Post-privatisation changes in management control, firm activities and performance

Redda, B.M.

1 Introduction

1.1 Introduction and motivation

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 the excessive demand made on government budget. However, initially it did not bring about substantial improvement, mainly because the measurements taken lacked 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 socio-economic benefits (Cook & Kirkpatrick, 1995). The World Bank and the IMF have encouraged many LDCs to pursue privatisation policies (Craig, 2000; Cook & Kirkpatrick, 1995; Cook, 1986), presuming that ownership changes will induce *superior*[1] management controls (chapter 3), and hence greater productive and allocative efficiency (Vickers & Yarrow, 1988a). On the other hand, the UNDP (1998) and Kikeri *et 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 at the effects of ownership change and the 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; Karatas, 1995) and its impact on societies (Cook & Kirkpatrick, 1995; Fontaine & Geronimi, 1995), internal managerial problems and conflicts in privatised companies (Potts, 1995), and the creation of conglomerates through privatisation (e.g., Plumbe, 1995). However, most development researchers have as yet not addressed the 'internal realities'[2] of post-privatisation regimes and remain ambiguous about the results of privatisation. Cook & Kirkpatrick (1995, 1988), for example, are cynical about post-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 adjustment programmes, globalisation as well as the internationalisation of accounting practices may not necessarily improve the accountability and

[1] Different authors have used various terms to represent *superior* MCS practices or techniques. These terms include: *idealised, advanced, improved, effective, modern, new* or *Western* MCS practices. They convey similar meaning and will be used interchangeably in the study.

[2] According to Wickramasinghe (1996), 'internal realities' refer to the practices of and the changes that Management Control Systems undergo within the boundaries of an organisation as a result of privatisation. In addition, internal realities apply to the performance of organisations after privatisation.

transparency of companies in LDCs[3]. 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. Therefore, considering the above-mentioned ambiguities regarding the outcomes of privatisation, prudence is in order when making quick generalisation about this issue.

Considering the prevailing ambiguities and the fact that the success of privatisation is largely influenced by wider environmental factors, it is the task of the accounting researcher to shed light on reality by bringing forth practical evidence. Basically, it is unwise to assume that policies, which increase the role of the private sector, will automatically result in 'efficient forms'[4] of accounting (Uddin & Hopper, 2003). Uddin & Hopper emphasise that accounting is socially and politically determined, and cannot be left to markets, which is an important pre-condition for market functioning. Accounting reform is therefore a crucial but so far neglected component of an effective development policy. As accounting researchers have become more concerned with internal organisational matters as well as their connections with socio-economic contexts (Hopwood & Miller, 1994; Hopper *et al.*, 1987; Neimark & Tinker, 1986; Burchell *et al.*, 1980), they are now capable of providing more realistic pictures of post-privatisation issues in the sphere of management control systems (MCS) in LDCs.

The review of articles by Hopper *et al.* (2004b) shows that there is a growing research interest in MCS in LDCs. They explain that this interest could be attributed to various factors, including the growing exposure of LDCs to global capital markets and international competition as well as their adoption of structural adjustment programmes involving privatisation and new public sector management. Further, Hopper *et al*. argue that journals that are devoted to accounting and development (e.g. *Research in Third World Accounting*) have a propensity to contain normative articles rather than contextual studies of accounting and its relation to socio-political, cultural and economic aspects. They therefore conclude that accounting research conducted in developing countries has unjustly neglected the broader socio-economic factors, assuming that the transfer of Western accounting technologies is just as unproblematic and beneficial to the country adopting them as it has been to Western countries. Similarly, Perera (1989: cited in Hopper *et al.*, 2004b) argues that in its current form MSC is inapplicable to LDCs largely because of the differences in their business environments, ownership structures, users of accounting information, and attitudes towards disclosure. There are some studies on Third World Accounting available by Brandt (1980) and Ramanathan (1985); but they have not provided any adequate theoretical frameworks or appealing empirical evidence. It can therefore

[3] Uddin & Hopper (2003) base this conclusion on evidence from empirical studies conducted in the field of financial accounting, which covers similar privatisation and structural adjustment topics (e.g., Abu-Nassar & Rutherford, 1996; Perera, 1975) that made them arrive at this conclusion.

[4] According to Uddin & Hopper (2003) 'efficient forms' refer to the best practices of accounting advocated by accounting researchers and consultants, which are generally dealt with in the accounting books (e.g., ABC costing, throughput costing, continuous improvement, just in time, budgeting, effective forms of internal control systems, etc.).

be concluded that Third World accounting remains largely a much-neglected area of research (Wickramasinghe, 1996).

For that reason, 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 socio-economic and political context of the recently privatised manufacturing firms of Eritrea. Specifically, the issues covered include a description of MCS practices, an assessment of the post-privatisation changes in MCS practices, firm activities and performance. In addition, we present the influence of contextual factors on 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.

1.2 Background of Eritrean Manufacturing Firms

What is the background of privatised firms in Eritrea? To obtain a better picture of this, we will begin with the historical background of the country's industrialisation process. The history of Eritrea indicates that it has been a trading nation since the Italian colonial era. By the end of 1945 there were more than 300 small, medium and large factories. By the 1970s, the number of factories was reduced to about 160 (Hailemariam, 2001). The Derg Regime of Ethiopia nationalised almost all enterprises and brought them under government control. It imposed strict price controls and introduced import restrictions. The Government of Eritrea (GOE) inherited these public enterprises at the time of liberation in 1991. The enterprises were operated with obsolete technologies and some were unable to produce high-quality goods or services. Due to the inadequate technological input, a lack of supplies and raw materials, and a poor and politicised management, the manufacturing and services industries performed at a mere 20-50 percent of their capacity (GOE, 1998). Therefore, in order to kick-start and to spur the wheel of the economy, the GOE needed to create a policy to boost the long-term economic development of the country.

Prior to the country's independence, for almost thirty years there had been little or no developments in new production technologies and the business management and administration of public enterprises. As a result, the existing technological base of the economy's productive sectors was antiquated, and the managerial technology in both the private and public sectors was woefully inadequate to permit an efficient utilisation of resources, or to achieve international competitiveness. To meet the country's developmental challenges, the government has, since mid 1991, formulated and implemented policies and strategies that promote an outward-oriented, private sector-led market economy. Consequently, the government has liberalised the major sectors of the economy, restructured government institutions, and streamlined the civil service.

To pave the way to privatisation, the GOE has undertaken a number of measures. These measures have provided the managements of the public enterprises with some degree of autonomy, so that they can now make independent decisions about hiring, selling, and competing in the market. In early 1992 the GOE dissolved the Ethiopian Domestic Distribution Corporation (EDDC) and the so-called "cooperative" retail shops in order to introduce free market orientation. Privatisation was initiated in 1995. The government tried to coordinate the process of privatisation with its development agenda. The transfer of ownership took place by selecting those potential buyers who presented the most promising business plan to enhance the economic development of the country. However, the road towards privatisation has not been a smooth one, and implementation of the proposed business and investment plans was in fact challenged.

According to the report on pilot investment climate assessment conducted by the World Bank (2002a), the Eritrean manufacturing sector is characterised as capital intensive with significantly lower capital productivity than many other Sub-Saharan African countries. Moreover, the report states that the sector suffers from scarcity of labour (especially skilled), which causes a rise in wages and production costs (see also World Bank, 2002b). This is why, among other reasons, firms have become less productive in Eritrea. Other problems include high bank interest rates on loans, difficult requirements for counteracting collateral and macroeconomic instability, which is reflected in higher inflation rates, and a lack of foreign exchange.

1.3 The role of MCS in economic development

MCS is an area that is central to the development of management practices that meet the needs of contemporary business organisations (Otley, 1994). MCS plays a vital role in development and has many benefits. There are many ways to define development. According to Todaro (1994), development is conceived as a multidimensional process involving major changes in social structures, popular attitudes and national institutions, as well as the acceleration of economic growth, the reduction in inequality, and the eradication of poverty. Studies indicate that MCS has come to play a vital role in organisations and societies (Burchell *et al.*, 1980). Societies need development, such as economic growth and social progress (Meier, 1984). MCS enables organisations to be more efficient and effective (Falmholtz, 1983; Otley & Berry, 1980), to improve productivity (Enthoven, 1968), and to bring about socio-economic development (Bardhan, 1989; Nabli & Nugent, 1989: cited in Wickramasinghe, 1996). MCS plays an essential role in development (e.g., Ndzinge & Briston, 1999; Ghartey, 1985; Mirghani, 1982; Winjum, 1972; Enthoven, 1968; Seidler, 1967; Seiler, 1966) by assisting organisations in observing nation-wide accountabilities (Hodges & Wright, 1995).

If effectively used, MCS can stimulate the motivation of managers and employees to make an optimal use of the resources available (Anthony *et al.*, 1984; Horngren, 1972). In LDCs, where the public sector is relatively large, MCS can be used to improve the problem of capacity utilisation (Adam *et al*., 1992). Eventually, the achievements in meeting budgeted targets, reducing public financing and improving economies of scales and profitability may stimulate development, provided that the socio-economic and political factors are unproblematic (Rothstein, 1976). In addition, MCS may enhance the motivation and productivity or ability of workers, capitalists and merchants (Nabli & Nugent, 1989). It can facilitate a more accountable management by providing benchmarks for monitoring the behaviour of industrial enterprises. Seiler (1966) has also indicated that MCS, combined with managerial ability and strong entrepreneurship, can help achieve development in Third World Countries. However, if the accounting profession is weak, as is the case in LDCs, development is hindered (Seiler, 1966).

MCS studies can help organisations avoid price distortions by introducing modern costing systems (Ahmed, 1992) that improve pricing and stimulate the motivation to improve performance (Cooper, 1987). Moreover, accounting studies can identify problematic socio-economic and political contexts and introduce alternative MCS by replacing the current practices that do not sufficiently improve organisational performance. According to Nabli & Nugent (1989), MCS can also be used in counteracting "institutional backwardness"[5], which is a common phenomenon in many developing countries. This institutional backwardness has emerged as a result of the non-capitalist, traditional beliefs of the people in these countries (Hofstede, 1980) and dominates the organisational processes of enterprises, resulting in organisational inefficiency. In this context, the role of management accountants has become unparalleled.

Within an enterprise, management accountants gather information by collecting, recording and analysing "a particular variety of facts about the world" (Irvine *et al.*, 1979). They transform these facts into accounting information. The information produced tends to be regarded as factual, objective, independent of "social values or ideology" (Chua, 1986; Loft, 1986) and unconstrained by organisations and societies (Burchell *et al.*, 1980). This notion has been embraced by management accounting researchers who draw from neo-classical economic theory. In particular, these researchers incorporate marginal economic analysis into management accounting decision models, assuming, for instance, that profit marks economic efficiency and

[5] According to North (1991) institutions are defined as humanly devised constraints that structure political, economic and social interaction. They consist of both informal constraints (sanctions, taboos, customs, traditions, and codes of conduct), and formal rules (constitutions, laws, property rights). Hofstede (1980) explains that societal norms have led to the development and maintenance of institutions (the family, education systems, politics, and legislation) and the way they are structured and function. Once these institutions have been established they reinforce the societal norms. In a relatively closed society, an institution is hardly subject to change, and the value system will influence new institutions in such a way that they become adapted to the existing societal norms. Hofstede concludes that these norms only rarely change by a direct adoption of outside values. Therefore, the institutions in LDCs are to a certain degree less perfect or suitable for the functioning of the market economy, which gives rise to institutional backwardness.

that an increase in the marginal productivity determines profitability (Ahmed, 1992; Tinker, 1980). Such conceptions have led researchers to adopt various neo-classical economic theories, such as the Agency Theory (e.g. Baiman, 1990, 1982; Jensen & Meckling, 1976), the Transaction Cost Theory (e.g. Spicer & Ballew, 1983), and the Information Economics theory (Demski & Feltham, 1978).

Researchers have been concerned with the role of accounting in economic development and related policies (e.g. Enthoven, 1973); see the case of the localised uniformity of accounting (Perera, 1989); and the effect of the international transfer of accounting skills (Needles, 1976; Seidler, 1967). They presume that organisations and societies are stable, passive, and unproblematic entities. From an ontological perspective they assume an objective world in which the managers are economically rational (Hopper *et al.*, 1995; Chua, 1986; Tinker *et al.*, 1982) and where accounting is a technical activity providing them with information on the basis of which they can make economic decisions (Hopper *et. al.*, 1995; Horngren, 1972) and formulate development plans. Moreover, development economists argue that accounting is a static concept, which is not subject to change as development proceeds (Scott, 1970). The principal methodology of their studies is positivistic and based on statistical analysis. Their work is rooted in a functionalist paradigm (cf. Hopper & Powell, 1985). Hence, Perera, Enthoven, Seidler and Needles have not theoretically or empirically explored the assumption that accounting may be a reflection of societies and their social systems.

Hopper *et al*. (2004b) point out that, based on the above arguments, some papers reviewed earlier advocate a view that ‘Western MCS techniques’ are applicable in LDCs. The authors argue that the MCS practices in LDCs are neutral and unproblematic, and that ‘Western drugs’ can be applied to them. They assume that Anglo-Saxon accounting knowledge is fit to solve any accounting-related problem in LDCs. They also claim that LDCs form a homogeneous group, of which all members face the same accounting problems, which can be solved through international consensus. However, Hopper *et al*. argue that these assumptions are to some extent unrealistic and ambitious. For example, geography is one of the factors that determine the differences and distinctive characteristics of people’s behaviour, reflecting different social, political, and cultural peculiarities. A considerable number of research studies have also illustrated that even in the West the Anglo-Saxon accounting techniques should be questioned (see Hopper et al, 1987; Chua, 1986) since there are clear country-specific differences. Although the use of accounting theory and practice is actually being called into question in imperialist countries (Scapens, 1984), policy-makers and practitioners in LDCs have “imported” models without critically assessing them to verify whether they can be applied to the local conditions. So, researchers and practitioners are unaware of the problematic nature of the relationship between MCS and its socio-economic and political contexts.

As a consequence, many accounting studies in developing countries have failed to regard accounting as part of a wider socio-economic and political context. Wickramasinghe (1996) also observes that, despite the call for studies in accounting and development (e.g. Enthoven, 1973; Scott, 1970), accounting literature deals little with the "real" role of 'accounting controls'[6] in countries that are going through a process of development. So far, accounting research has not adequately exploited MCS practices in the contexts of LDCs. This is mainly due to the lack of awareness on the part of development researchers with respect to accounting and its relationship with the wider context. Unlike the expected contribution of accounting to development, some evidence suggests that the transfer of accounting has played an opposite role in LDCs by actually undermining development rather than stimulating it (cf. Chaderton & Taylor, 1993; Graves & Berry, 1989).

The literature states that MCS practices have been imported from the West (Briston, 1978) through colonialism, powerful foreign investors and multinational businesses, foreign aid, and professional accountancy institutions (Hove, 1986). Some studies doubt the assumption that the transfer of accounting knowledge has not been functional, considering the differences in the contextual factors applying to LDCs (e.g. Hove, 1986). However, a serious misconception in both accounting and development studies is the notion that accounting is a neutral profession (Hines, 1988; Hopwood & Miller, 1994), which is not subject to constraints emanating from contextual factors (cf. Burchell *et al.*, 1980). Therefore, it is essential to theorise accounting from a developmental perspective (Wickramasinghe, 1996) and to assess the MCS changes after the process of privatisation in LDCs.

The emergence of naturalistic studies based on the organisational context has been a fruitful development that could resolve the problems with the contingency studies, and offer researchers a suitable framework for investigating accounting practices in LDCs. These studies have made it possible to study organisations meaningfully, considering them as active and proactive organisms. This shows that accounting researchers have shifted from rational to more social views; however, most of the organisations they have studied are Western. Although some of them have dealt with cases in LDCs (e.g. El-Ebaishi *et al.*, 2003; Tinker, 1980), the researchers work with theories formulated in developed countries, such as the UK and the USA. Due to the above-mentioned economic, societal and political differences, such theories are not valid in the context of LDCs (Hulme & Tuner, 1991; Hewagama & Warnapala, 1989; Cardoso & Falletto, 1979). In most of the cases, accounting researchers in the West are not at all familiar with the societal aspects in Third World countries, such as politics and culture. They are not acquainted with poverty or underprivileged groups, and have either consciously or unconsciously failed to address the development issues in Third World countries, where 75% of the world's population

[6] Wickramasinghe's (1996) study states that controls constitute both planning and control within the totality of organisational processes. He argues that management accounting, in a broader sense, is about controls and these controls are normally known as accounting controls (pp. 13-14).

lives (Brandt, 1980). Therefore, conducting an MCS study in order to gain insight into the perspective of LDCs is imperative.

1.4 Objectives of the study and research questions

Studies have shown that the success of MCS is related to external factors, such as socio-economic, historical, political and cultural ones (Hopwood, 1987; Neimark & Tinker, 1986; Burchell et al., 1980; Miller & O'Leary, 1990; Scapens & Roberts, 1993; Hoque & Hopper, 1994, 1997; Broadbent & Guthrie, 1992; Broadbent, 1999). However, only few papers have examined MCS practices in their wider context (Wickramasinghe, 1996). These 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. Asechemie & Ikeri, 1999: cited in Hopper *et al*. (2004b). This thesis 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 it 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 change, 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.

As we will point out in the following two chapters, evidence suggests that the success of privatisation is affected by MCS practices as well as by internal and external contextual factors. Therefore, the empirical evidence resulting from our case firms would enable us to understand what changes have taken place in MCS practices and whether or not case firms are able to improve their performance. In assessing the change processes during the transition period, we have compared MCS practices and the performance of the case firms by taking data of the pre- and post-privatisation periods. In our analysis, we have studied the individual MCS techniques to capture the broader picture of the evolving changes. In addition, we have employed various measurement tools to help us evaluate the changes in firm performance. These are described in chapter four. Further, an assessment of the impact of contextual [internal and external] factors has been conducted for each case-firm in our study. As regards internal factors we have mostly drawn from contingency theory. External contextual factors have been taken from institutional theory.

In order to gain more insight into the impact of environmental factors on MSC practices, firm activities and performance, our research includes the wider socio-economic and political context of Eritrea. This thesis views MCS in its broader form, and for this reason we have adopted a broader definition, which allows us to incorporate issues such as the motivation of management and employees, wider participation and empowerment of low-level employees as well as innovations in MCS practices, which have been left out in traditional MCS definitions. In this study we will focus on the relations among these issues and investigate the actual situation as it is in Eritrea. We observe that privatisation outcomes [mainly MCS changes and firm performance] that are documented by studies conducted in the West do not provide an adequate picture of the situation in LDCs. Therefore, by including LDCs-related issues this thesis aspires to contribute to the development of accounting theories to explain changes in ownership, the resulting MCS practices and firm performance, the impact of contextual factors, managerial behaviour and influence, and employees' reactions to the changes in MCS practices (Jensen & Meckling, 1976). Thus, our findings should enable us to understand whether or not privatised firms have managed to utilise the improved MCS practices to achieve a better performance.

In addition to the aim of contributing to the literature, this study also intends to be of purpose to Eritrean firms and firms in other LDCs. As presented above, Eritrea is in the process of privatising its public enterprises pursuant to its free market-oriented economic policy, as a result of which private ownership is regarded as the main factor that can bring economic development and growth. However, the role of MCS in economic development has not been recognised and no reform measures have been devised by policy makers with respect to MCS practices. Additionally, no research has so far been conducted that allows us to evaluate post-privatisation firm performance. This study tries to bring to light whether the firms studied make a proper use of MCS and whether they are faced with serious challenges. Therefore, suggestions and recommendations of the study may contribute to helping Eritrean firms identify their weaknesses in adopting MCS. Generally, privatised firms understand the role that MCS can play in strengthening their competitive position and enhancing their performance. Similarly, the bodies concerned [such as firm owners and government authorities] are expected to be aware of their responsibilities and to take the appropriate action. Privatised firms are expected to continuously enhance their utilisation of MCS practices in order to implement their business plans properly and improve their performance. At the same time however, government authorities should support the use of MCS to stimulate a healthy business climate in the country.

This study attempts to provide knowledge about the changes in MCS practices and firm performance as a result of the privatisation processes in LDCs. The available literature dealing with this issue is scarce. Therefore, with the outcome of this study we hope to make a relevant contribution to the body of knowledge. We believe that the issues raised and the information gathered by this study will benefit policy makers [such as the GOE, including the World Bank and IMF] in their future reforms. The reforms to be aimed at might be the creation of an environment suitable for privatisation. In addition, the policy makers mentioned should stimulate the relevant institutions that provide support to the private sector. Also, challenges of the case firms would be brought to the attention of government bodies so that they can take effective measures to solve them. In this way, the development policies as well as the ownership changes could be executed successfully. Further, other LDCs, which are also going through the process of privatisation, could use this study as a guideline. Finally, the framework of the study can be adapted to serve as a basis for similar studies to be conducted in other LDCs.

Our study addresses the area that has been neglected by the current accounting research. It focuses on the unresolved issues concerning privatisation and its impact, MCS changes, firm performance, and the influence of contextual factors. To help find answers to the issues raised and to structure our approach, we pose the following general research question and its sub questions:

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

Research Sub questions: the above-stated general research question can be presented in its detailed form as follows:

1. Which MCS practices were used prior to privatisation and what *changes* have taken place after the change in ownership?
2. How do the *internal* and *external contextual factors* influence [changes in] post-privatisation *MCS practices* and *firm activities and performance*?
3. What is the level of *post-privatisation firm performance* when compared to that during the public ownership era?

These research questions were further refined after conducting a pilot study, in which we focussed on the Eritrean business environment. We conducted this pilot study so we could make a preliminary analysis in order to modify, if necessary, our research design on the basis of our findings. Moreover, it gave us the opportunity to select relevant issues related to the area itself [such as, gaining insight into MCS practices and their changes, identification of the contextual factors, selection of case firms, etc] rather than having to depend entirely on the literature (Uddin & Hopper, 2001; Wickramasinghe & Hopper, 2000).

1.5 Organisation of the book

The book contains eight chapters. Chapter 1 provides the introduction. In this chapter we motivate our arguments for choosing our research topic. The issues dealt with include the need for MCS research in LDCs aimed at the current practices and the changes taking place in privatised enterprises. Key topics are privatisation, MCS practices, firm performance and the influence of contextual [internal and external] factors. Chapter 1 also presents a brief summary of the nature and findings of former studies, an outline of their shortcomings and our vision regarding the need for research in Third World Countries. Finally, in this chapter the research objectives and the research questions are presented.

Chapters 2 and 3 cover the literature review. Issues dealt with in Chapter 2 include the theoretical background, the arguments for the decision of privatisation, the objectives of privatisation and its necessity for LDCs, the lessons to be learnt from previous privatisation studies and the limitations of privatisation theories. In these chapters we also deal with the influence of external contextual factors on MCS practices and the role of governments in the attainment of development objectives.

Chapter 3 presents the theoretical discussions about MCS practices and their subsequent post privatisation changes. It also addresses the influence of internal change factors and presents empirical findings on firm performance by prior studies conducted mostly in LDCs. Finally, the conceptual framework is presented, which has served as the basis for our data collection and case analysis.

Chapter 4 deals with the research methodology. In this study we have applied the case study method, which allows a qualitative research approach. Chapter 4 gives a description of the data collection and 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. Chapter 4 also explains the relations among the components of the conceptual model. Further, an outline is given of the measurement methods to assess firm performance.

Chapters 5-7 focus on the empirical results of case studies conducted in three Eritrean manufacturing firms: Asmara Sweater & Garment Factory (IMAM), Asmara Wine & Liquor Factory (AWL), and Red Sea Bottlers Share Company (RIBS). This detailed investigation shows how MCS practices are actually evolving, what changes are taking place, and the influence of contextual factors on the process of change, firm operations and performance. It also explains the challenges that case firms are facing.

Chapter 8 concludes the study by presenting conclusions and implications of the study. It discusses cross-case analysis and combines the findings of the former three chapters. This chapter highlights the matters that could help us understand the communalities and peculiarities presented in the cases. The findings are discussed in connection with theoretical expectations and findings of former studies. Moreover, implications of the study are assessed and reflections are made on the adaptation of our conceptual framework. Finally, we present limitations of the study and indicate areas for further research.