5 Changes in the MCS practices, firm activities and performance of Asmara Sweater & Garment Factory (IMA)

This chapter presents the results of our case study in the Asmara Sweater and Garment Factory conducted on the basis of our conceptual framework presented in chapter three. First, we will introduce the case firm (IMA), its production process and its administration. We will make a division into two periods in which important developments took place with respect to the formulation of business and investment plans and the influence of external factors. The first period relates to the transition phase. Relevant issues here are the implementation of the business and investment plans and the changes in the firm’s MCS practices, activities and performance. The second period deals with further changes taking place after 2002. In our data presentation, we have integrated the impact of both internal and external contextual factors. We will end this chapter with a summary and a conclusions section.

5.1 Introduction and Background of the Firm

The firm is located in Asmara, the capital city of Eritrea, and the administrative centre of the Central Region. More specifically, it is situated in Zone 1 Sub-Zone 05, which is in the centre of the city. The enterprise was established in 1954 by an Italian sweater expert, Mr. Gargano, and it takes up an area of 3,200 square metres. Since its establishment up until 1975, it was known for its competitive quality products both in the domestic as well as in foreign markets. By February 2, 1975, when the factory was nationalised by the Ethiopian military regime, the ‘Derg’, the share capital had increased to Birr 1,600,000 and the factory had a new building. In addition, new production equipment had been installed. Like all other industrial firms IMA became part of the national textile corporation. It had its own general manager to run its day-to-day operations, but this manager possessed too little authority to decide upon the future course of the factory. It was the corporation that determined the production quotas and targets. After the nationalisation by the Ethiopian government, the factory operated by order of the Ethiopian Domestic Distribution Corporation (EDDC), the sole distribution channel of that time. As a result, the marketing concept did not really take root. During the period 1975-91 the factory remained stagnant and its production declined. The enterprise continued its operations under the control of the Ethiopian Government until the independence of Eritrea, on May 24, 1991.

After the liberation in 1991, the enterprise was taken over by the Government of Eritrea (GOE) and has been managed as a public firm under the name of the Asmara Sweater Factory. The GOE gave more autonomy to firms’ managements with regard to what to produce and how to sell their products. Moreover, the GOE encouraged exports. Since 1991 IMA has been engaged in the production of overalls and shirts/trousers for the military. To deal with these large orders, the factory recruits workers on a contract basis. Although its competitors computerised their
knitting systems, initially the firm did not make such an investment. In 1994 it was encouraged to form a non-equity joint venture with a South Korean company to acquire new production technologies and make new products for the export trade, such as leather jackets. The factory obtained 24 new machines purchased from South Korea. The joint venture led to a joint management by the two companies in the years 1994/95. During the joint venture period, which lasted for one year, IMA had to supply Canadian firms with 1,400 leather jackets every quarter, but managed to supply only 500 due to the limited supply of raw materials. Although new sources of supply are emerging in the market [e.g., Gejeret Tannery & Ghindae Tannery established since 1996], the supply problem still remains an issue. One of the reasons may be that some tanneries process their raw leather into finished products rather than selling it in the market. The firm tried to enter the European and North American leather jacket markets. To promote its products, it prepared an advertisement leaflet in 1996 and made contacts with firms located in Norway, Switzerland and Germany. Before privatisation there were 190 permanent employees (of which 170 were in production and the rest in administration), including about 40 extra contract workers.

In line with the government’s policy aimed at the privatisation of public enterprises, on May 13, 1998, the plant was purchased in a public bid at a price of 3.5 million Nakfa by the present owners, and was re-named as the Asmara Sweater and Garment Factory PLC. (IMA). The factory has a parent company in Italy called ‘LA PERLA’, which offers support with respect to the supply of raw materials and finding export markets.

**Production process:** The firm’s production capacity at the time of privatisation was 800 pieces of overalls, 400 shirts and trousers, 300 sweaters or 40 leather jackets per day. Its production mainly aims at knitwear and garments. The knitting process is mechanically prepared by winding yarns from acrylic, cotton, wool or wool-like materials on cones. The yarn on cones is used to make knitted fabrics manually, or to weave knitted fabrics on machines. The knitted fabrics are cut according to design, lock-stitched, ironed, and machine-tailored. Thereafter, the knitwear goes to the finishing unit, where - depending on the design - button holes are made and buttons secured. After inspection, the knitwear is ironed, put in plastic bags and stored in the finished goods store, from where it is marketed. Garments are produced by cutting fabric according to a particular design, after which it is lock-stitched for inspection. The garments produced include leather and other jackets, uniforms and gowns. Finally, they are tailored, inspected, packed and marketed. Garments made by order are delivered to the organization that has placed the order.

Generally, IMA is engaged in the production of three types of products: sweaters, garment products, and leather jackets. The firm also provides production services for export clients who bring their own raw materials. Except for the leather products, the sweater and garment product lines are mostly export-oriented. Leather products cannot be exported, since the supply of
locally processed leather is not sufficient to satisfy the export demand. The factory therefore at times imports raw leather from China. There is enough supply of raw materials for making sweater and garment products to engage in exports. The major source of raw materials is the export market. Some raw materials are locally available, but their supply is not reliable and they are mostly of low quality.

_Firm administration_: During the _derg regime_, the state-owned enterprises were administered under the Ministry of Trade & Industry (MTI) of Ethiopia in a command economy. The public enterprises did not have the autonomy to manage their own affairs. They formed part of different corporations, and all the planning, marketing and decision-making activities were centralised under the ministry. After the liberation, all enterprises continued to be state-owned, the Department of Industry being in charge of their supervision. To conduct the supervision and monitoring of firms’ activities the Department of Industry was divided into two to three divisions. One of them monitored their development plans and the other divisions supervised their day-to-day activities. However, the GOE wanted to replace the former command economy by a free market-oriented economy aimed at delegating the responsibilities to the public enterprises themselves in order to make them autonomous. To this end, the government started to motivate the public firms to exercise their autonomy by preparing their own plans, purchasing their own raw materials, adopting their own hiring and firing policies and selling their products by themselves.

5.2 **General changes during the transition period (1998 up to the end of 2002):**

Before submitting their purchase offer and the business and investment plan to the government in 1997, the prospective firm owners assessed the strengths, weaknesses and bottlenecks of the organizations. The technical part of this assessment was aimed at inspecting the situation of production machinery, production capacity and quality control practices. At the time of purchase, the owners signed a ‘Sale and Purchase Agreement’, stating that they would offer reorientation and training opportunities to the employees to enhance the firm’s performance. In addition, the purchase offer as well as the business and investment plans had to be in line with the privatisation policies and national socio-economic aspirations. The agreement further stipulated that the purchaser had to ensure within the time frame indicated in the business plan (1998 – 2007 for IMA) that the firm’s technology would be modernised and the quality standards and value of its products would be upgraded. With respect to marketing, the purchaser was expected to exert a maximum effort to enhance the firm’s export potential. Further, the government retained its authority by demanding that all of the Purchase Agreement’s requirements were met as stipulated.

The owners pledged to conduct measures such as the expansion of the factory buildings, the redesigning of the plant’s lay-out, and the renovation or replacement of the old machinery. In
addition, employees would receive training and new specialised personnel be recruited. Further, new products be introduced and productivity as well as product quality enhanced, and over time, even more employees would be hired. With respect to IMA’s capital structure, the focus was on equity rather than on debt, and to adopt a penetration strategy, entailing the setting of low prices relative to those of the competitors as well as more aggressive campaigning strategies to promote the firm’s products both domestically and on foreign markets by establishing networks. The owners predicted that as a result of these measures, in the period from 2003 to 2007, sales would steadily grow. In fact, they expected sales to triple the original (1998) figures. During this period the capacity utilisation was also expected to reach a 100%.

We will now discuss the developments in the first phase (1998-2002). During this period the environment changed dramatically due to the outbreak of the border war between Eritrea and Ethiopia. The war brought a great deal of uncertainty, and created a shortage of manpower. Moreover, during this time the government stopped the provision of foreign exchange services to the private sector.

Once the ownership transfers had been completed, important decisions were made and the business as well as the investment plans were implemented. These decisions involved organizational structure, potential markets to operate on, product lines, sources to acquire raw materials, capital investments, employment, training, and MCS practices. In our analysis we will concentrate on the implications for the MCS practices and firm performance. In addition, we will incorporate the influence of the contextual factors (chapters two and three) during the transition period. This wider scope will enable us to increase our insight into the way in which the privatisation process changed firms’ MCS practices as well as their activities and performance.

5.2.1 Realisation of the business and investment plans:
The realisation of business and investment plans depends on the efforts firms make to fulfil their commitments, the extent of support they get from the government, and the impact of internal and external factors. It can therefore be concluded that the government’s role is central in the implementation of their organizational measures. In this respect, the GOE is expected to support the private sector. The government aims at both rehabilitating the light industries to meet their internal demand and building a strong export-oriented manufacturing sector (GOE, 2003). With respect to trade, the government has pledged to foster both the internal and external trade through a limited intervention and the support of export-oriented industries by providing financial assistance in their international market penetration activities (GOE, 1998).

5.2.1.1 Organisational Structure: During the public ownership period the organizational structure of firms consisted of three main divisions: Administration & Finance, Marketing, and Production & Technique, each subdivided into departments and units. Many employees were
working in these departments, and the tasks they performed often overlapped. That is why during the transition period IMA’s new owners reduced the number of departments as well as redundancies. In this way they hoped to streamline the organization and reduce costs. In this respect, the new business plans included a new organizational structure. The former three divisions were replaced by five departments: Production, Marketing, Accounting, Materials Management, and Personnel. The Production Department was further divided into five units: Product Design & Quality Control (QC), Maintenance, Sweaters, Leather, and Other Garments. So nowadays the Production Department is based on a firm’s product lines, whereas prior to privatisation it was built around production processes (i.e. winding, knitting, cutting, stitching, ironing, and packing). In the pre-privatisation period the Marketing Department consisted of the following units: Procurement, Stores, and Sales. Now, it consists of three units: Market Research, Sales, and Promotion. The Stores and Procurement units are placed under Materials Management. The former General Service and Boiler units have been eliminated in the new structure.

We see that during the transition period our case firm did not succeed in fully implementing the planned organizational structure. Some departments and units were not established, such as Product Design and QC, Maintenance, Marketing, Market Research, Sales, Promotion, Materials Management, Procurement, and Personnel. In addition, some functions were abolished after privatisation, such as those of chief accountant, cashier, and production clerk. Further, some posts of unit heads, shift leaders and store keepers have been eliminated. The reason why the firm did not succeed in implementing the proposed organizational structure is related to external factors that created uncertainty in the post-privatisation period. One of these external factors was the border war, which heavily affected the development of Eritrean firms.

After privatisation, our case firm’s administrative body has been kept small. The senior managers are the manager, the finance head, and the production head. The owners of the factory are actively involved in the day-to-day activities, and they started to play a significant role in the decision-making process. However, the owners have no prior managerial experience in manufacturing enterprises. The Production Department is run by Mr. Tsigehannes, who is assisted by three to five unit heads. Initially one person ran the firm’s store, but in 2004 an assistant was appointed. What we see is that post-privatisation reform has congested tasks, led to elimination of inter-departmental reports and intensified reliance on direct supervision. For example, the head of finance and the chief of store handle all the activities related to their respective areas. No employees have been appointed to assist them. Although IMA has an expansion plan, the owners are discouraged by the multitude of problems they encounter, on which we will elaborate in the remainder of this chapter.

After privatisation, one person became in charge of the Finance Department. This person performs a multitude of tasks, consisting of product costing, recording and effecting payments, cash collection and depositing, annual inventory control, and the preparation of annual financial
Post-privatisation changes in management control, firm activities and performance

statements. In addition, the finance head has to check the price accuracy of each article sold in the local shop. In a normal situation these tasks would be assigned to several staff members. According to Mrs. Manna (head Finance), ‘a division of labour and the segregation of duties would help the department in minimising mistakes, facilitating jobs, and establishing better control systems, for the workload is immense. A single person cannot handle all activities. For example, checks are normally signed by two individuals. However, the owner can sign a check at any time for any purpose and authorise payments. In this way, the role of the Finance Department is diminished to collecting supporting documents in order to establish accountability. Private firms have problems in handling their accounting operations, and IMA is no exception. The number of staff members is far too limited to execute the activities. To share the workload, under normal conditions the minimum number of accounting staff should include a cashier, an accountant, and a chief accountant.’ So this multitude of tasks carried out by a workforce that is too small has resulted in the stagnation of some of the Finance Department’s major activities. For example, the inventory of goods was not conducted in time and the annual financial reports were delayed in such a manner that they were audited no sooner than by the end of 2003. On this basis we may conclude that the reduction in manpower has affected the firm’s accounting practices.

Mr. Ghebrebrhan, the owner’s best friend, is a retired bank employee who joined the factory in January 2002 to become its manager. This was the first time he worked as a manager in a business firm. Most of his time is spent on carrying out day-to-day activities. At the time he joined the firm, the financial statements of the years 2000 and 2001 had not yet been completed. Since it was very expensive to hire free-lance auditors, Mr. G. decided to take on this task himself. He managed to finish it in 2002. By the end of 2003, external auditors were invited to complete the annual statements of 2003 and audit the financial statements of the past three years. In the meantime, the tax office offered its co-operation by basing the levy of the annual taxes on the information in the draft reports. The delay of periodic financial statements has made it difficult for the Finance Department to make the scheduled financial analyses.

5.2.1.2 Investments: Since privatisation investment decisions were made by the owners in collaboration with the manager. The manager comments on the investment plans suggested by the owners and makes propositions for the purchase of machinery. The plans are executed on the basis of the mutual agreement of both parties; the owners and the manager. With the introduction of the business and investment plans, the firm purchased some new machinery and upgraded its old machines. Occasionally, Italian mechanics visit the factory to renovate the machines. The factory has automated its production of sweaters with a computerised knitting machine and also purchased a pressing machine. This has enabled the firm to replace some of the former manual design machines with computerised ones, as a result of which both product quality and output have greatly improved. The employees received a five-day training to get
acquainted with the new machinery. By this process of automation a significant reduction in wastage has been realised.

After privatisation, the focus clearly shifted towards quality and upgrading the employees’ skills. In addition, raw materials are purchased with more care. Investments in new machinery stimulated strict quality control procedures. During the public ownership era the firm had a considerable waste problem due to the fact that its products were manufactured manually. The purchase of a new cutting machine has now minimised this production of waste. Sample clothes in all preferred sizes and designs serve as cutting patterns in the garment product line. In this way, no mistakes are made, and wasting fabric is considerably reduced. The material that is left is now used to manufacture the small parts of the product.

Post-privatisation investments can also be analysed by means of quantitative tools. The capital expenditures with respect to sales (CES) and those with respect to assets (CEA) were high in the year of privatisation. As mentioned before, in May 1998 a border conflict erupted, which impeded further investments. Moreover, the government prohibited access to foreign exchange (forex) and obligated firms to obtain import permits (to be explained later). In general, one could say that the border conflict has adversely affected firms’ activities and performance. Against all odds, however, our case firm managed to improve its performance by reducing leverage as well as by its contribution to the national economy in the form of taxes (see table 5.1: p. 106). Prior to privatisation the level of debt to asset ratio (DAR) had climbed to 2.88. After privatisation it declined, reaching its lowest level of 38 per cent in 2000. After that, however, the DAR figures rose considerably and reached a rate of 72 per cent in 2004. The rise in DAR figures was directly associated with the rise in current liabilities (mainly the rise in bank overdrafts, creditors and accruals accounts). This percentage was higher than was expected. We are not able to discuss the remaining leverage ratios since there is no sufficient data available for the periods under study.

We can conclude that due to factors such as the ones mentioned above and the border war, our case firm did not succeed in implementing the investment plan as intended. In general, the situation has not lent itself to a successful implementation of the plans. As indicated by the manager: ‘The right environment is not yet there and the prevailing situation is totally unexpected. The owners have lost hope. In the face of uncertainty, it is the encouragement from the managers that has motivated the owners to make some investments.’

5.2.1.3 Employment, training and benefits:

Recruitment and training: At the time of the data collection, the manager explained that a severe lack of manpower (both skilled and unskilled, especially men) decreased the firm’s capacity utilisation well below a level of twenty five per cent. Consequently, more machines are being kept idle. The labour shortage has restrained IMA from accepting export orders. This problem is a direct consequence of the ‘eighteen-month’ national service programme that has
now been implemented for an indefinite period of time. The manager expressed his frustration: ‘We cannot enter into commitments since there is a severe scarcity of manpower. The factory has failed two or three times to meet its contractual agreements. This is mainly due to the shortage of manpower. Some employees disappeared or quit their jobs, and others had to sign up for the compulsory national service. As a result, the factory has not been operating normally.’ He added: ‘How could the factory achieve success in terms of productivity levels while working in such circumstances? The existing labour shortage has forced the factory to plan overtime schedules, which contributed to an unnecessary increase in overhead costs. Moreover, it is difficult to exercise formal planning and budgeting’.

To solve the problems of labour shortage, productivity and the lack of skilled employees, the firm has taken recruitment and training measures. Female employees replaced the skilled workers who had to sign up for the military. It is more difficult, however, for female employees to weave manually, which is a task that is physically quite demanding; one has to stand up for hours at a time. IMA therefore assigned this and other tasks to the older men, which has resulted in a decline in productivity. In principle, the newly hired skilled employees receive training for one week up to a month, and the ones who are not skilled are trained during the sixth months of their probation period. The workers receive an all-round training so they can be assigned to all kinds of jobs. The factory retains only those employees who have improved their skills after the training. In addition, on a continuous basis Italian experts visit the factory to provide on-the-job training. The QC was also trained by Italian experts. Studies indicate that higher productivity levels are closely related to training (World Bank, 2002a). As a policy, the factory prefers to recruit technical school graduates because they need a shorter training time. It was, however, almost impossible to find them, since they were all forced to join the national service.

After repeated requests to give the former employees permission to return to the factory, the government finally promised to do so. However, it did not happen. In addition, the firm suggested to the government to let them return in exchange for their full salaries. But the firm’s efforts to get its personnel back have not been successful. In addition, it suffers from the high number of female workers. In 2003 more than seventy-five employees left the firm because of a lack of interest. Most of them left during the probation period. They never explicitly express their complaints, but rumours indicate that they left because they hoped to get a higher salary elsewhere. Compensation expenses have therefore become a heavy burden to the firm. IMA’s annual manpower records give insight into the actual employment situation. They show that by 1998 the firm’s manpower was reduced to 76%. In 1999 it increased to 77%, but after that it gradually dropped again until the end of 2004. Although these figures should be interpreted with caution, they give the impression that during the public ownership period the manpower situation was in fact more favourable.
To deal with the problem of manpower shortage, the firm initiated the plan to employ twenty Chinese employees. This was intended to solve labour shortage, enable the spill-over of Chinese know-how and expertise into the factory, and to enhance productivity and confidence of local employees. However, due to the constant threat of employees being forced to join the national service never to return again, the owners decided at the last moment not to hire the Chinese workers. So training is not really a solution to the problem of manpower. According to the production head training is expensive and only pays off if employees can be expected to improve their skills and if they stay at the firm. Some employees who have successfully completed their training are not satisfied with the salary offered. In addition, sometimes local competitors approach the newly trained employees and offer them a higher salary. In this way the firm has lost some of its trained manpower. The production head indicated that ‘it is costly to lose them after having incurred all the training and development costs, but the factory cannot do anything about it.’ During the research it became clear that the USAID served as one of the most co-operative aid agencies playing a role in the facilitation of training for employees from abroad and the provision of support with respect to travel expenses and lodging. The USAID also distributes invitations for seminars that are relevant for the Eritrean business community.

**Motivation and compensation:** Senior managers indicated that ‘most factory employees are generally dedicated, hard working, and live up to the expectations. However, there are rare incidents of late-coming and absenteeism.’ Coming late was usually caused by issues of transport and absenteeism was mostly related to sickness, personal reasons, social occasions, and family affairs. Since privatisation unwarranted absenteeism has involved salary penalties, but taking a day off on valid grounds is always negotiable. During the public ownership period punctuality was not strict. This was mainly due to the fact that the employees were not motivated and did not take their work seriously. This has changed after privatisation. In addition, in the past simple excuses were enough for employees to be permitted to take the day off. This is no longer the case after privatisation. Since then, IMA has tries to motivate its workers by granting those who have no record of absenteeism a letter of appreciation.

Since privatisation, most employees have not had job-related complaints and all of them have accepted the registration of their daily output. The finance head stated: ‘Employees who haven’t completed their tasks or those who have made errors are sometimes forced to stay and finish the job in their own time, regardless of the way they feel about it.’ With respect to the prevention of production delays, she indicated: ‘Creating some sort of pressure on employees is necessary to get the work done.’ Few employees, for that matter, have complained about this policy. They do express their discontent, however, if their working schedules are too tight. However, the finance head explained that such measures are required to speed up less productive employees, arguing that: ‘Employees have nothing to complain about; they should rather strive to improve their productivity.’ The factory has introduced a procedure for dealing with unproductive employees. First, they are given advice during an evaluative meeting. Then, if their work does not improve,
they receive a written warning. Employees can be dismissed in accordance with the regulations laid down in the labour laws. However, the unit heads observe that the senior managers at times tended to express no appreciation when jobs were completed in time, especially in the case of short notice orders.

Employees with a large number of labour years as well as those with top productivity records received a salary increment. In addition, those who performed an excellent job were given lump sum payments. All of these bonuses were granted with the aim to retain the productive employees. In principle, salary improvements depended on the firm’s profits and growth. Further, promotion could be made through internal vacancies. The firm understood the employees’ dissatisfaction with their salaries. After the Ethio-Eritrean border conflict in May 1998 the cost of living rose considerably. This is illustrated by one of the employees: ‘How can we survive with this salary? We do not have enough to pay for the house rent, support our family and cover other necessities.’ When authorities investigated the decline in the output and performance standards of the employees it appeared that the issue of salary played an important role. One unit head said: ‘The situation we are in seems a paradox. It is difficult to imagine how employees are surviving with their current salaries, given this unbearable situation. On the other hand, it is understandable of the factory not to continuously upgrade the salaries while being unprofitable. Also, the majority of the employees are new and their daily productivity is far too low as compared to the planned production levels.’ Both the manager and the owners were not happy with the situation. On their part, they are doing their best to retain the firm’s skilled manpower by paying them relatively better salaries. The amount of salary, however, was the employees’ only complaint. They had no problems with the daily production reports, which were recently introduced, or their workload. The production reports will be dealt with later.

During the interviews the manager expressed his appreciation for the employees’ high morale and commitment, despite their problems. He stated: ‘The factory pays good salaries when compared to similar firms in the industry. For example, new employees are paid 400 Nakfas, whereas other factories only pay them between 300 to 350 Nakfas. But it is not enough to help employees survive under the prevailing economic circumstances. Regrettably, the factory cannot solve economic problems. We know how difficult the situation is and how much it frustrates the employees and affects their productivity. But the only thing we can do is to give them morale-support and advice.’ The knitting experts confirmed that the factory actually paid better salaries compared to other textile factories in the country. They considered their salary low, however, compared to those paid by small family-owned firms across town. As a result, many knitting experts have left IMA, feeling that they were missing out on attractive opportunities elsewhere. Initially there were about fifty knitting employees, but there were only five people left by the end of 2003.
Trade Union representatives believe that most unskilled employees of privatised firms have worked under stressful circumstances due to the hire-and-fire policy. Mr Minasie, a trade union official, indicated that the TU disapproves of the way in which the labour laws are developing and the way the privatisation process was conducted. He also argued that the salaries paid in the Textile and Leather industry were generally very low when considering the prevailing economic situation, and blamed the majority of the private sector for not sufficiently representing the rights of the labour force. In the TU’s opinion the range of benefits for employees have decreased compared to that in the public ownership period. The TU argued that post-privatisation labour laws have favoured the interests of the investors, and the management conducted within organizations seemed to be dominated by intimidation. The TU believed that the employees’ morale and progress are clearly affected by the attitude of the employers. Mr. Minasie added: ‘the employers’ view is: “you can work if you want or quit if you won’t.”’ In return, the manager blamed the TU representatives for having a negative attitude and a personal bias towards the firm as well as the private sector as a whole, saying: ‘TU people still seem to suffer from the old concepts of class struggle. They are keen to criticise private firms to gain the employees’ backing, portraying themselves as their saviours rather than the ones that merely train them to become hard workers.’

5.2.1.4 Product-market decisions: During the entire public ownership period until a few years after independence, about 80 percent of the factory’s knitted sweaters were marketed to Ethiopia. The rest was partly sold locally and partly exported to North American countries. The products were either directly sold to licensed businessmen or via the distribution corporation, or retailed in the firm’s outlet. Not long after independence, the Ethiopian market was lost, the distribution corporation was abolished, and the number of licensed businessmen decreased. A study conducted by the present owners at the time of privatisation indicates that there was a scarcity in sweater products in the home market. The local competitors could not produce the large volumes demanded by the government and schools. The only way in which they could live up to the large demand was by joining their capacity and offer their products at low prices. As a local retail business, IMA provides various designs for quality cloths (sweaters, garments, and leather jackets). So competition could be expected from firms that produce cheaper clothing or offer cheaper import products. In particular the rise in the costs of living has restricted the spending pattern of consumers to products for basic needs.

IMA’s marketing strategy is aimed at delivering durable products of top quality produced on the basis of the wishes of customers. The products are meant for both the local and export market. On the other hand, the local competition focused on one criterion: low prices. Issues such as quality, design, durability and customer service were not given much weight. A competitor who offers products at the lowest price beats the competition. Most local competitors were small and produce their sweaters manually. In terms of quality these products were not comparable to the cloths that IMA produced. However, the sweaters of the small local businesses were colourfully
decorated, whereas IMA’s sweaters were not. IMA’s products were much stronger and durable though, and were not manufactured manually. For this reason, the firm did not perceive the competitive local climate as suitable for applying its strategy, which is based on quality, durability and customer service. Because of this climate the factory was not able to fully use its production capacity. As the manager explained: ‘Maximising the production by attracting local bids is possible, but this could only be done at the expense of quality and by offering low prices. However, the factory is not prepared to do this. In practice, enterprises that focus on the export market by delivering better quality (like IMA) are marginalised in the local market since their chance of winning bids is very slim. It is really difficult to achieve both ends and at the same time work with the same people. Employees cannot be asked to produce good quality products for the export market and products of poor quality for the local market.’

After the introduction of privatisation, the production quotas were abolished. This meant that the factory was not assured of a continuous production. It had to search for clients in a competitive environment; both locally and abroad, the export market. However, the firm did not have a marketing department that would support it in this process. The local market became the responsibility of the manager, while the owners dealt with the export sales and production services. The parent company has good connections with markets in the Far East, Europe and Italy. Forty percent of the firm’s output was meant for the local market and sixty for export. Products for the home market were sold via the factory shop, situated in the centre of Asmara, or delivered directly to local schools and government ministries. IMA could not distribute all of its products via the shop. For both local and export sales, wholesalers and other distribution channels were required. To increase sales, the firm started to focus on innovating cloth designs. It introduced new designs for sweaters on a yearly basis, which were only repeated on special demand. The inspiration for ideas regarding product diversification and new designs came from two sources. The first source was the designs of export clients. These were copied and/or modified for the home market as well as for export purposes to LA PERLA. The second source was the adoption of Italian garment designs for export orders. The product design process for leather products were developed in-house. With respect to the efficient execution of orders, it was mostly the experienced employees who contributed ideas and suggestions. The firm’s efforts to penetrate into the local market were not very successful.

In 2002 the factory missed out on some orders by several government bodies. The clients preferred to import the products from India. IMA found out, however, that its products were cheaper and of better quality than the imported Indian goods. Therefore, the firm issued a complaint to the MTI, the Eritrean National Chamber of Commerce, and the Ministry of National Development. However, no action was taken to put a halt to the imports. Although the government claimed to support firms in increasing their competitiveness both locally and abroad, IMA was disappointed to see that the government nevertheless at times prefers to import
products. This is highly discouraging to IMA, since the firm is confident about its ability to handle any local order.

IMA clearly aimed at continuously improving the quality of its products. This is crucial in a market characterised by constant changes, such as the fashion market. Measurements such as investments in new machinery, the appointment of a quality control staff member, employee training, and strict supervision, have helped the firm operate successfully on European markets. Slowly but surely, IMA has acquired a competitive position internationally. In this respect, privatisation has certainly been advantageous to the firm. In addition, it offered IMA the possibility to sell its products at significantly higher prices. One thing the firm has learned is the importance of meeting delivery deadlines. Further, as will be discussed later, the choice of entering the export market has required the provision of clear accounting information, product pricing and a different approach to the exercising of control.

The firm considered any product or process that did not meet the required quality standards as incomplete and therefore unacceptable. The unit heads conducted meticulous quality checks. The production process had to be flawless from the beginning to the end. If something went wrong, processing was terminated. The manager became directly involved in the products’ daily quality check. The quality issue brought the manager more in touch with the lower level employees. The head of production indicated that the products’ defects were usually minor, and caused by machine faults or the breakage of needles. Sometimes, however, defects are caused by the negligence of employees.

With respect to the fulfilment of its obligations the firm clearly benefited from the advice of its export clients. This information was used to improve the delivery standards. With respect to the supply of raw materials, an incident once occurred where the firm received poor garment shipments via the parent company.

During the public ownership period delivery time was not an issue, since the factory was engaged in mass production. Of course this changed after privatisation. Now the firm was suddenly faced with meeting the delivery deadlines set by their clients. In particular the export clients provided the factory with detailed information regarding their orders, such as the sizes required, the quantities per size, the article number, the type of thread to be used (cotton, wool, acrylic, or a mixture), colour combinations, knitting tightness, delivery date preferred, etc. Export clients are more focussed on delivery dates because the various cloth lines depend on the seasons. If delivery is delayed, the clients risk severe losses, since a particular assortment is no longer functional if the season has passed. As a result the clients may claim compensation or fail to accept the delivery. Due to a lack of manpower, power failures, and the absence of ships in the ports of Eritrea, living up to delivery deadlines was sometimes a challenge for the firm. This is why it started to organise the work as efficiently as possible. Employees that had finished
their tasks had to assist other units, at some occasions they worked longer hours, and if necessary, part-time workers were recruited.

In 2002 IMA received an export order to manufacture seasonal sweaters at a strict delivery deadline. However, in the midst of the production process the factory lost a large part of its manpower to the national service. As a result, the delivery deadline could not be met. The client was very unhappy with this, and refused to collect the products at a later date, since the season had almost passed by that time. The factory offered its products for half the price, which the client eventually accepted, but it became clear that the issue of losing manpower at crucial stages in the production process was a serious problem. Due to incidents such as these, the firm suffered heavy losses. In addition, it became difficult to accept orders with tight delivery deadlines.

5.2.1.5 Sources of raw materials: Raw materials are purchased from both the local market and abroad. The factory possesses sufficient knowledge of raw materials (in terms of quality, strength, and colour) to deal with the local as well as the export markets. To be able to sell relatively cheap products on the local market, the firm selects acrylic. The manager is responsible for the local purchases. As already mentioned, the factory imports leather, yarn and garment fabrics, since these materials are not widely available in the local market, and if so, they are of poor quality. The import of raw materials is dealt with by the parent company, since it can purchase them on foreign markets against favourable prices. Besides facilitating the import of materials, the parent company offers IMA financial assistance.

Most local textile factories diversified their product lines by bringing finished garments on the market. This limited the possibility of acquiring textile locally. In addition, the quality of locally-manufactured textile appeared to be unsatisfactory, but the manufacturers did not seem concerned about this. The manager indicated that this undermined the business of local garment factories. On the other hand, the interviews with employees tell us that there were also problems with the garment materials acquired via the owners. Often the boxes contained pieces of cloth of different sizes and colour. The manager expressed his suspicion that these garment shipments might not have come from suppliers but from other garment factories. Especially, because the shipments sometimes contained pieces that look like leftovers from production. The manager was convinced that the materials were bought on a second hand market at cheaper prices. Yet, the factory was charged with normal prices. The manager argued that these kinds of supplies were not suitable for successfully completing garment orders of government bodies. The manager succeeded in convincing the owners that the textile supplies should be obtained in a different manner.

The problems with the import of raw materials started when the firm had been operational for a few years. Until 2000, the government banks provided the factory with forex services. However, these stopped in 2001, and the private companies were forced to acquire forex from parallel
markets, which lacked transparency, to buy raw materials. Since 2000, the forex rate has been unstable, and the import of raw materials purchased on parallel markets has had its consequences. First, the lack of source documents and the constant volatility of the rates has put severe pressure on management, which has threatened the relationship between the firm owners and the managers. Second, the customs office only recognises the official rates, on the basis of which the tax on the imported goods was calculated. Accordingly, in recording their transactions, firms were obliged to use these official rates, regardless of the actual cash paid to purchase the raw materials. This affected the accuracy of the firm’s books and accounts because the input costs were underestimated, which artificially raised the firm’s profits and, as a result, the taxes it had to pay. So firms that import materials using forex obtained from parallel markets at a higher rate are losing money (see World Bank, 2002a).

Due to the differences in the exchange rates the firm sustained heavy losses. The fact that the actual costs of the factory’s import activities were not taken into account resulted in inflation. The firm tried to report the difference between the official and actual forex rates paid for the imports as a ‘loss on exchange’. However, the tax office did not accept this as an expense. Therefore, because of this ‘loss on exchange’ and the resulting high tax amounts, importing goods became less attractive to the firm. In addition, according to studies both the sea and air transport in Eritrea are more expensive than in its neighbouring countries (World Bank, 2002a). All of these factors affected the firm’s (production as well as sales) performance.

5.2.1.6 Support for recovery: In mid 2001 the World Bank granted the GOE a soft loan with the intention of assisting local firms that had been affected by the 1998-2000 border conflict between Eritrea and Ethiopia. The loan formed part of a programme called ‘the crash programme’, or Emergency Recovery Programme, to help firms re-boost their export potential and expand their activities. The programme invited private firms to apply for the loan. IMA did not receive a loan, however, because the textile industry’s request was not approved of by the GOE. The firm’s circumstances have nevertheless improved considerably. The firm exported its products to Italy, Canada, the USA, Sweden, Norway and Zambia. IMA advertises by putting its trademark on its products, and through catalogues. The firm also made use of facilities offered by the Chamber of Commerce, and promoted its products on trade fairs. It also introduced its products in Kenya and South Africa. Further, the firm has participated in trade fairs held in Germany and attended various trade meetings and conferences of buyers and sellers. Its main challenge, however, remained the recruitment of a sufficient number of trained employees to be able to meet the export demands.

5.2.2 Changes in MCS practices, firm activities and performance in relation to the influence of internal and external factors

This subsection will deal with the changes in IMA’s MCS practices after privatisation and the impact these changes have had on its firm performance. In our analysis, which is based on our conceptual framework, we have mainly concentrated on planning and budgeting, product
costing and pricing, internal reporting and decision-making, cost control and waste minimisation, and performance measurement and evaluation. Our discussion will also include the internal and external contextual factors.

5.2.2.1 Planning and Budgeting: Before Eritrea’s liberation, the public firms were required to prepare a budget, although this was just a formality. The budget’s main item was ‘raw materials’, which was based on the previous year’s consumption. With respect to matters concerning the firm’s administration, requests were made for the purchase of office equipment and furniture, and the hiring of employees. The finance head explained, however, that ‘all requests were disapproved of, except for those concerning raw materials.’ At that time, after approval of the budgets, the firm contacts its suppliers, opens a Letter of Credit (L/C) account at the Commercial Bank to import its raw materials, and notifies the MTI. Budgeting serves as an instrument to limit the level of spending. On the other hand, since privatisation budgeting has not been formally exercised. The heads of the Finance and the Production departments both find that the present size of the organization does not require very strict procedures for MCS practices. They prefer informal personal supervision to formal budgeting controls. Another reason why they are not particularly focussed on the introduction of formal MCS practices is that these measures are costly.

Apart from the costs issue, there are also other reasons why IMA has not adopted formal MCS practices. For example, there is never real certainty whether the quantities produced will be actually sold. In addition, there is no sufficient knowledge of both the local demand and the actual lead-time between the orders and the delivery of the materials. Finally, there is a shortage of accounting personnel. Another issue is the border conflict between Eritrea and Ethiopia, which has made the circumstances in the country unpredictable. That is why the firm’s planning is generally characterised as short-term oriented and ad-hoc, except the five to ten years plan made by order of the MTI. An example of an ad-hoc approach is the preparation of short-term activities in connection with an order for sweaters. Prior to the purchase of the materials the work plan has to be approved of. Hence, the planning process is a demand- or order-driven activity. Based on the raw material combinations specified in the order, the factory determines the types and quantities required, and checks the inventory. Sometimes the manager and the production head go to the store to check the inventory themselves. In the case of shortages, materials are purchased on the local market or abroad (via LA PERLA), depending on the order received.

The store uses a perpetual inventory system. The firm always makes sure it has a minimum level of stock to minimise possible delays when starting a job. Moreover, importing raw materials involves long and complicated bureaucratic procedures. For this reason the firm has purchased materials in large quantities, even though the workload is limited. For the production of military sweaters a very large inventory is required, which can, however, cause liquidity problems. The
purchase of stock in large quantities does not apply to raw materials that are available locally, since they can usually be delivered at any time. At present, the firm uses the same inventory methods, recording systems and documents as during the public ownership period. The only difference is that nowadays the procedures for the issuance and receiving of raw materials are not limited by rigid timetables.

The co-ordination of activities: In general, production is initiated after obtaining an order, either through winning a local bid or via the parent company, which contracts out an export order to IMA. The manager usually forwards the information regarding the order to the production head. Then, in collaboration with the unit heads the production department prepares a working plan in which all the tasks and resources required are determined and assigned to the proper units. Based on the manpower capacity the plan also specifies the time needed to execute the order. The unit heads know the productivity levels of the employees. On the basis of the plan a pro-forma offer is sent to the client, in which the price as well as the manufacturing and delivery time required are specified. After the client has approved the offer, the production head distributes the working plan among all units, and the production process begins. All local and export orders involve their own specific tasks and requirements, forming the basis for the working plans.

During the production process, the unit heads monitor and supervise the employees. The tasks that the employees perform depend on their ability and experience. Before starting a product line, it is customary to make a sample product (mostly in the case of sweaters). This depends, however, on the uniqueness of the order. In the case of unforeseen circumstances, such as power failure or a sudden shortage of manpower, overtime schedules are made. The units try to perform their tasks as efficiently as possible. However, the production process of garments is more complex than that of sweaters. The manufacturing of garments requires highly skilled employees who have received formal training and utmost care. In the case of leather jackets, for example, the entire production process of a given item is handled by a qualified employee. Mostly though, the nature of the factory work is routine, and therefore the units do not use formal internal reports. All completed products are transferred to the quality control (QC) employee.

Communication of management with the owners: There is contact between the manager and the owners of the firm via the telephone, fax and email on a frequent basis. The owners visit the company two or three times a year. According to Mrs. Manna ‘private ownership has witnessed an active participation of the owners in the affairs of the firm. The owners are truly committed and highly involved in the work. They do not let us handle things on our own, and we are required to provide them with various types of documents and reports to keep them informed about the firm’s activities.’
5.2.2.2 Product Costing and Pricing: Mrs. Manna explained that during the public ownership period a separate section of the Finance Department was engaged in product costing. Each resource item used was accounted for on a daily basis and included in the periodical financial reports. The present costing system is basically a continuation of the former one, although much of the paperwork has been reduced. The factory applies standard costing. In general, there are standard sizes of sweaters for which the amount of input required for their production is known. In the case of leather products, the factory applies actual costing since these are manufactured by individual employees who possess different levels of skills and receive different salaries. In the case of processing custom-made products, the factory applies job-order costing.

At present, the overhead costs are not calculated per department unlike that of the past. They are simply being aggregated and distributed to products on the basis of physical output. Overhead costs that become significant after privatisation include travel, telephone, as well as other personal expenses. These expenses inflate the normal costs of production and give wrong impression about product costs when the firm decides on local bids. During the public ownership period these kinds of expenses were negligible or even non-existent.

During the public ownership period product pricing was based on a fixed profit margin on the total manufacturing costs, which was imposed by the Department of Inland Revenue (DIR). In this way, the DIR was able to control the profits made. If the gross profit margins were too limited, the public firms could submit a written request to the DIR to adjust their prices. The main cause of losses despite the use of cost plus profit pricing technique was a sudden decline in sales volume during a given period. At present, the firm is free to set any price without any interference of the DIR. But the freedom of pricing is dictated by competition in the home market. Normally, the firm bases its product pricing on the total manufacturing costs, an estimation of the expenses and taxes, and a profit mark-up. At times the prices are adjusted to those of its competitors or to the fluctuations in the forex rates with respect to the local currency. IMA also offers special discounts in the case of large volume orders. The firm does not, however, apply variable costing when competing in local bids. Also, it does not conduct investigations aimed at finding rooms for cost reduction. Further, export products are often sold at higher prices than originally set by the firm.

5.2.2.3 Internal Reporting and Decision-making: During the Ethiopian administration, the publicly owned organizations had to carry out their internal reporting practices in accordance with an accounting manual prepared by the MTI. Each month the public firms sent their statistical sales reports, balance sheets, income statements and information regarding product and payroll costs to the MTI. In addition, the MTI received quarterly and annual financial statements, which were meant to be used for monitoring the firms’ activities and performance. After the liberation, the GOE adopted all procedures laid down by the MTI. Gradually however, these routine reporting processes stopped.
Chapter 5: Changes in MCS practices, firm activities, and performance at IMA

Having worked under both public and private ownership, Mrs. Manna indicated that she approved of the way in which the MCS practices were performed before privatisation. They were based on formal procedures and the routine tasks of all managerial levels were clearly defined. Additionally, there were internal auditors who monitored the firm’s day-to-day activities and traced and corrected any occurring errors in time. The different departments and hierarchies were well established and their activities were reported to the heads in a routine manner. After privatisation, however, these strict hierarchies and some MCS procedures were abolished. Nowadays, authority is concentrated at the higher managerial levels, which has resulted in a weakening of the lower ones. The owners on their part, however, try to obtain as much financial information as possible in the form of production reports, overviews of incoming bills, import and export documents, and cash-flow statements. In addition, they receive reports on the factory’s weekly production levels and deposits made as well as copies of client vouchers. Although this is certainly useful, the firm does not have an internal auditor who verifies the accuracy and authorisation of accounting records and reports.

The Finance Department updates the inventories of finished goods and materials with the aid of internal reports. At the end of each month its records are compared to those of the store to check whether there are any anomalies. Daily production reports have in fact always formed the basis of the firm’s management information, both in the pre- and the post-privatisation era. The post-privatisation reports differ in terms of lay-out and frequency of usage. It is important for the employees to have their daily production output recorded thoroughly and correctly, since their salary payments depend on their production levels. As a result they are motivated to take on any job to enhance their productivity. The unit heads submit the employees’ daily production reports to the production head who presents them to the manager together with a summary report. Products that are not finished yet are not included in the production report, but the manager is informed about them. The production head is directly informed about any defects in the product line by the QC staff member.

During the public ownership period the units were relatively larger and therefore delivery vouchers were used for the internal transfer of products as well as for control purposes. At present, the workload is so limited that personal supervision by the managers is considered sufficient, and interdepartmental forms for communication purposes are not necessary. In fact, the owners regard the use of such tools as inefficient and bureaucratic. The production units record the quantity of the semi-processed items when they are internally transferred. The only section of the firm that still makes use of forms is the store. The store uses them to check whether it receives the correct number of finished products as laid down in the production order. If this number is not correct, the store notifies the production department. This control practice was not relevant in the public ownership period, since the production output was solely based on the fulfilment of quota.
During the public ownership period the main decision-making body was a management committee composed of the general manager and the heads of the Finance & Administration, the Production & Technique, and the Marketing departments. The decisions made by this committee concerning plans and measures were reported to the MTI for approval. Other issues than routine activities were dealt with by the MTI. Nowadays, the private firms’ managers are also authorised to make decisions upon matters other than standard issues. However, according to the TU the managers hired by the private firms lack skills and expertise, and tend to refer most issues to the owners. In addition, although the manager often consults the department heads, for example in local bids, the latter’s role is limited. If a manager comes across a situation that he/she has never encountered before, the owners are consulted. Any advice given by the department heads will also be communicated, but the owners will make the decisions. Besides the manager, another staff member who has a significant influence is the production head, who is a relative of the owners. Further, the owners decide upon the export orders to foreign clients and LA PERLA. Most of IMA’s export orders have been initially obtained by LA PERLA.

5.2.2.4 Cost Control and Waste Minimisation: In general, the owners of the factory handle imports of raw materials and are therefore in charge of controlling the cost of inputs. With respect to the manufacturing of sweaters, the usage of raw materials is controlled with the aid of predetermined standard quantities. For the production of garments there are no standard measures, but the aim is to optimise utilisation of resources. The introduction of computerised knitting machines has significantly minimised the number of defective products. To save energy costs, the factory irons the garment products in large quantities. The amounts of raw materials for the production of leather products are controlled at the time of issuing materials by not exceeding the optimal quantities required for a given order or unit.

The employees’ productivity is monitored by the unit heads and recorded in daily production reports. Aspects that also play a role in the evaluation of employees are family ties and trust. In addition, estimates are made of the optimum level of labour required in the case of orders that involve a large workload. In such cases, the Finance Department assesses whether additional employees have to be hired to reduce costs of overtime works. In other cases, when the workload declines, the finance head may advise to cut down on employees. In this way the firm tries to reduce the labour and overhead costs so as to increase profitability. Down-sizing the number of departments and units after privatisation was also a measure to stimulate efficiency. Finally, employees have to put a reference number on each item they finish. In this way it can be determined which employee performs good and which one underachieves.

5.2.2.5 Performance Measurement and Evaluation: During the public ownership period, the MTI evaluated firms’ performance by comparing their actual results with the budget figures. In this way, the MTI could check whether the firms had carried out their activities within the limits of their approved budget. An MTI official, Mr. Sengal said: ‘The MTI tries to control the
activities and performance of the public firms in the first place to assure that they are working on a commercial basis and to check whether there is competition among them. Secondly, the ministry has to check whether the public firms are producing products that are actually demanded by and acceptable (in terms of quality) to the public. Finally, the MTI wants to check whether or not the public firms are making profit. This is important in view of protecting the public money from vanishing.’ He also stated: ‘The GOE has made the public firms go through a structural adjustment programme (called the Enterprise Rehabilitation and Recovery Programme (ERRP)). This helped them to reduce their redundant manpower and to replace some of their obsolete machinery. Thus, the public firms have managed to operate successfully and pay employees’ salaries without having to address the government budget.’

To evaluate its performance, IMA - as a public firm – used financial ratios. In addition, internal reports on the day-to-day activities and consumption of resources served for control purposes. To measure its profitability the firm annually compared the cost of goods sold with the revenues. In addition, the transfer of resources and (semi-processed) products among the units was monitored through documents. This also applied to the transfer of the finished goods to the store. Nowadays, as a privatised firm, IMA still uses some of these documents for evaluation and control purposes. Further, the firm adopts performance measurements based on quality control, productivity, capacity utilisation, and profitability. The main sources of information on these issues are the annual financial statements and the daily production reports. Monitoring and evaluation take place at three levels: the individual, departmental and firm level. At the individual level, the employees’ activities are monitored through the daily production reports. These reports give an image of the employees’ productivity patterns and indicate the reasons behind faults (e.g., poor work standards, technical problems, etc). When combined, the daily production reports show the actual output of a particular unit or that of the firm as a whole. They also give an indication of the firm’s ability to meet delivery deadlines. The interdependence among the separate production units makes it easy to determine which one(s) is/are causing delays, because stagnation makes the subsequent units idle. In general, the measures taken against inefficient and unproductive employees range from giving advice to giving punishment. On the other hand, hard working and productive employees are granted cash bonus, which also serves as an incentive for others. So far, if an employee’s productivity is poor, management has not as yet conducted any other measures than giving advice. When looking at labour productivity as indicated in table 5.1 (see page 106), we can see that it has tremendously increased after privatisation. As from 1999, however, a gradual decline can be observed, due to the external challenges the firm has been facing. Qualified youth are lost to the national service, and hard currency as well as regulatory hurdles (to be explained next) undermined the firm’s export business.

During the public ownership period, the data of the daily production reports were kept in a separate register, which the manager addressed every four to five months. In those days, the unit
heads never checked the employees’ activities on a daily basis. The monthly payments and periodical increments were standard, regardless of the employees’ productivity levels. Consequently, the employees had no interest in improving their performance. The finance head stated: ‘The employees consider their job as a way to spend the day. They cannot be bothered to learn new skills to improve their productivity.’ After privatisation this has changed. At present, all information is recorded on separate cards and evaluated on a daily basis. Any significant deviation is thoroughly investigated. As already indicated, the main causes of fluctuations in the productivity levels are the failure of machinery, absenteeism, design changes, or the complexity of new orders. The new reporting system has positively influenced the employees’ behaviour. They are now much more motivated to improve their skills and achieve progress. Moreover, evaluative meetings take place on a regular basis, in which both work- and socially-related issues are discussed. During these meetings, management also communicates the results of the reports and informs employees on the plans and expectations for the coming period.

**Financial analysis:** The firm annually prepares financial statements. The finance head explained that only after the accounts are closed, which is at the end of each fiscal year, can the firm’s performance be determined by analysing the data on profitability and inventory levels. The financial analysis is based on profitability indicators, such as gross profit/loss and net income/loss. In addition, annual assessments of sales trends and productivity levels are made to gain an insight into the causes of fluctuations in performance levels or changes in the nature of activities. Various profitability measures have served as the criteria for our comparison of the firm performance data of the pre- and post-privatisation eras. These are sales trend, ROS, ROA, and ROE (see table 5.1). We can see that during 1995 – 1998 the sales figures were poor, but after privatisation they gradually improved until they had tripled in 1999. In the period from 2000 – 2001 they declined again due to labour shortages and the abolishment of forex services. In the period 2002 – 2004 sales fluctuations can be observed as a result of an uncertain business environment. During this period the firm dealt with stock accumulation problems and had to approach potential clients in an active manner to obtain orders. It had to search for new markets and it introduced price discounts as well as three-month instalment payments for clients. In view of its difficult financial position, the firm often had to negotiate the possibility to receive advance payments when obtaining an order.

The figures show that during the public ownership period from 1995 to 1998 the firm suffered net losses, giving rise to negative ROS and ROA figures. During the transition period, 1998 and 1999 showed profitability ratios relatively more favourable than those in the period from 2000 to 2003. Except for a decline in 2001, after privatisation the net loss figures have improved compared to those of the pre-privatisation era. However, TU representatives recognise that the private sector has suffered from the fact that the labour force is mostly poorly educated, unskilled, and mostly female (see World Bank, 2002a). In addition, the local market is
dominated by the import of cheap leather and textile products, as a result of which the market share of local products is undermined.

As table 5.1 shows, our analysis of operating efficiency and output has resulted in the following. During the public ownership period, sales efficiency was relatively lower than after privatisation, when the firm managed to enhance its performance considerably. In 1999 the firm achieved its highest performance figures, after which there was a decline in 2000 and 2001. In 2002 sales efficiency rose again, but in the subsequent years there was a further decline. Output figures show that in 1999 and 2000 the firm’s real sales had increased by 193 and 68 percent respectively compared to that of 1997. However, as from 2001 the firm’s output has declined below 76 percent relative to that in 1997. To obtain an image of IMA’s contribution to the government income, we calculated tax per unit of sales (TPUS). The total taxes paid in 1998 amount to 38 percent of the sales. As in the subsequent years the factory failed to generate net income, the level of tax payment also declined.

From our discussion on MCS practices of IMA, the nature of control could be classified partly as a diagnostic and as a belief system on the basis of the categorisation of Simons (1995). We have noted that the factory was not practicing budgeting but it used the concept of standard costing by defining input-output relations and trying to control resource consumption through this system. The factory prepares short-term plans, controlled production and continuously worked to improve efficiency and reduce waste. However, the system reflected a weaker form of a diagnostic system, as budgeting was not utilized. Moreover, the present MCS practice reflected the emergence of informal controls that involved direct supervision and dependence on family links that are typical in family owned firms (see Hopper et al., 2004b, Uddin 1997, Wickramasinghe 1996, Hoque & Hopper 1994). On the other hand, we observed that the factory has set a clear strategy on quality and exerted relentless efforts to reduce waste. As a result, employees have become sensitive to quality and cost issues.
## Table 5.1 Firm Performance of the Asmara Sweater and Garment Factory (IMA) during the pre- and post-privatisation periods (1995-2004)

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<tbody>
<tr>
<td><strong>Profitability</strong></td>
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<tr>
<td>Sales Trend</td>
<td>21.33</td>
<td>100*</td>
<td>112.37</td>
<td>49.97</td>
<td>62.51</td>
<td>311.75</td>
<td>198.22</td>
<td>75.25</td>
<td>122.16</td>
<td>75.61</td>
<td>102.59</td>
</tr>
<tr>
<td>ROS1 (%)</td>
<td>(14.86)</td>
<td>15.87</td>
<td>(11.21)</td>
<td>(56.43)</td>
<td>25.36</td>
<td>18.00</td>
<td>0.55</td>
<td>(26.11)</td>
<td>30.09</td>
<td>20.70</td>
<td>13.26</td>
</tr>
<tr>
<td>ROS2 (%)</td>
<td>(83.87)</td>
<td>(51.45)</td>
<td>(68.69)</td>
<td>(190.53)</td>
<td>9.27</td>
<td>2.98</td>
<td>(16.60)</td>
<td>(72.79)</td>
<td>(11.11)</td>
<td>(36.88)</td>
<td>(41.79)</td>
</tr>
<tr>
<td>ROA (%)</td>
<td>(8.38)</td>
<td>(25.79)</td>
<td>(53.97)</td>
<td>(103.44)</td>
<td>1.43</td>
<td>1.49</td>
<td>(6.43)</td>
<td>(10.91)</td>
<td>(2.47)</td>
<td>(5.04)</td>
<td>(8.39)</td>
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<tr>
<td>ROE (%)</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>3.11</td>
<td>4.73</td>
<td>(10.34)</td>
<td>(21.51)</td>
<td>(5.84)</td>
<td>(14.28)</td>
<td>(30.18)</td>
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<tr>
<td><strong>Labour Productivity</strong></td>
<td></td>
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<tr>
<td>Revenue per employee</td>
<td>2,247</td>
<td>10,409</td>
<td>10,217</td>
<td>5,903</td>
<td>7,373</td>
<td>39,047</td>
<td>28,735</td>
<td>20,781</td>
<td>25,831</td>
<td>12,550</td>
<td>14,182</td>
</tr>
<tr>
<td>Operating efficiency</td>
<td>Sales</td>
<td>2,184</td>
<td>10,240</td>
<td>10,170</td>
<td>5,895</td>
<td>7,373</td>
<td>38,730</td>
<td>27,091</td>
<td>20,002</td>
<td>25,231</td>
<td>10,542</td>
</tr>
<tr>
<td></td>
<td>Net income</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>683.24</td>
<td>1,153.91</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>Output</td>
<td>Real Sales (%)</td>
<td>21.47</td>
<td>100.68</td>
<td>100*</td>
<td>43.99</td>
<td>55.02</td>
<td>292.93</td>
<td>168.02</td>
<td>53.45</td>
<td>76.33</td>
<td>38.80</td>
</tr>
<tr>
<td>Employment Trend (%)</td>
<td>100</td>
<td>100</td>
<td>100*</td>
<td>75.90</td>
<td>75.90</td>
<td>76.92</td>
<td>63.08</td>
<td>27.18</td>
<td>30.77</td>
<td>37.44</td>
<td>33.85</td>
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<tr>
<td><strong>Leverage</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DAR</td>
<td>1.44</td>
<td>1.73</td>
<td>2.56</td>
<td>2.88</td>
<td>0.54</td>
<td>0.69</td>
<td>0.38</td>
<td>0.49</td>
<td>0.58</td>
<td>0.65</td>
<td>0.72</td>
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<td>LTDAR</td>
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<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>0.1370</td>
<td>0.03</td>
<td>0.02</td>
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<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
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<tr>
<td>LTDER</td>
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<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
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<td>0.0426</td>
<td>0.0467</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td><strong>Capital investment</strong></td>
<td>CES</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>5.6177</td>
<td>0.0774</td>
<td>0.0158</td>
<td>0.0041</td>
<td>0.1968</td>
<td>0.0990</td>
<td>N.A.</td>
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<tr>
<td>CEA</td>
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<td>N.A.</td>
<td>N.A.</td>
<td>0.8639</td>
<td>0.04</td>
<td>0.0061</td>
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<tr>
<td>Tax</td>
<td>TPUS</td>
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<td>N.A.</td>
<td>N.A.</td>
<td>0.0341†</td>
<td>0.3824</td>
<td>0.2139</td>
<td>0.1202</td>
<td>0.1008</td>
<td>0.0469</td>
<td>0.1040</td>
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</tbody>
</table>

**Notes:**

- ROS1 = return on sales [based on operating income figures], ROS2 = return on sales [based on net income figures], ROA = return on assets, ROE = return on equity, Real Sales = Nominal Sales ÷ Consumer price index, DAR = debt to asset ratio, LTDAR = long-term debt to asset ratio, LTDER = long-term debt to equity ratio, CES = capital expenditure to sales, CEA = capital expenditure to assets, TPUS = tax per unit of sales.

- †These figures cover a period of three months.

- *Because of its stability, we have taken the year 1996 as a base year to study sales trend. For the same reason, we selected the year 1997 as the base year for calculating both output and employment trends.

- † The amount is the result of Sur tax because no other taxes have been included (available).

- 1998A = Financial data of 1998 after the factory was privatised in May.

- 1998B = Financial data of 1998 before the factory was privatised.

- The labour productivity and operating efficiency figures are in Eritrean Nakfa [ERN].

- The full range of data sources and the detailed calculations that accompany table 5.1 are presented in Appendix-A.
5.3 Developments during the beginning of 2003 until mid 2005:

This section addresses the changes and developments taking place after 2002. The issues discussed include government regulations, computerisation, and matters concerning the implementation of the business and investment plan. Finally, a reflection will be given upon the control systems used.

5.3.1 Government regulations:

The government issued a regulation (Legal Notice No. 78/2003) with respect to import permits and declared goods in order to limit the access and usage of forex to only a few items. Initially, the banks were in charge of the forex services, but later on their mandate shifted to the MTI. This further complicated the import process and caused confusion in the business community. Moreover, it undermined the GOE’s credibility and questioned its commitment. The business sector failed to understand the objectives of its macro policy favouring a privatised economy. The changes of the governmental policies were confusing to the businesses and consequently led to stagnation of the private sector. Governmental regulations required firms to obtain an import permit from the MTI and deposit their forex by opening a L/C at the local bank in the case they wanted to import raw materials. Another option was to obtain forex from the black market; obviously at a higher rate. In the case of our firm, the parent company could finance the purchase of raw materials, either in cash or through the transfer of products. In general, the firm perceived the lack of access to forex as a major constraint in importing raw materials.

Importing materials by means of a L/C system made it difficult to facilitate imports through easier means. According to the manager, IMA could obtain forex through friends who lived in Diaspora in exchange for arranging payments (in local currency) to their beneficiaries. Depending on the availability of forex in the local market, the usual way of most private enterprises to obtain forex was by means of direct remittance rather than by a L/C. Obtaining forex through friends or acquaintances was much cheaper, but required good connections. The manager remarked: ‘If the only option allowed remains to be the L/C system, the government penalises those who have cheaper options at their disposal to finance their import practices.’ The prices of raw materials were obviously affected by the governmental forex policies, tax policies and inflation. High inflation rates and scarcity of forex led to macroeconomic instability, which in turn, adversely affected the firm performance of businesses on the Eritrean market (World Bank, 2002a).

The firm invested much effort in diversifying its activities in the production process to establish a link with the export market. This link helped the firm obtain clients’ trust, and receive raw materials without the L/C system and intermediation of the bank. Mostly, the only condition that
clients would stipulate was compliance with the delivery dates agreed upon. However, the import-export regulations still made it difficult for firms to provide export services. These regulations required them to obtain an import permit and open an L/C account in a bank to deposit the hard currency equivalent to the value of the clients’ raw materials. It did not distinguish between common imports of raw materials and the provision of manufacturing services. This required firms to pay bank service charges and custom duties upon receiving client’s raw materials. In accordance with the regulation, firms were obliged to bring repatriation of forex that is equivalent to the value of the products made for export. This complicated IMA’s export activities and created financial constraints. So the manager and the owners approached relevant ministries and institutions to help them find a solution to this problem. They tried to convince them that these unnecessary procedures undermined the firm’s export activities. They also requested to be exempted from any custom duties on raw materials obtained from clients just for production services. In addition, they explained that the local business community suffered from these unfair taxes. The authorities, however, stated that the rules and procedures had to be strictly followed. For this reason, the firm stopped accepting export production services.

Besides the regulation mentioned above, the GOE issued a decree in 2004 that prohibited firms to purchase hard currency on the black market. This development further challenged the continuity of firms’ business activities, the more so because the government did not provide them with alternative means to solve their forex problems. Importing goods was only possible for firms that had a forex deposit on their bank account and possessed an import permit. Despite all these problems, IMA and its foreign clients hoped that the situation would change. In 2005 IMA managed to obtain a new order from a German client.

5.3.2 Computerisation:
At the end of 2004 the firm introduced a custom-made D-base software program for use in the computer of the Finance Department. The finance head received special training on how to use this programme. With the aid of this system financial data could be processed serving as the basis for the periodical reports. In addition, the general ledger and stock records were computerised, enabling the firm to obtain accurate and up-to-date balances any time needed. Before the introduction of the system, all general, subsidiary and control ledgers were kept manually, which caused a considerable delay in the preparation of annual statements.

5.3.3 Implementation of the business plan

The current situation: At present, the company faces a number of problems. It lacks manpower, and does not import raw materials. As a result it is dependent upon the stock available, which means that currently business is slow. Although the firm’s position has become weak, drawing upon its stock is a conscious survival strategy in anticipation of a better future. It nevertheless remains a fact that the company is unable to pay its expenses and has considerable debts (see
IMA’s bank loan is gradually accumulating because the firm has become dependent on overdraft services to finance its working capital. The preconditions for loans set by the Eritrean commercial banks are strict, and loan services are focused on collateral rather than on project feasibility. The banks clearly put the emphasis on the way in which clients should return their loans. Mr. Ghebrebrhan remarked: ‘That is why the commercial banks have larger legal departments nowadays.’ As indicated in the World Bank Report (2002a), the high interest rates and the strict requirements for collateral are preventing firms from obtaining loans.

**Survival strategies:** In 2005, at the time of the data validation, we found out that the firm has managed to obtain an order from a German client for a garment line. The client delivered the raw materials himself. The order contained a delivery of 20,000 pieces per month. For this particular assignment, therefore, the firm doubled its manpower, expanding its production from one to two shifts a day. This order mainly required tailoring tasks, for which the new recruits could be easily trained. IMA managed to hire some female employees who were married and/or exempted from the national service for various reasons. As a result, its manpower doubled in comparison with the previous years. Generally, the motive for new recruits to look for a job was to improve their poor living standards.

As indicated by the finance head, the recent expansion induced the appointment of additional accounting staff as well as an improvement of the reporting and control methods. Specific MCS tools, such as budgeting, have now become essential. Due to the shortage of qualified people, however, increasing the accounting staff remained problematic.

**Future plans, expectations and firm activities:** Although the macro-plan initiated by the GOE was intended to promote the private sector in playing a leading role in the achievement of economic progress, factors such as government policies on import-export, foreign exchange, and national security have undermined this process. IMA’s management firmly believed that the current environment had to change in order for the firm to successfully implement its business plan and become profitable. It is vital that qualified manpower became available and that firms were granted access to forex so that new machinery and raw materials can be imported. With respect to these issues, the firm certainly required help from the government. The government’s recruitment policies for the military, however, conducted under the name of ‘national development projects’, rather deteriorated than improved the business climate. The manager indicated that: ‘Solving the labour shortages would require the government to fully implement its long-awaited troop demobilisation programme. On top of that, the government is expected to exert efforts in strengthening the regional trade, paving the way for export by abolishing possible obstacles. In this way, firms can hire more employees, enhance their productivity (meeting local and export market demands), and eventually improve their profitability. Firms will then also be motivated to introduce salary increments to help employees improve their standard of living. So far the firm has tried its best to promote its products on
foreign markets. The firm’s diligent efforts have ensured an ample market demand and created opportunities that can be exploited.’

5.3.4 The owners’ views on control and the position of family members:

Our findings show that IMA’s control system was confronted with issues such as nepotism as well as a lack of trust and centralisation. The manager indicated that ‘the owner does not believe in centralisation.’ He nevertheless emphasised, however, on the control of cash movements taking place within the organization. The owner tried to exercise control on the basis of the reports on the day-to-day activities. To facilitate disbursements, he provided the head of finance with signed checks. There was, however, no independent body that determined the accuracy of the documents that the owner addressed regularly. The manager explained that ‘inventory control has been insufficiently performed through the years. From the time the firm was established, in 1998, until the end of 2003 no physical inventory checks had been made. Therefore, the actual stock is unknown.’ Since IMA’s owners could not be physically present at the firm, it was difficult for them to exercise full control over the daily activities. The manager was of the opinion that this was in fact impossible, because the reports the owner receives are inadequate. Moreover, control was complicated by the intervention of family members. According to the manager it was difficult to monitor their activities. He argued: ‘Management is powerless since the production head is one of the owners’ brother and has full authority to do anything he wants. He has a good contact with the owner, who trusts him, and he tends to exceed the limits of his power. This is a large pitfall, as it violates the standard way of doing things.’

He added: ‘When unqualified family members hold key positions, they become a liability to the managers in the processes of day-to-day activities, controlling and making the organization a success.’ The manager stressed the importance of considering the qualifications of family members prior to their appointment. If these are not taken into account, rumours might start and the owner could lose the trust of the manager and other employees outside the family circle. In addition, at times the owners instructed the manager to settle personal bills through the factory accounts (e.g. rent payments, gas bills, financial support for family members, etc.).

For a concluding summary of the post-privatisation changes and developments at IMA, refer table 5.2.
Table 5.2 *Summary of post-privatisation developments at IMA*

| General Changes: | - employment declined due to the war that exacerbated lack of skilled & unskilled labour  
- salary had slightly improved but largely remained unsatisfactory  
- employees had become committed, responsible, and conscious of quality, cost, and duty  
- employees got training and some benefits  
- challenged by imports, local competitors, and customer behaviour  
- strategy focused on delivery of quality and durable products, expansion of market, high return, and customer satisfaction and on time delivery  
- major sales were exports but damaged by war and government regulations  
- the firm benefited from the support of parent company in marketing activities  
- new products and designs were introduced  
- major challenge from government regulations and tight delivery dates  
- high dependence on imported RM via the owners  
- forex is obtained from parallel markets at higher rates  
- the current customs practice harms accuracy of records, product costs, profits and taxes  
- size/number of departments and sections declined but the owners were heavily involved  
- the finance department was poorly staffed and thus activities were overloaded; this implies poor organisational capacity to implement changes in MCS practices  
- family and friends, who had no managerial expertise, held key posts and enjoyed owners’ trust  
- the firm operated like a big shop with heavy use of physical supervision  
- more autonomy to make investments  
- old machinery was replaced or renovated and became more automated  
- investment reduced wastes, improved quality, productivity, efficiency and leverage  
- no formal budgeting and the environment was uncertain  
- planning was mainly short-term oriented  
- information about standard input and output relationship was widely used  
- product costs were combination of standard and actual costs  
- both process costing and job order costing were effectively used  
- costs were significantly affected by external contextual factors  
- firm was price taker in the local market but enjoyed freedom on exports  
- reporting to the MTI was standardised  
- reduced internal reports and the owners get few reports and made regular visits  
- daily production monitoring relied on production reports  
- shared decision-making between the owners and top-managers; decisions were fast  
- computerisation has brought important changes  
- input requirements were standardised and effectively used for controlling  
- activities were conducted cost effectively  
- strict quality control was introduced  
- constant action to reduce costs of idle labour and overtime work  
- the sequence of production processes were used for controlling jobs  
- internal reports, some financial and non financial measures, and physical supervision were used for controls  
- sales, output and profitability were poor, but sales efficiency and labour productivity have improved |
5.4 Discussion and conclusions:

This chapter discussed the changes made in the MCS practices and the improvements achieved in the firm activities and performance of IMA. The research was based on data covering both the pre- and post-privatisations periods. In studying these changes and improvements, we have taken into account internal as well as external contextual factors. We observed that our case firm has exerted great efforts to implement the business and investment plans and has accomplished a great deal. To summarise: IMA has introduced an all-round training for its employees to create job flexibility. It has diversified its product lines and established export markets. In the sweater, garment, and pressing divisions modern machinery has been installed. In addition, some machinery has been computerised and other machines upgraded. As a result, some of the manual designs have been replaced by computerised versions. In this way, product quality has tremendously improved and waste considerably reduced. The firm also improved its production reports to ensure that issues such as capacity utilisation and manpower efficiency are monitored on a daily basis. Further, meticulous quality checks are conducted during all production steps. Moreover, the owners and senior managers have become highly involved in all facets of the production process. It can be concluded that the factory has achieved considerable progress and managed to conduct business in compliance with the demands of its clients. The efforts of LA PERLA in helping IMA penetrate overseas markets and sell its products at higher prices have been successful. In addition, the firm has obtained orders for export production services through its client’s network.

Another measure the firm took was to make its organisational structure more transparent and effective by reducing its number of departments, units and sections. In this way, costs could be saved and tasks could be assigned more efficiently. However, the reduction in size has left the firm without an internal auditor. In addition, there is congestion of tasks, and some of the former internal reports have been eliminated. Moreover, the appointment of family members at key positions as well as the owners’ preference for exercising control on the basis of information from often inadequate reports rather than actually improving the management control systems and strengthening the finance department, has resulted in an increased focus on physical supervision. Both the production and finance heads argued that IMA’s activities require an informal control system; a system similar to the ones small retail shops use. In spite of all the obstacles, however, the manager, who had no former managerial skills, is clearly focussed on keeping the firm running as smoothly as possible. Currently, the major decisions are made by the owners, and because of his familial affiliation the production head is in the position to make decisions beyond his scope. The owners supervise the firm’s day-to-day activities via the information provided by the reports and by visiting the firm regularly.

Due to the owners’ preferences, the small size of the firm, and the lack of qualified accounting personnel, the firm’s MCS practices lack formal budgeting and long-term planning that were
present in the past. This means that since privatisation the firm’s capacity to learn has declined in the sense of introducing modern MCS practices. The Finance Department is managed by only one staff member, as a result of which it has become more difficult to deal with the extensive range of tasks and activities. To give an example, the stock balance has been left unchecked for years now (since the factory got privatised) and preparation of the annual statements is always delayed. On the other hand, the introduction of computers and accounting software has facilitated the recording of data on activities and tasks. Since 2004, the accuracy of the reports has considerably improved, so also the timing of their delivery.

Privatisation has enhanced the focus on quality and the firm has succeeded in improving its performance compared to that in the public ownership period (see table 5.1). This table shows that, especially during the first three years after privatisation, firm performance has increased considerably. There are also factors that hampered the implementation of the business and investment plans and impeded economic growth, such as the border conflict and the government policies of recruiting manpower for the military, abolishing the forex services and introducing import permits. In addition, the government prohibited the purchase of forex from parallel markets. The government’s military recruitment policy led to sudden labour shortages, in turn resulting in delivery delays, while its forex policies shattered IMA’s export market. Moreover, the planned training programme for employees was halted. Further, due to exchange rate differences and their tax implications the firm suffered heavy losses. And because the government failed to recognise the actual amount of cash paid for acquiring forex from parallel markets, which was used for importing materials, basic accounting principles, such as the ‘cost concept’, were violated. Some government bodies even preferred to import products while they could in fact acquire products of better quality at reasonable prices from IMA. The firm lost most local bids as these were based on low prices regardless of quality, the local retail market being heavily influenced by the import of cheap clothing. We believe that the implementation of a rigid pricing policy, involving full costs plus a profit margin, has partly contributed to IMA’s problems on the local market. No attempt has been made to use variable costing or obtain accurate cost information and to search for cost reduction ways that would strengthen the firm’s competitive position.

IMA is hoping for a better future in which it can implement its business and investment plans. In order to do this, however, the firm needs the support of the GOE in dealing with the current obstacles (macro-economic imbalances, recruitment of soldiers, abolishment of forex services and restrictive trade and tax policies). In this context, it is of importance to IMA to update its MCS-tools, improve its performance and offer its employees better salaries and benefits. The latter would meet with the approval of both the employees and the TU.

Based on our findings we conclude that privatisation has generated major positive outcomes. Examples are the improvement of firm performance, the expansion of markets, the
increase in investments, higher salaries and taxes, computerisation and modernisation of the firm’s machinery as well as of its accounting systems, and a significant waste minimisation. The nature of IMA’s post-privatisation MCS practices appears to be dominated by informal control, family ties and trust. Its formal control practices have become looser and less-focussed. There is no tight control via budgeting and long-term planning methods. The nature of MCS at IMA can be seen as a mixture of diagnostic and belief systems. Although formal budgets are not prepared, the factory tries to exercise short-term production plans. The firm also utilises the concept of standard costing, measures resource consumption, monitors production, and strives to reduce costs and wastages. The firm has managed to reduce the amount of paper work relative to its size. So MCS has become more cost effective and efficient.

In general, the main factors that have shaped IMA’s MCS practices are the owners’ interests, the intensity of the competition, changes in strategy and firm size. Although we observed that daily supervision and internal reports have supported the firm in monitoring its efficiency and productivity, external factors have significantly shaped the business environment in general. These factors lie outside the firm’s scope but have nevertheless seriously undermined the development of its MCS practices and firm performance.

In the case of IMA, privatisation has led to a decrease in the manager’s authority mainly in respect to decision-making. The firm’s key processes are partly controlled by the owners and the production head intervenes and at times takes independent actions. In general, privatisation has not led to the introduction of new MCS tools and modern techniques, as expected in the literature. This can be explained by the harsh business climate and the lack of initiative and support on the part of the owners and senior managers. Although the owners obviously aim at making the organization productive and profitable, they are reluctant when it comes to introducing new MCS techniques and hiring more accounting personnel, mainly for cost reasons. IMA’s most emphasised MCS practices are the daily production reports and quality control. Given the level of local competition, we expected that the firm would introduce improved practices to generate timely information. However, the owners’ preference for limited information, the concern for cost, the lack of adequate accounting staff and the primary focus on the larger export market had reduced the urge for further MCS improvements. The freedom to set any export prices did not require the factory to aim at accurate and timely cost information.

The firm was presumed to benefit from the World Bank fund made available through the crash programme. However, government policies prevented IMA from gaining access to this fund. In this way, the implementation of the business and investment plans was frustrated.