- Are the terms of MBOs and concessions to Malawi sufficiently “soft” to cushion the business against adverse changes in the operating environment and the external economy?

These are difficult questions to answer, and of course, the more that terms are softened the more the benefits of a competitive acquisition process are lost, potentially to the extent that weak owners emerge to inevitable failure- it is important, in my view, not to lose the process of natural selection that is involved in a competitive tender, so the answer probably lies more in equipping Malawians citizen to compete better, more so than in un-levelling the playing field in their favour, since that may lead to business failure ultimately.

Illovo

The following are the lessons I can draw from the exit of government in Illovo in particular and sugar sector in general

- Illovo has been a profitable and very successful enterprise operating in a strategic sector of the economy with potential continuing growth. The Governments stake in the company was small. The decision to sell this stake to ordinary citizens sits well with privatisation policies elsewhere intended to allow ordinary citizens to share in the fortunes of privatisations by the PC.
- Government disengagement from the sugar sector as a direct participant and beneficiary has enabled it to be more dispassionate in regulation, policy and protection of other stakeholders in the sector and facilitated liberalisation of the sector. For example, the 10,000 employees in new company can better look to government of Malawi or relevant Government agencies to champion for better pay and better conditions; while whole new industries (outsourcing services) have sprung up to service the sugar sector owing to the confidence of dealing with a 100% private sector player, in a liberalised sector.

IV. FINDINGS

This research study has investigated the post – privatisation changes in firm activities, performance and management control of three firms in a developing country. It was based on the following central research question: “*How do internal and external factors affect the relations among privatisation firm performance and changes?*” The research was conducted in Malawi. Its main objective was to gain insight into the process of change induced by the privatisation of Malawi businesses. To make my analysis more extensive the researcher took into account the influence of both internal and external contextual factors. The study particularly focussed on the role of the government in the privatisation process and the question whether it offered the firms sufficient support to privatise successfully during the transition period. In addition, an attempt was made to develop a conceptual framework that can serve as a basic model for conducting research in LDCs.

In order to perform an in-depth analysis I chose a qualitative research approach combined with the case study method. In this way I could collect a rich spectrum of data that enabled me to make a thorough and reliable description and analysis of my research topic.

The case firms under public ownership

During the public ownership era, the three firms (Bakhresa, Dairibold and Illovo) as well as the other firms in Malawi stood under the supervision of the public corporations and the Ministry of trade and industry. All plans and strategies of the firms were centralised, which meant that there was a great deal of government interference. This clearly undermined the firms' autonomy. In addition, the long chain of bureaucracy and the inherent information asymmetry affected the decision-making processes of the businesses in an unfavourable manner. Firms were expected to limit their production output to predetermined quotas and adopt fixed salary scales. The role of the managers was restricted to the execution of the plans formulated by the governmental bodies. Moreover, these managers were in fact appointed by these institutions, and lacked skills and authority. During this period the markets were protected, and therefore there was no competition. Budgeting policies were just a formality, requiring the firms to prepare statistical reports each quarter and financial statements each year, although no feedback was given on these reports. During that time management information was used poorly; it was given subservient to financial accounting. Firms had no clear strategy and neither did they have long-term plans. In addition, training facilities for employees did not exist. The employees had no real sense of responsibility or commitment. Moreover, the firms' products were of poor quality, partly resulting from the fact that the government did not allow them to make investments in new machinery and equipment. Further, the poor state of the public firm's machinery also undermined their efficiency, productivity, waste management and competitiveness. On top of that, their labour force was needlessly large, and through their access to bank overdraft facilities they were heavily indebted. All in all, the public firms had no profitability drive.

The Effects of Privatisation

New ownership:

The new owners of the privatised firms had a different background than the former ones. For example, Bakhresa owner lived in Tanzania, from where they ran a milling business. Although they received no accounting or management training, they were experienced milling business men possessed knowledge of the African market. They were family managers and assisted the firm in importing raw materials and penetrating the export market. The owners of Dairobold are locals. They have a technical background, but no training in accounting practices, and they frequently conducted market surveys to assess the possibilities of expanding their market share. Illovo was a combination of Private and Government venture. The company is governed by a board of directors and the staff members who hold key positions are qualified people.

General changes:

This section discusses and compares the changes in terms of investments, product market decisions, and employment, raw materials sources, the employees' mentality, and organisational structure. The case firms accomplished the following goals. *First*, privatisation restored firm autonomy and stimulated new investments. In this way old machinery could be renewed or replaced. This generally meant the automation and computerisation of production and business processes, which led to a higher productivity, better product quality, and less wastage. Further measures included the provision of employee training, expanding and production capacity and sales activities, the purchase of delivery trucks by Bakhresa and Illovo, and the introduction of accounting facilities (computer software). *Second*, privatisation

resulted in the introduction of new products and the expansion of markets to enhance profits. So the researcher observes that all firms achieved success in terms of increasing their sales growth, labour productivity, and operational efficiency (as measured by sales per employee). In the case of Dairibold, however sales growth has been steady. Illovo shows mixed figures with respect to sales growth, in one year the figured was low than previous year. Apart from that, the firms positively contributed to the government income paying higher amounts of tax than in the public ownership period. *Third*, the firms started to adopt clear strategies with respect to product pricing, product types, and markets to operate in. These new strategies emphasised quality customer satisfaction as well as higher productivity and return levels. *Fourth*, privatisation changed the employees working mentality; they became more committed, more productive more duty-conscious, and more responsible.

Differences: There were also differences among the case firms in the implementation of their business and investment plans. *First*, Dairibold improved its workforce in terms of both quality (by the provision of training) and quantity (by hiring qualified employees, both at the higher as well as the lower posts). At Illovo, the firms lay-out was adopted to Western standards. In addition, both the employees' salaries and benefits were considerably higher than those at the other case firms, resulting in a highly motivated and satisfied workforce. Illovo policy was to upgrade the salaries on an annual basis and to compensate its employees for inflation. In addition, employees who performed well were rewarded. With respect to the size of the workforce, Illovo showed a decline in manpower after they were privatised, which is in line with findings of other studies (e.g. Aussenegg & Jelic, 2002; Harper, 2001; Dsouza & Megginson, 1998). These findings are not surprising; during the public ownership the size of the workforce had become needlessly large, so the superfluous employees were made redundant. Unlike Illovo and Dairybold, Bakhresa number of employees is unchanged from pre-privatisation, but total payroll has doubled. *Second*, Illovo firm performance and output figures were favourable, but those of Bakhresa and Dairibold were mixed. The fluctuations in these companies' figures were the result of the lack of resources and forex since 2001. *Third*, *bakhresa* production capacity largely extended the demand of the home market, which is why it aimed at exporting the majority of its products. The export market was large and quality-oriented, and required a timely and fixed delivery of goods. Further, products could be offered at higher prices. Illovo Sales Department was unique; it was highly organised, operating with a large number of sales agents and some market developers. It also had a large number of delivery trucks at its disposal. In addition it provided the outlets with various kinds of support. *Finally*, the three firms varied in their measures with regard to their organisational structure. Illovo invested in the expansion of its departments, and formulated clear business plans and job descriptions. In addition, its GM was given autonomy. In the case of Bakhresa the owners had the power of decision-making and were closely involved in the day-to-day activities of the firm. Dairibold organisational structure was simplified. Here, family members played a key role in the management of the firm besides the owners.

Implications for actual practice

i. Implications for the case firms

The researcher recommends the following steps for improvement. *First*, the production capacity Bakhresa and Dairibold is relatively large in comparison with their local competitors. This indicates that both firms could maximise their

productivity to such a degree that they gain advantage of economies of scale, unit costs decline as the production volume increases. This would enable them to sell their products at lower prices than their competitors. During the time of study, both firms' competitors were setting lower prices, making company Bakhresa and Dairibold price takers. But assuming that these competitors spent the same amount of input costs while their capacity was lower, one would not expect them to set these low prices. This issue demands further investigation. An explanation could be that both firms had problems with their costing system. Bakhresa and Dairibold should make a critical assessment of their cost accumulation and allocation methods in terms of cost reduction. In addition, as both firms are focussed on low price strategies, it is advisable to aim at realising cost efficiency (Chenhall & Langfield-Smith, 1998). Both firms could consider using the available MCS tools to look for possibilities to reduce costs, so they can offer lower prices. My findings indicate that the quality level of both firms' products was relatively better than that of their competitors. The customers, however, preferred the cheaper products, even though they were of lesser quality. And since my case firms are not willing to compromise their quality strategies, it is important that they either revise these strategies or increase their efforts to convince the customers of the advantages of a product of good quality.

Second, Bakhresa and Dairibold need to improve the accuracy of their costing systems as well as the timing of their reports. In this respect, additional investments in the computerisation of their information systems would be beneficial, which would facilitate the introduction of improved MCS. Further, Bakhresa may consider setting up a Marketing Section, and Dairibold should strengthen its Marketing Department. A marketing unit provides information on the way in which competitors operate in the home market. And as Illovo has shown, non financial information is useful in developing strategies to attract more customers and to survive the competition. *Third*, Bakhresa and Dairibold need to introduce an incentive system to motivate their employees by sharing profits. If the workforce is sufficiently motivated and content, firm performance will increase. *Finally*, both Bakhresa and Dairibold managerial and accounting staff is too limited in size and insufficiently qualified. I suggest that both firms need to upgrade their managerial capacity in order to enhance the utilisation of accounting information. Moreover, the sophistication of MCS practices should go hand in hand with improving the knowledge and skills of the accounting personnel (Ramaswamy, 2001; Ramaswamy & Von Gilnow, 2000; Shirley & Nellis, 1991).

ii. Implications for the government bodies:

Normally, government bodies are expected to facilitate the process of privatisation by creating conducive business environment consisting of financial markets and private banks. In addition, the government should ensure the supply of trained manpower as well as stable macro-economic policies and regulations. Further, it should encourage firms to enhance their export activities. My findings, however, show that the case firms encountered many challenges. The government regulations concerning the forex services and import permits greatly affected the activities of the case firms. In addition, the tax levels were high in proportion to the revenues, while a number of new taxes were introduced during the post-privatisation period.

Limitations of the study

During the course of this study the researcher discovered that it was difficult to get access to data. The owners and managers of the firm did not seem to recognise the benefits to be gained from the research output, and was therefore reluctant to

disclose their data. As a result, the number of firms the researcher studied remained limited. Firm owners and managers could be made aware of the advantages of the participation in research studies by the providing them with information and training. This training could also be directed at the type of data suitable for sharing with scholars. In addition, the data bank of the ministry of Trade and Industry is incomplete. Another problem was the difficulty of obtaining data from the pre-privatisation period as well as finding respondents who could give information on the MCS practices in the public ownership period. For example, In the case of company B, the researcher did not manage to find accounting staff members who had also worked with the firm during the public ownership period. Moreover, my case firms had not kept their pre-privatisation financial records, and the information that the MTI could provide was incomplete. In some cases, this complicated the assessment of issues such as leverage, past employment trends, capital investment and taxes.

There is little literature that explains MCS practices from the perspective of firms in less developed countries (LDCs). Neither is there much literature available about the impact of MCS change on firm performance in the context of LDCs. Research dealing with this topic includes studies conducted in Bangladesh and Sri Lanka. The scope of these studies, however, is much limited. The researcher tried to compare the findings with those of former studies, but found that as yet no similar studies have been carried out in Malawi firms.

Most of the studies that analyse MCS practice change have been conducted in the West. The majority of these studies do not pay much particular attention to the way the same techniques are used after a change in ownership. The researcher therefore had no significant empirical evidence to compare my findings with. This study attempts to make a link between the influence of contextual factors and MCS practices changes, firm activities and firm performance. It has become evident that this relationship is complex, and the researcher realise that this research field still requires a great deal of exploration. Therefore more empirical findings have to be gathered by similar case studies.

V. CONCLUSION

It is apparent that the body of literature still lacks sufficient knowledge of MCS change, firm activities, and firm performance in privatised LDC firms. I therefore encourage accounting researchers to conduct more case studies on privatisation in LDCs. Particularly cross country comparative case studies will provide more knowledge about the effects of privatisation and the influence of contextual factors. In this respect, the researcher is convinced that the basic conceptual framework could serve as a stepping stone for similar future studies.

Furthermore, the researcher suggest that other researchers may consider conducting comparative case studies that focus on identical firms in similar industries in similar periods for each country. In this way, the MCS practices and firm performance of privatised firms could be compared to that of firms newly started as private entities. A further focus on the post-privatisation period would diminish the need for the data from the public ownership era, and would make the research for respondents that could provide data on past MCS practices no longer necessary.

So a wider time range and the incorporation of contextual factors are two important issues in future research. In addition, before finalising ones research design and starting the actual study, it may be advisable to conduct a pilot study. This procedure proved to be very helpful in choosing the relevant elements for the framework, and it guaranteed a solid basis for the study.

The researcher have seen that it is difficult to explain the changes that have taken place solely on the basis of the introduction of privatisation or the adoption of new or improved MCS practices. For example, attracting foreign customers who do appreciate quality is possible by making firms committed to their quality strategies and via introducing strict quality controls. In addition, employees can be trained in internalising quality in their mentality and way of working. Other issues, however, such as profitability increase, operating efficiency and employment, are related to other factors. A broader sample of firms would shed more light on the relationship between the contextual factors and the firm performance results.

Finally, the researcher argues that future researchers should clearly define their domain within the range of studies emerging in this field. This also involves choosing the proper methodology. In addition, in order to increase the validity and reliability of the conclusions as well as the robustness of the results, a larger number of firms in more sectors should be studied. This expansion of the research area would pave way for comparative analyses among studies conducted in different places. These analyses and follow-up studies might then structure on the basis of surveys administered across a large number of countries. And in this way a solid basis would be created, enabling researchers to start making reliable generalisations.

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