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

Redda, B.M.

7 Changes in the MCS practices, firm activities and performance of Red Sea Bottlers Share Company (RSBSC)

This chapter deals with the findings of our third case study, which was conducted in the Red Sea Bottlers Share Company. The structure of this chapter is similar to that of chapters 5 and 6. First we will give an outline of the company's history, activities and administration. Then we will discuss two periods, the first covering the changes after the introduction of privatisation until the end of 2002, and the second dealing with the developments after that, until mid 2005. As in chapter 5 and 6, we will include both internal and external contextual factors in our analysis.

7.1 Introduction and Background of the Company

RSBSC was formerly known as the National Soft Drinks Factory [NSDF], which was established in Asmara in 1964 and became operational in 1965. The enterprise was owned by Italians and an Eritrean imperial family. Its initial capital was US $ 290,000. At that time the firm's product brands were Coca-Cola, Fanta Orange, Sprite and Fanta Tonic. In 1975 the Ethiopian Derg regime nationalised the company. In 1990, when the Eritrea Peoples Liberation Front (EPLF) captured the port city of Massawa, the company stopped its operations. On May 24 the EPLF liberated Eritrea and took over the publicly owned companies. The firm resumed its production activities on February 21, 1992, with a daily production capacity of 2,050 cases per shift. After the liberation 216 employees worked with the company. Before the firm was privatised, hardly any investments had been made for a period of twenty years, and the production capacity and output were well below the market demand. In addition, there were about 4,000 private distributors. So at that period the firm was practically non-existent. However, in collaboration with the Coca-Cola Company (CCC) the government took measures aimed at reviving the company.

In 1997 CCC formed a joint venture with NSDF. Fifty five percent of the shares of this enterprise were owned by the State of Eritrea and 45 percent by CCC, which was based in Atlanta, USA. In addition to NSDF's net capital of 3 million US dollars, both parties provided equity. During the period from October 1996 to October 1997 the joint venture carried out a modernisation and expansion programme involving an initial investment of 13 million US dollars. Buildings were renovated, facilities realised and new machinery bought. In 1997 the production capacity was 8,000 cases per day per shift. RSBSC started its operations in September 1998 but was officially inaugurated on 28 January 1999. Its maximum production capacity increased to 24,000 bottles per hour, the production process taking place in two pre-fabricated buildings. In the early years, from 1999 to 2001, the actual capacity was 20,000 bottles per hour. The firm's product assortment included Coca-Cola, Fanta, Sprite, Krest Tonic and Krest Soda Water. To manufacture its products the firm had a CO_2 plant as well as a chemical and biological waste H_2O treatment plant at its disposal. In addition, it possessed compressors, boilers, a 450,000 litre water storage tank, a pumping station, and nine new delivery trucks and other vehicles.

The firm's administration: After the liberation the Ministry of Trade and Industry (MTI) was in charge of approving the public firms' budgets and control activities. However, as already mentioned this was just a formality. As required, our case firm sent its quarterly reports to the MTI, but was never given any formal response, nor was it asked to clarify matters. The MTI only communicated with companies about their sales prices and the sales agents' compensation. In accordance with the franchising agreement (between NSDF and CCC) our case firm was limited in determining its product prices. The pricing issue is discussed in more detail in sub-section 7.2.2.2. After the liberation the company's general manager had to follow the MTI's instructions regarding the budget, and whenever changes were required he was obliged to ask the MTI for permission. After the introduction of privatisation, however, the information that the company sent to the MTI was mainly used for evaluation purposes and for the preparation of its statistical reports. For gathering this information the firm used pre-designed forms.

When our case firm was privatised, the involvement of CCC increased significantly. CCC is clearly focussed on improving the methods of analysing, reporting and using information. As a rule, the company's daily production and sales reports, its monthly financial statements and other management accounting reports were sent to the head quarter's office in Nairobi, Kenya. Communication also frequently took place via email, fax and telephone. The daily reports enabled CCC to follow the joint venture's activities closely. In addition, CCC checked sample products on a monthly basis to monitor the product quality. Further, two CCC representatives visited the company every quarter to attend the board meeting. CCC also advised the firm in dealing with government rules and regulations in the host country. In addition, it tried to stimulate the RSBSC's awareness with respect to issues such as the environment and resources.

7.2 General changes during the transition period [1997 up to the end of 2002]:

During the public ownership period the government lacked sufficient know-how with respect to running a business. Our case firm's machinery was out-of-date and it was dependent on spare parts. There was an increase in down time, the product quality was poor and the production volume was very low. Although CCC offered advice on issues such as product quality, record keeping, reporting and controlling, it was not directly involved in the company. CCC's main interest was to keep the firm in business to sustain its own position and business image in the market. When concluding the joint venture agreement, however, both shareholders agreed to collaborate in developing the enterprise. Improving the performance of firms such as our case company was expected to enhance Eritrea's economic prosperity and stimulate the general business climate. Another part of the joint venture agreement was that the firm would operate on the basis of a business plan approved of by the shareholders. In this business plan the main objectives of the Government of Eritrea (GOE) and CCC had to be reflected. These were: establishing an up-to-date production facility, renovating the firm's site and buildings, renewing its infrastructure, and eventually privatising it. Both shareholders signed a memorandum of association requiring both parties to approve of each other's decision in case they wanted to sell shares. This was the first time CCC was involved in a joint venture with a bottling company. Its prime interest, however, was to help RSBSC start up its business and then mainly function as a vendor in accordance with the franchising agreements. As will be discussed in more detail in a later section, CCC contributed a great deal; it made large investments, provided training for the employees, and assisted in expanding the product lines, increasing the firm's market and improving its product quality. The partners never claimed dividends.

7.2.1 Realisation of the business and investment plans:

The ownership transfer was conducted smoothly and all former employees were retained. CCC had prepared itself well before deciding to take part in the joint venture. Prior to the agreement the company had conducted several studies on the feasibility of such a structure. After the joint venture was set up, many changes took place. The following sections will deal with these changes, while also including the impact of internal and external contextual factors.

7.2.1.1 Organizational structure: During the public ownership period there were three divisions: Marketing, Production & Technique, and Finance & Administration. After setting up the joint venture the organizational structure was adjusted. Now there were five departments: Production, Finance, Sales, Human Resources & Administration (HRA), and Quality Control (QC). These departments operated under the supervision of the general manager (GM). He had a chemistry background and had been with the firm since the country's independence. During this time he had acquired the necessary skills to run a company. His activities entailed dealing with day-to-day routine affairs, executing the decisions of the Board of Directors (BOD), keeping the accounts, records, books and inventories up-to-date, and informing the BOD by means of quarterly reports. Another body in the new structure was the General Meeting of the Shareholders, the supreme organ of the company, to which the BOD was accountable. The BOD appointed qualified employees to work in the departments. In addition, new functions were created, such as area manager, depot manager, sales service manager and distribution manager. Further, in collaboration with CCC distribution centres were established throughout the country and the distribution systems were redesigned. CCC also assisted in the opening of new depots, the appointment of sales agents, the training of employees, promotional activities, and the purchase of new delivery trucks.

The structure of the Production Department was also adjusted. A bottling line manager and a maintenance manager were appointed who were directly accountable to the production head. The production floor employees were monitored by supervisors who were accountable to the bottling line manager. The Finance Department was staffed by a chief accountant, a management accountant, a purchase manager, an MIS manager and other junior accountants. These functions were occupied by qualified people, who regularly received additional training to improve their skills. This shows that the department has strong capacity to facilitate changes in MCS practices. Administrative matters were separated from Finance. The HRA department was engaged in personnel affairs, such as hiring and firing policies, the evaluation of the employees and the provision of training. In addition, HRA developed job descriptions for each function, and established a training centre.

7.2.1.2 Investments: During the Derg regime, there were no significant amounts of profit to consider capital investment. The Department of Inland Revenue (DIR) collected 50% tax on the annual profits. Of the remaining profit the government took 95%, leaving the rest to be used by the company for expanding its activities. When the firm was privatised the shareholders made an investment of 16 million US dollars. Through this investment the company could be completely modernised. Its machinery was computerised and the wooden cases were substituted by plastic ones, the plant area was expanded, and the old buildings were replaced by new ones. As a result the product quality improved tremendously. Now the company operated with 22 trucks and 1,500 coolers, and it distributed its products to about 11,200 outlets. The firm became particularly focussed on quality, cost consciousness and efficiency. In achieving these goals the new machinery played a significant role. It enabled the firm to produce better products and to reduce the costs of the production process. For example, the breakage of bottles decreased from 700,000 to 15,000 bottles a year. To satisfy the market demand, the company even had to double its shift, resulting in a capacity of 20 hours a day (including 4 hours of preventive maintenance).

The business plan included a follow-up investment of $ 200,000 in year two, which had risen to $ 500,000 in year seven. Investments in bottles and crates resulted in a considerable output increase. Table 7.1 presents the investments made as measured in terms of capital expenditure to sales (CES) and capital expenditure to assets (CEA). It was expected that customer deposits would cover about 62% of the bottle purchase costs and fully abolish the costs of the crates. In 2001 the production capacity was upgraded from 24,000 to 27,000 bottles per hour by the increasing market demand. The company aimed at expanding its market share by doubling its bottling line and introducing new products, such as carbonated water and pure distiller water. Although CCC fully supported this initiative, forex problems hampered its realisation. That is why this plan was postponed until the forex crisis would be solved. Another investment entailed the replacement of the current H_2O plant by an environmentally friendly one with recycling facilities. The realisation of this investment, however, depended on the country's political and economic situation, which was problematic.

Making investments and improvements was vital in view of the constant developments in the production technology used to manufacture Coca-Cola. The investments involved employee training and keeping the firm's machinery up-to-date. As the leverage computations show, the company's capital structure gradually changed. Data on debt to asset ratio (DAR), long-term debt to asset ratio (LTDAR) and long-term debt to equity ratio (LTDER) indicate that the firm's debt reduced from a figure between 44 and 66 percent prior to privatisation to a percentage between 13 and 34 after privatisation. So privatisation clearly decreased the level of companies' debts.

7.2.1.3 Employment, training and benefits: Interview reports tell us that after privatisation the company's manpower increased by 42% (from 216 prior to privatisation to 316 in 2004). One of the HRA's tasks was the evaluation of employees and new applicants in collaboration with the departments. The HRA also formulated and standardised function descriptions for each function, and developed exams for new applicants. Further, CCC assigned a large budget to the training of employees working at all levels. Once the company was privatised, this training programme was initiated. It was based on the Coca-Cola quality system format (CCQS). This format offers guidelines in identifying the need for training in any given department, and provides instructions on how to prepare and execute the steps of the programme and how to assess whether they have been carried out properly. The type of training the employees received varied according to the type of job. Evaluation also formed part of the training. A British expert, who stayed for two years, supervised the training programme and helped in implementing the CCQS. CCC paid for his stay. Once RSBSC's staff and employees had acquired sufficient knowledge and skills, the expert left. What can be considered as a remarkable achievement of the company was that, in contrast with bottling companies in other developing countries, all of its staff and employees were indigenous people.

The production manager, Mr. Tewolde, indicated: *'The shareholders have hired qualified people for each position. Especially CCC stresses that all jobs should be handled by qualified people, including the accounting functions, so relevant information is available at all times. The CCC has no intention of hiring less qualified people to reduce the labour costs. It focuses on hiring local people and offers them intensive training to improve their skills in performing their activities.'* CCC's influence resulted in a larger focus on modern knowledge and technology as well as quality. And as already explained above, the new ownership pursued a policy aimed at the improvement of the employees' skills. In addition, the senior managers and some lower staff were sent abroad to Tanzania, South Africa and Germany to receive training and to promote the company. The staff members of the Finance Department were offered a 15 days course on how to work with the ‘Scala’ software programme. The Sales Department was planning to introduce supply management techniques. For this purpose a series of training sessions was organised. CCC provided RSBSC with manuals on training and reporting techniques and different styles of analysis as well as with guidelines on how to conduct its business successfully. The staff members’ training was specifically focussed on obtaining knowledge about their function in particular and the company in general. In this respect, the firm’s motto *‘The customer is king’* was an important issue. These initiatives had a favourable effect on the performance and morale of the employees. They were generally described as disciplined, dutiful, and capable of dealing with task-related issues in an independent manner. The Sales manager, Mr. Mahteme said: *‘The sales agents strictly limit themselves to conducting sales in the area assigned to them; they are extremely honest and disciplined, and follow their instructions carefully. They are committed to meeting their targets and conscious about distribution costs, which is why they plan their routes as economically as possible in terms of fuel usage.’*

Similar to the two case firms described in the earlier chapters, RSBSC suffered as a result of the border war between Eritrea and Ethiopia. In 1999 the company started to lose its young qualified employees. This was in particular a challenge to the Production Department, whose former staff members (technical school graduates and experts) had to be replaced by low-educated female recruits. By means of an intensive training programme, however, the female employees were taught all technical knowledge and skills required to work in this department. Their training was a success, making them worthy substitute workers. This was considered as a miracle. The company also managed to retrieve a number of its qualified employees after they had completed their military training. An arrangement was made in which it was agreed that the employees would perform their tasks for the military at the company. In turn the government collected their full salaries and paid them 150 Nakfa. Those who had completed their duties for the military but were held under its supervision for longer than the official period of eighteen months, were paid 500 Nakfa. This severe salary decrease put a great deal of strain on the employees and undermined their motivation, especially given the continuous rise in living costs. That is why the company decided to pay them an additional amount, by which their salaries were increased to 1200 Nakfa. Although this decision improved the employees’ economic situation, it raised the labour costs. The Sales Department mainly hired older employees to replace the former workers, which decreased the level of efficiency. To solve this problem overtime schedules were introduced.

Benefits: CCC particularly aimed at motivating the workforce. The benefits offered by the joint venture included a provident fund of 18% (12% paid by the company and 6% by the employees themselves), 85% of medical coverage (including family members), annual salary increments of 12% (9% compensation for inflation and 3% performance reward), bonus payments for good performance, work boots, coveralls and gowns, holidays, and free products. Most of these benefits were introduced after privatisation. The joint venture was the only company that offered their employees a provident fund until in 2004 the government introduced it on a national level. Another service to its employees was a canteen where employees could enjoy a free drink. In addition, the company supported its employees in dealing with the high costs of living by organising overtime work. Further, occasionally it organised entertainment. The firm also covered funeral expenses; the family of deceased employees received 4,000 Nakfa to pay for the funeral. In terms of salary payment and benefits RSBSC certainly distinguished itself from other local companies. The motto *'Coca-Cola is an employer of choice'* was therefore justified.

There were no problems with unpermitted absence. If employees wanted to take time off, they had to contact their immediate heads (as stated in the collective agreement), which they did. Giving prior notice was a rule. In this way the company could make timely adjustments to the working schedule. Although generally the base union (or workers' union) was satisfied with the benefits offered by the company, it had some points of criticism. For example, the new uniform of the salesmen was not warm enough, and the union did not agree with the way in which the 9% inflation compensation was calculated. A salary increase of 9% was not considered sufficient to compensate the high costs of living. Other options presented by the union were initially not accepted by the senior managers. It required some negotiation before the issue was satisfactorily resolved as far as the union was concerned.

7.2.1.4 Product-market decisions: During the public ownership period, the sales were conducted door to door throughout the country. In addition, private sales agents distributed the goods in Keren, Massawa and Tigray (northern region of Ethiopia). In Tigray demand exceeded supply, and therefore the production had to be accumulated. However, there was no area-specific planning and distribution system; the product distribution was mainly based on the 'first customer is served first' principle. After privatisation the sales practices became much more organised, and the agents appointed were well-trained. In addition, the number of distribution points was expanded. The agents also co-ordinated the sales activities in Asmara, Massawa, and Keren. Further, the company purchased new delivery trucks with a capacity almost twice that of the old vehicles (i.e., 416 cases per truck compared to 212 by the old trucks). The company also set up an ice factory that delivered ice to outlets at a minimum price.

The company's objectives were to increase its output and expand its market outside Asmara to improve its profitability. To stimulate sales, it distributed electric and kerosene coolers with its products, mostly in areas where there was no power supply. Further, it advertised its products, by, for example, posters designed by CCC and other promotional activities, such as radio advertisements. However, efforts were limited by the restrictions that the government had put on some promotional activities. In addition, the company invited experts to train its personnel. The focus was especially on improving the production planning and capacity and satisfying the clients' wishes. The Sales Department designed a distribution system, called the *route delivery* *system*. Each sales agent was given an individual distribution schedule containing instructions and a time table. In addition, the clients were informed about the day and times the products were distributed each week. In Asmara distribution containers were placed at convenient locations, so deliveries could be made at any day and any time (e.g. in weekends or during holidays), which was particularly useful in the case of additional orders. RSBSC sold fifty percent of its products within Asmara. In each town of the country there were distribution centres. The sales agents were paid base salaries plus additional commissions when they exceeded their daily sales target.

To expand its market share the company approached potential clients, for example bars, shops, restaurants and hotels, and tried to persuade them to buy its products. In addition, the Sales Department was planning to place kiosks in the villages and distribute vending trolleys (or push carts). The aim of these initiatives was to make the products easily available and clearly visible to the customers. The Sales Department also appointed marketing managers and supervisors who monitored the daily business activities. These staff members could undertake immediate action whenever anomalies occurred. CCC assisted RSBSC in its marketing activities. It had to approve of RSBSC’s requests to make use of the various methods to promote its products.

In order to stimulate its product distribution the number of depots outside Asmara, Massawa and Keren was increased. These cities formed the working area of the companies’ sales agents. In the other parts of the country private sales agents approached the outlets, although the company actually preferred its own sales agents. This had three reasons. First, the company’s own sales agents were more motivated and put more effort in their work. Second, although the firm offered the private agents grants and paid for their transport expenses, it was not able to motivate them sufficiently to increase the number of products they sold. And third, in line with the free market mechanism the private sales agents sold the company’s products to the outlets at different retail prices. So as soon as the country’s situation permitted the replacement of the private sales agents by company salesmen, RSBSC intended to start with this. The company also planned to open new depots at various places throughout the country in 2002 and 2003 and in Barentu in 2005. The 2002 and 2003 plans were hindered by a lack of forex. The firm’s main objective was that customers would pay the same prices for the products at each location, which was in line with its triple ‘A’ strategy: products should be ‘*A*vailable, *A*ccessible, and *A*ffordable’.

To increase its revenues RSBSC introduced new products. These were first tested and promoted by offering samples, usually during holiday periods. The new products included Tonic Water, Krest Tonic and Krest Soda Water. Following CCC, the company’s prime objectives were product quality and customer satisfaction. Therefore a great deal of attention was being paid to delivering the products in a perfect state, for defective goods could harm the company’s reputation. In addition to increasing its number of depots, RSBSC had a plan to support disadvantaged families by offering them the possibility to work in the distribution centres and kiosks in Asmara. The authorities concerned, however, refused to co-operate, whereas they did allow other organizations and businesses (e.g., Raymoc Lottery, shoe polishers) to make use of and work in these facilities. The expansion of the depots required an expansion of the control activities. The products had to be transferred to these centres and then delivered to the clients. Next, the empty bottles from a previous delivery had to be collected. This process was executed with the utmost care and thoroughness. In addition, any complaints on the part of the customers were registered and dealt with. Further, in addition to the expansion of the control activities, the sales performance as a whole was evaluated.

***7.2.1.5 Sources of raw materials*:** The Company imported concentrate, sugar, crown corks, crates, bottles, spare parts and lubricants. In accordance with the franchising agreement, the concentrate was purchased directly from CCC at a pre-determined price. In some cases negotiation with CCC about prices was possible, for example when the price level determined would affect the firm’s profitability or if it would make the product unaffordable. RSBSC bought concentrate from CCC in South Africa. It participated in the meetings of the regional bottlers, which were held on an annual basis to discuss the quality of the concentrate resource as well as packaging and shipment issues. CCC covered all the costs RSBSC made during the participation in these meetings. CCC had recently opened a procurement office in Kenya. Each year this office invited the resource suppliers to hold a presentation about the products they offered. During these presentations detailed information was provided about issues such as quality, prices, and service provision. The company obtained sugar and crown cork from authorised Indian and Italian suppliers, who were approved of by CCC. In choosing its resources, RSBSC made a careful selection based on quality, price, services provided by the supplier and transportation costs.

All authorised suppliers were held fully responsible for maintaining the quality standard of their output. If they did not succeed in doing so their contracts were terminated. Each year the company checked the suppliers’ prices for budgeting purposes. The purchase of sugar was organised regionally. RSBSC received its sugar supplies through contracts entered via the head quarter. It was important that sugar was delivered in containers rather than in open sacks. If there were any supply problems, CCC intervened. Similarly, there were strict procedures for goods purchased on the local market. Before placing an order, several offers were compared in terms of aspects of quality, price, delivery and transportation. In general, the raw materials were ordered on a quarterly basis.

There were no local firms that could produce crown cork, bottles, or crates. This is why the company was thinking of buying plastic crates from a local private manufacturer. Another issue was the water supply, which was often interrupted. As a result the company had to store its own water supply in big tanks to prevent production interruptions. To transport the water to these tanks it had to hire water distribution trucks. Just before concluding the joint venture agreement, CCC had already foreseen this problem and asked the GOE to support the company in looking for alternative sites. The GOE assured the company, however, that a new dam was under construction, which would take care of the water supply problems. In anticipation of this project CCC constructed an underground pipeline of fifteen kilometres long to connect the company with the main water reservoir located in a village called 'Adi Nfas'. But the connection was never realised. The company feared that water shortages would get worse by the time a second bottling line gets installed.

The company's production capacity was sufficient enough to satisfy the ample market demand. The major limitation was the lack of adequate raw materials due to the scarcity of forex. It took a long time to collect forex from the black market before an import permit could be obtained to order raw materials. This process was protracted and often caused production interruptions due to stock-outs. In addition, it quite frequently happened that the materials ordered did not arrive at the date arranged in the agreement. This was because the deliveries from, for example, South Africa were not shipped directly to Eritrea. They went via Dubai to the port of Massawa. Because of this detour, the company suffered from production delays that could run up to two weeks, which in turn resulted in extensive losses. Another setback was the Iraq war, which impeded the firm's import activities in 2003 because the Red Sea was unreachable during that time.

7.2.1.6 Changes in RSBSC's operating system: CCC designed a quality system to assist the company in improving its operating systems in three subsequent phases. This system was based on standard procedures and programmes. For each phase there was a detailed manual. Each manual offered steps to devise programmes and identify standard checking points. The company's management also encouraged the employees to come forward with ideas to improve the firm's operations. If these ideas were good, they were presented to the higher authorities for approval. In this way problems could be identified and reported. For example, if the operators of a system would find errors, they were expected to report them to the system's mechanics or designers. On the basis of the CCQS manual, RSBSC successfully implemented phase one, and was certified for it. After a phase was concluded, CCC sent a team of experts to check whether all steps had been followed correctly and the company was operating smoothly. In addition, the regional office conducted quality checks every quarter. After having successfully completed phase one, the company started with phase two. Phase two focussed on the more detailed implementation of the operating system and control mechanisms.

7.2.1.7 Government regulations**:** The GOE introduced a 15% *excise tax* on production costs. Excise tax was normally charged on manufacturing costs. So as a result the company's manufacturing costs rose. And since RSBSC could not raise its prices in view of its competitive position and the terms of the franchising agreement, its profits decreased. At the time when the joint venture was established, excise tax on beverages did not exist. In 2001, however, the GOE suddenly introduced this tax. This unexpected measure made CCC question the GOE's integrity and reliability. In addition, the DIR changed its tax policy in such a way that different tax rates applied to different income levels. In this respect, the interviews indicate that the country's situation was unstable, which made it difficult to predict what would happen in the future.

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

CCC used a control system widely adopted in beverage firms all over the world. It played a major role in the improvement of RSBSC's MSC practices. As in the previous two chapters, we will describe the MCS developments by integrating the influence of internal and external contextual factors.

7.2.2.1 Planning and Budgeting: During the public ownership period, the Beverage Corporation was in charge of drafting the policies for the beverage sector. In doing so, it did not recognise, however, the specific situation of each individual firm. So companies were forced to implement these policies, although they might not be suitable for them. If there were any problems, they had to report them to the MTI, but its response often took a long time. Companies were mandated to prepare a budget each year. CCC advised our case firm to prepare its budget more regularly to have more data available. Pre-designed forms were used to fill in budget estimates on the basis of actual performance data from the most recent three quarters. Due to the out-of-date machinery the company's production capacity was critically low. As a result, the sales budget was based on the production plan. The planning process for raw materials requirement and purchase did not change after RSBSC was privatised. The departments prepared their budgets, which were put together in a report and sent to the management. Then, additional budget requests were made for new machinery, the hiring of employees, salary increments, etc. Next, the complete budget proposal was sent to the Beverage Corporation via the MTI. After that, the budget proposals of sister firms were studied and compared, and often some changes were made before their final approval. All budget requests outside the operational scope were usually rejected. The implementation of the approved budget was monitored through quarterly reports. After liberation of Eritrea, budget approval became less important and was mainly regarded as a formality.

Each quarter RSBSC ordered its materials in accordance with the approved budget. The company collected offers from several suppliers and compared them. The supplier with the most favourable offer was selected, and the documents were sent to the former MTI for approval. If the MTI approved the offer, the materials could be purchased. This process was closely monitored by the MTI. The company was not allowed to make disbursements that exceeded 250 Ethiopian Birr. After each purchase a cheque had to be signed by the GM and the finance head, after which it was sent to the MTI. There it had to be signed by an auditor. This could take days, depending on how many cheques the MTI had to deal with. Apart from this procedure, however, there was not much bureaucratic interference. A more urgent issue was that the company had machine problems, which made it very difficult to meet the production targets.

Privatisation gave RSBSC the opportunity to handle its affairs in an independent manner. The departments and staff members fully participated in presenting ideas about how activities should be organised, realised and controlled. Each department was responsible for the way in which it carried out its tasks. They fully embraced this responsibility, and were dedicated to do what was required of them. The company also started with the preparation of a three year budget plan. During the course of this plan's realisation it was possible to review and adjust it whenever required by comparing sales and other data of a particular moment with those of a previous year. So in the case of sudden major changes, such as a shortage of forex or water, or power interruptions, budget revisions could be conducted within a year. After privatisation the budgeting process was decentralised. It started at the departmental level (area, depot and unit managers) and was finalised at the company level (heads, GM). The five year business plan formed the basis for setting the production target and for starting the budgeting activities. Once the production target was communicated to the Production Department, budgeting could commence. In the business plan issues were taken into account such as the maximum production capacity and sales forecasts. Each product line was assigned its own target. In preparing the budgeting proposals for the different product lines, the Production Department was well aware of the seasonal impact on sales. It also exchanged information with the Sales Department, which provided the Production Department with sales forecasts and brand-specific daily stock reports.

Issues playing an important role in the budgeting process were the sales forecasts, the production plan, the amount of raw materials required and purchase plans. Each department made its own budget. Other points of interest were operating expenses and manpower. The sales data helped formulate the sales mix, which generally was as follows: 67% Coca-Cola, 18% Fanta, 12% Sprite, 1% Krest Tonic, and 1% Krest Soda Water. Determining these percentages was crucial for estimating the amounts of concentrate that had to be ordered. Other relevant information required in the co-ordination of the production and sales activities included data on empty bottles and full stock. During the quarterly meeting with the BOD, either the GM or the Finance manager (Mr. Tesfamariam) presented the final budget proposal. In this meeting the proposal was explained in more detail and any questions on the part of the Board were answered. Additionally, performance reports that contain volume variance analyses of production and sales as well as day-to-day evaluations of CCC were presented. In reaching the decision whether or not to approve the budget, performance data of the previous year were useful to the Board. If the Board requested additional clarifications on audited reports, an external auditor was invited. A debate was usually conducted to sort out suggestions for improvement. The quarterly meetings were helpful for sharing ideas, getting instant feedbacks and for finding prompt solutions to problems.

In preparing its budgets the company used standard input requirements. It had full knowledge of the standard amounts of raw materials required for each product, such as concentrate, sugar, carbon dioxide, caustic soda and water. In addition, bottle breakages and the consumption of chemicals were taken into account. The company aimed at continuous improvement by gradually raising its targets. At an inter-departmental level plans were harmonised, taking into account all cost issues relevant to establishing the overall budget, such as production, purchase, labour, operating expenses, fixed assets, etc. If adjustments were made to the proposed budget in comparison to past year's actual amounts, they had to be explained and motivated. Once approved, budgets served for controlling performance.

There were four sales areas: the Central Zone, the Southern Zone, the Anseba and Gash-Barka Zone and the Red Sea Zone. Each area had its own area manager who co-ordinated and controlled the sales activities, conducted market studies and identified problems. Each area made its own budget. When planning product distribution, the data of the four area budgets were used. The Sales Department monitored the company's market share by comparing the trends in the previous two to three years. The salesmen participated in this process by communicating their observations and ideas with respect to future market opportunities and threats. The Sales Department's forecast covered a period of three years and was based on information about the factors that influenced the sales figures. The Regional Office also made an analysis of RSBSC's proposed sales plan, and shared it with the company.

The main factors impeding the realisation of the budgetary plans were the shortage of water, power failures, the loss of trained manpower (as a result of the war), and the abolishment of forex. The female employees who worked in the 14:00 – 22:00 hour shift were dissatisfied with their working hours. During these hours there was no public transport, and the women had to walk home at night, which they felt uncomfortable with. Another challenge was the breakage of parts, leading to production disruptions. Regularly, the company was faced with down time because of the delayed delivery of spare-parts, so that the maintenance work could not be carried out. This, in turn, was caused by the lack of forex.

7.2.2.2 Product Costing and Pricing:

Product Costing**:** The firm classified costs into three groups: direct costs, overhead costs (OH), and selling and administrative costs. OH costs were divided into three categories: production, sales, and administration. The company calculated the inventory costs by means of a weighed average costing method, and the product costs by means of process costing. The manufacturing costs were calculated per department and reported on a monthly basis to the Finance

Department. The monthly OH costs were aggregated and allocated to each product line on the basis of output in litres. The Finance Department considered this a fair method, since about 60% of these costs consisted of variable costs (e.g. indirect materials). Waste and drainage costs were not dealt with separately, but included in the manufacturing costs. The amount of waste was not significant. It mainly consisted of variation in fill heights resulting from filling the bottles (300 CC), inaccurate content of CO_2 and problems with the date-coding machine. These wastages were caused by mechanical problems and not by negligence. The Production Department considered these wastages as unavoidable and knew the standard yield of production per batch.

***Product Pricing*:** Both during the public and the private ownership period CCC influenced the price setting process. In both periods RSBSC determined the product prices (both at company and at retail level), which had to be approved by CCC as stipulated in the franchising agreement. The product price mainly depended on the price of concentrate. However, in accordance with the franchise agreement companies were not allowed to change their prices when the input prices changed. Customers would never accept sudden price increases and turn to cheaper substitutes or water. That is why the company maintained its price levels constant.

CCC closely followed the pricing policies, sales volume and profitability of its clients. It charged low prices for its concentrate to prevent its clients from increasing their prices, which would affect their firm performance and make the products unaffordable to the customers. This approach served CCC's own long-term interests. Generally, CCC set the price of concentrate at 27% of its clients' net sales revenue. CCC considered this a reasonable percentage. If client companies wanted to change their product prices, they had to negotiate this with CCC. The latter then reassessed the client's business plan and compared its net profit figures with its net sales figures. CCC's criterion was that net income figures should remain between 10 to 12% of the net sales figures. If the net income dropped below the amount required, in the case of inflation, or if clients incurred losses, negotiation with CCC was possible. The effects of inflation mainly presented themselves in the costs of raw materials, spare parts, fuel and power.

At a certain point, CCC increased the price of concentrate to 200 U.S. dollars. Consequently, RSBSC had to increase the retail price of its beverages from 2 to 3.50 Nakfa per bottle. This measure induced a strong reaction on the part of consumers. They did not accept this price increase, arguing that the products had become too expensive. CCC therefore again reduced the price to 180 U.S. dollars. But in November 2003, it wanted to raise the price of concentrate again. This, however, did not happen. In 1997 the product price was 27.80 Nakfa per case. Between 2001 and 2003 there were some price fluctuations due to the high inflation level and the price per-case finally reached 62 Nakfa. Mr. Mahteme indicated: *'The price increases and inflation have contributed to the sales decline.'* A general policy of the company was to closely monitor its performance in relation to the product prices.

***7.2.2.3 Internal reporting and Decision-making*:** Before the introduction of privatisation, the daily production reports did not include information about line utilisation and machine efficiency. Only quality control was dealt with. During the public ownership period the recording and reporting procedures were not yet computerised, which caused considerable delays. In addition, the MTI did not provide the company with sufficient feedback. After the country's independence, the Finance Department informed the GM about the company's daily cash movements on the basis of rough calculations. The firm's Statistics Unit sent monthly, quarterly, and annual (financial and statistical) reports to the MTI. The company was not sure; however, whether the MTI actually viewed these reports, since it never received any feedback. The completion of the annual reports usually took six or seven months, and they were relatively concise as compared with the later ones. So due to the lack of computerised internal reporting systems, there was no up-to-date information of any sort available.

After the firm had been privatised, its employees were taught how to work with the internal reporting forms designed by CCC. In the past they had never received any training in that area. In addition, the description and formulation of jobs and instructions became much more specified. Moreover, the internal reporting systems became much more advanced and the departments were connected in a network. Further, new forms were introduced, such as the customer complaint form.

All departments sent their information about the movement of resources (materials, bottles, cases) and output to the Finance Department. The Production Department prepared its reports on a daily basis, covering issues such as labour and machine efficiency, line utilisation, reconciliation of bottles and crates and the functioning of key machine parts. The department continuously monitored these parts, for it was important that they remained in good condition. Information regarding the consumption of concentrate, CO_2, sugar, H_2O, chemicals, and crown cork were reported and evaluated per batch. On a weekly or monthly basis this information was sent to the Finance Department. In addition, the Production Department sent daily reports to all departments and the GM. Further, reports were made on the syrup preparation per batch, the hourly production per shift, the filler down time per shift, the daily and weekly rejected bottles and products, and bottle breakages. The performance of the employees was monitored by means of a performance progress control card, and a bi-annual manpower performance report.

The GM also received reports on the consumption of the resources as well as on overtime. Overtime reports facilitated the planning procedures. Further, he received daily performance reports on production, sales, the stock balance, and quality control. To remain informed about the maintenance of the machinery he received copies of the request forms that were sent to the Maintenance Section. Each month the GM and the senior managers held a meeting to discuss the departments' action plans. These plans included issues such as possible measures to improve performance, the detection of problems and possible solutions, and suggestions for the future. CCC was authorised to monitor the day-to-day activities of the company including managerial duties on the basis of the daily reports it received. It also received the monthly, quarterly and annual reports. The BOD received detailed financial statements and performance reports. It discussed this information in quarterly meetings. One of the effects of privatisation was that it brought the managers and the shareholders closer together and reduced information asymmetry.

The processes of recording and reporting information were improved by the introduction of computers and better software packages. This system was faster and more user-friendly, and old data could be retrieved easily. Further, storing of bulk data and conducting of analysis became easy. File keeping has been significantly reduced. Initially there was some resistance to this measure, but gradually everyone approved of the new system. The company had Internet facilities (cable lines, a MIS unit, and a webpage), but it had no access to the possibility of online information transfer because it still had to obtain a gateway. The departments sent their daily reports to the regional office via email. The monthly financial statements and performance reports that were sent to the regional office included issues such as targets, profits, production, sales etc. Other means of communication were the telephone and the fax. The quick exchange of up-to-date information was considerably improved through these means, and both local and foreign visitors regarded the firm’s accounting and MCS practices as efficient and thorough. The GM encouraged all departments to take initiatives aimed at further improvements.

Each department had its own computer unit to record data and prepare the performance reports. The staff members were instructed on how to use the software systems and the Internet applications. In 1999, the ‘Scala’ software package was installed. RSBSC’s new owners were clearly more information-oriented, and the know-how of the company as a whole increased considerably. All business processes were computerised. When the computer systems were installed, the business data were still recorded manually for about two months, during which time the staff members received computer training.

By computerising the business processes the company was able to operate much more efficiently. For example, the register cards, general vouchers and stock cards used by the Finance Department were replaced by electronic documents, which could be accessed at any moment in time. In the past, the Finance Department had to arrange a meeting with the storekeeper or purchase manager if records had to be cross-checked and compared, which took a great deal of time and effort. Now all documents were directly available and could be sent directly to all parties concerned.

The performance of the area managers and the outlets was also monitored by reports. The detailed level of reporting and control was made possible by the departmental restructuring initiated after privatisation. The Sales Department based its monthly and annual reports on the information collected each day on sales as well as on full stock and empty stock. These reports were sent to all departments and the GM. A boiler operator, Mr. Simon, stated that during the public ownership period procedures for recording information did not exist. Now he registered his activities on a daily basis and if there were any problems, he could report them.

The Quality Control Department (QC) also prepared daily reports, which had to be signed by the production manager and the maintenance manager before they were sent to the GM. These reports facilitated a timely detection of faults and problems. Moreover, through this procedure the shift supervisors were immediately informed if, for example, for some reason the production had to be stopped. In the past, the maintenance manager was informed afterwards in a memo if problems occurred. With the new system, information was transferred more quickly and the paperwork was reduced. Additional daily reports that the QC Department prepared were: H_2O-reports (dealing with alkalinity and hardness levels), chemical and parametric reports, QC charts, CO_2 check-ups for density and odour, and statistical process control reports. In addition, each week a report was prepared in which problems were listed and possible solutions were communicated. This report was also sent to the GM and the regional office. Most of these reports did not exist during the public ownership period. The intensive exchange of information by means of detailed reports clearly improved the company's business operations and reduced the number of problems.

***Decision-making*:** During the public ownership period, the company's management committee was generally responsible for making the decisions. The management committee consisted of the senior managers and the GM. Issues of major importance, however, had to be submitted to the MTI. When the firm was privatised, each manager was assigned some degree of responsibility, but sometimes it was not exactly clear which issues had to be dealt with by the departments and which matters should be referred to the GM. If this was the case, the department in question discussed the matter with the GM, and a decision was made as a team. In general, privatisation increased the authority of the senior managers. They now had more freedom in executing their daily tasks and in creating incentives to motivate the employees to achieve their targets. In the case of emergencies, the managers could take immediate action without consulting a superior. However, the ultimate decision-making body was the BOD, which was in charge of all large-scale investments. The BOD also ordered the GM to investigate by means of an investment study whether is was possible to establish a second bottling line. New bottling machinery could be purchased in Germany or Italy. The GM completed this study, but the investment was postponed because of the forex issue.

***7.2.2.4 Cost Control and Waste Minimisation*:** Cost control mainly focussed on direct materials, direct labour, and factory overhead. The amount of actual direct materials consumed was compared against standards. Similarly, the actual yield of concentrate was compared with standard. In addition, the purchase and store units checked the inventories on a daily basis. Further, the storage, unpacking, and use of sugar were checked systematically. It was important that with each batch the standard amount of sugar was used. Each month the Production Department held a meeting in which the performance reports were discussed as well as particular issues and problems.

The section heads and the HRA were in charge of monitoring the labour productivity, which was determined by computing the output per man-hour. The average standard productivity rate was 45 cases per man-hour. If this standard was not met, it was considered as a sign of inefficiency. The HRA assisted the departments in taking manpower decisions in accordance with the collective agreement. If there was a conflict, it played an intermediary role by bringing the employee, the direct boss and the department head together. The focus was always on resolving a conflict in an amicable manner. The collective agreement also stipulated that at least once a month a plenary meeting had to be held in which the employees were kept informed about the developments within the company. In these meetings the employees were free to raise any work-related topic they had on their minds. According to Mr. Issac, these meetings were very effective, since they provided the firm's management with a broader insight into the issues that engaged the employees. These meetings revealed more information than the bi-annual performance reports.

The electricity and water resources were periodically checked. However, the company still sometimes faced power failures, which severely affected both the production process and the product quality. Power failures often caused resource waste. Whenever the power was interrupted, an alarm went of and the exact time of the interruption was recorded. Products that were manufactured during that time had to be checked. To improve this situation, a power generator was installed. The factory OH costs were controlled on the basis of line utilisation computations indicating the usage of the machinery. The line utilisation had to be at least 76%. After the introduction of privatisation, the intensity of control increased considerably. More attention was being paid to cost analysis by comparing the actual costs with the budgeted costs and finding explanations for variations. To maximise the product quality, the Production Department thoroughly checked the processing of each resource (concentrate, syrup, sugar, CO_2, and H_2O) before the beverage was transferred to the bottling machine.

Mr. Mahteme indicated that wastage was mainly caused by the breakage of bottles and cases (about 500 to 600 bottles a month). Bottle breakage usually occurred during loading and unloading, and washing. In addition, a percentage of the bottles were broken in the bottling line. To deal with this problem, the company established a Breakage and Sanitation Committee, which had to report its findings directly to the GM. After the establishment of this committee the breakage of bottles reduced significantly. The employees of the empty bottles storage became in charge of checking the broken or damaged bottles and cases. They received commission for each breakage they detected. Also the salesmen were encouraged to check the bottles for breakages when collecting them from clients. According to the GM, Mr. Tesfai, the employees and salesmen were doing their work in a satisfactory manner. More insight had been gained into the causes of the breakages, for which appropriate measures could be taken. The tasks of the committee were more extensive than only monitoring bottle breakages. It also reported on health problems or accidents of employees, it monitored the distribution of the work clothes, and checked the work of the janitors. The TU was pleased with the progress the company had made.

The company was actively focussed on cost minimisation. However, it stopped paying its contributions of 5 cents per bottle to a compensation fund established during the public ownership period. This fund was meant to financially support firms, but the compensation amounts never reached the beneficiaries.

During the public ownership period, the company's machinery was defective. Spare parts had to be often replaced or repaired, and leakage as well as the evaporation of CO_2 was common problems. The firm's quality results were less than 50%. A management accountant (Sara) said: *'There was wastage resulting from spillage that was drained or consumed by employees. But the Production Department adjusted the filling height when the wastage problem became significant. This action was not supported by the QC Department, which led to conflict.'* By the time privatisation was introduced, more insight had been gained into the causes of the wastage problem. These causes were poor maintenance, negligence on the part of employees, fill height errors, bottle bursting, crowning problems, and date coding errors. So supervision was very important in this area, which was conducted by shift supervisors, the bottling line manager, the maintenance supervisor and the production head. Much effort was put into making the employees aware of the wastage problem through, for example, regular meetings and training. If the employees detected a problem, the machine was stopped and the down time recorded. In addition, the QC Department took random samples of the beverages each hour, and if a problem occurred, the frequency was increased. Products that did not meet the standard were drained. The company considered a daily loss of five cases as normal.

CCC was also closely involved in the process of quality checking. Only a quality level of 100% was accepted. Each month CCC took random product samples from the market to conduct its own quality checks. CCC's five quality parameters were: fill height, the product's microbiology, its gas volume, its appearance (colour), and its taste. For each product scores were assigned to these parameters, which were multiplied. In this way the products were rated, and their final scores were recorded on quality certificates, which were sent to the bottling firms. So in order to realise the quality level required, all parameters had to have a sufficient score. Based on the five quality criteria, the products of several beverage companies in the region were compared.

RSBSC was one of the firms that received a gold medal for meeting the budgeted targets and producing quality products. CCC offered bottling companies advice to help them improve their quality levels. If problems could not be solved, CCC sent experts to assist the firm in question in finding a solution. If companies underperformed, they received a warning. If their performance did not improve they could lose their licence. During the public ownership period, our case firm had major quality problems. Mainly because of its obsolete machinery it was impossible to meet the quality criteria. After privatisation the situation improved significantly. Now RSBSC achieved a 100% quality score. The only problem the firm faced was that the bottles were wearing out. Until 2001 the company had bought new bottles each year, but after that it could no longer do this due to the forex problem.

7.2.2.5 Performance Measurement and Evaluation**:** In the past neither the Beverage Corporation nor the MTI actively monitored the activities and profitability of the public firms. Their main concern was that the bottling firms met the production targets set by the government. However, if the companies did not succeed in this, no corrective measures were taken and no advice was given to them on how to improve their performance. A major problem was the lack of up-to-date information, which made it very difficult for the GM and the government authorities concerned to conduct adequate control policies and take the right decisions at the right time. This lack of information was due to the fact that the data were processed manually, as a result of which the financial reports were constantly delayed.

After the sector was privatised, it became a common procedure to make weekly and monthly volume variance analyses. Actual performance figures were compared with both the planned figures and with those of the previous year. The Finance Department prepared monthly, quarterly, and annual performance reports for each activity and expense item. With respect to production, line utilisation and efficiency of the machines was assessed. In addition, the actual use of resources was compared with the amounts budgeted. In the reports possible variances were analysed and explained. The reports were also used internally to identify unused budget amounts and to enable departments to take corrective measures. The unused amounts were transferred to areas where there were shortages. The quarterly financial statements and the variance analyses were sent to the GM and the BOD.

Taking into account the factors that slow down the production process, such as power failures and fluctuations in the employees' production level, the expected line utilisation was 76%. Absenteeism was also registered. In addition, each month the employees were evaluated. And if an employee had a complaint about a co-worker, this was also recorded. In the case of errors and faults, employees were first given a warning by the supervisor. If the employee's performance did not improve, he or she received a written warning. If this did not help, the complaint was reported, and the employee had to sign a written report that was used as evidence in case his or her malperformance occurred again. If the situation did not improve, higher bodies were informed. They would then take action in accordance with the collective agreement. Reports of this kind limited the possibilities of promotion and bonus payouts.

Two times a year the unit heads filled in evaluation forms, which had to be signed by the employees themselves. If an employee did not agree with the evaluation, he or she had the right to ask for supporting evidence. Once signed, the evaluation form was sent to the department head, who also had to give his approval. He was entitled to make some more adjustments if necessary. If an employee disagreed strongly with the evaluation, the unit head was approached to discuss the matter. Mr. Tewolde indicated: *'Employees are expected to be committed at all times. Failures cannot be ignored and there is no room for manipulation, because that would create a chain effect. The people in charge should be impartial and nobody should be excused when appropriate action has to be taken. Still, employees are advised to support each other, and no one should survive at the expense of another colleague.'*

A fork lift operator, Mr. Jemal, said: *'The employees are considerate, friendly, and have a habit of assisting each other. They advise one another when things go wrong. However, sometimes there are complaints about people who fail to share the workload equally with their colleagues in the bottling line. Such complaints are usually settled without involving higher authorities.'* And Mr. Simon (a boiler operator) and Ms. Ghidey (a packer operator) added: *'The employees are hard-working, either under supervision or when working alone, and they become worried when the work stops due to machine failure. During the public ownership period, the employees were very co-operative, and at times they would help colleagues in other sections. They then used to gather in the department that faced the problem, which hampered the work in the other departments. This wandering around looking for help stopped after the introduction of privatisation, because now everyone is instructed to perform the tasks laid down in their job descriptions.'*

The HRA was of the opinion that punishment did not necessarily result in correct behaviour; it should be the last resort. The HRA manager, Mr. Isaac, said: *'It is always advisable to take steps in the form of advice and warnings to improve their performance. Instant punishment would only frustrate employees and give rise to confrontations and undesired behaviour.'* RSBSC conducted its personnel policies on the basis of CCC's guidelines. Ms. Ghidey stated: *'The productivity of the employees is influenced by the speed and condition of the bottling line. The employees do not feel any pressure and they are doing their best.'* Besides the labour control methods, senior managers believed that the chance of success would be higher when the company has swift management system, rigorous maintenance schedule and alert workforce.

A common procedure was that senior staff members of the Sales Department made inspection tours to the various areas to speak with the area managers and the sales agents. The area managers controlled the performance of the sales agents with the aid of the daily sales reports. If an agent’s performance was not satisfactory, the department allowed a second sales agent to operate in that area to stimulate competition. If after repeated warnings the sales agent’s performance did not improve, the company took his or her licence. If the sales report showed that there was a significant difference in the planned and the actual performance of a sales agent, the GM was authorised to take immediate action.

The production report that the GM received was more detailed and included information based on key performance indicators, such as line utilisation, case per man-hour, machine efficiency, sugar yield, concentrate yield, CO_2 yield, and the litres of H_2O per bottle. Machine efficiency also included fuel usage per litre of beverage, the kilowatt hours of power used per litre of beverage, the crown cork yield percentage, and the bottle breakage percentage. The performance indicators had a minimum and a maximum value. If the value of an indicator was below the minimum this was considered as underachievement, which had to be investigated. The reports made by the QC Department included information regarding the activities as well as the CO_2 and H_2O plants. The QC Department conducted quality checks at different intervals.

The production process was fully computerised. It included activities such as filling, crowning, date coding, Para mix, bottle counting, washing the bottles and controlling their temperature. Since the products had to be manufactured within a given deadline determined by the customers and the various production steps were automated, the employees could not afford to dawdle or be idle. They did, however, not oppose to the company’s system of supervision and control. Because the date coding machine did sometimes not function properly, the employees had to record the times they started and finished each task. Initially, some employees skipped recording their times to avoid a reprimand. However, during their training and in monthly meetings they were convinced of the usefulness of this activity. Employees were also expected to report machine failures if they occurred.

***Financial and non-financial performance*:** The Company used a number of financial and non-financial criteria to assess its performance, such as line utilisation, machine efficiency, package (bottles and crates) quality, customer satisfaction, the number of defective products, the manpower status, motivation incentives for employees, on time delivery, and yield levels. The Sales Department distributed a questionnaire to a number of clients to evaluate customer satisfaction. Clients were asked about issues such as delivery, product quality, and the relationship with the salesmen. In addition, sales data of different outlets were compared. Further, both cash and non-cash items were analysed. Until 2000 the following items were calculated: current asset ratios, asset turnovers, the direct materials inventory, liquidity ratios, profitability ratios, and working capital turnover. As from 2000 they were no longer checked because the shareholders no longer considered this information as useful.

To investigate the changes in firm performance in both the pre- and post-privatisation periods, we performed some financial analyses on the following variables: profitability, productivity, operating efficiency, output, and tax payments (see table 7.1). Taking 1993 as the base year, we can see that until 1996 there was a constant sales growth. In 1997 and 1998 the sales declined because in that period the firm was taken over. From 1999 onwards, they increased again to reach their highest level in 2003. By then the sales figure had grown with 1,077 percent compared to the base year. The company ascribed the increase in the sales volume to measures such as investments in modern machinery, the introduction of a second work shift, the increase in the number of sale agents and delivery trucks, the expansion of the business area, and marketing activities (advertisements, subsidy on transportation costs, etc.) RSBSC believed that the market was by no means saturated yet and that the demand for its products would only grow. Other profitability criteria that we used were return on sales (ROS), return on assets (ROA), and return on equity (ROE). According to these criteria the firm's profitability was higher during the public ownership period. In fact, in 1998 the figures were negative. This low performance could be explained as follows. First, the operating income figures differed significantly in the two periods. During the public ownership period, the cost of sales ratio was relatively low. Second, before the firms were privatised, the value of the fixed assets was extremely low because the machinery was obsolete. After they were privatised, the investments made increased the value of the assets and equity (see Appendix-C). In 1998 the value of the fixed assets increased with 98,072,880 Nakfa (81 percent equity and the rest bank loans). In addition, the increase in investments led to a proportional increase in the depreciation expenses. Third, in the period from 1996 to 2003 the commodity prices increased more than 133 percent due to inflation (see Appendix-C). Further, in 1993 one US Dollar was the equivalent of about 7 Ethiopian Birr (the currency used before the introduction of the Nakfa in 1997), and in 1993 one US Dollar was equivalent to 23 Nakfa. The inflation and the lack of access to forex greatly affected RSBSC's activities, especially its import operations. In addition, these circumstances considerably increased the company's expenses. In 2002 there was a sharp decline in the firm's profitability, which improved again in 2003 as a result of increased sales volumes and adjusted product prices. After privatisation the company's business costs rose due to salary increments (12%), discounts offered for transportation costs, high tax levels, and public utility and telecommunication expenses.

The ROS figures (based on operating income) ranged between 45 percent in 1993 and 37 percent in 1996, but decreased in the period from 1999 to 2003 to rates between 5 and 14 percent. A low rate of return was quite normal during the transition period because of the investments and depreciation expenses and the fact that the company was not yet running at its full capacity. This is illustrated by the sales trend and productivity figures listed in table 7.1. In the period from 1993 to 1996 ROA ranged from 19 to 23 percent, whereas from 1999 to 2003 it declined to figures between 1 and 6 percent. ROE percentages ranged from 19 to 23 percent from 1993 to 1996, but declined to between 1 and 10 percent in the period 1999 – 2003. The labour productivity (revenue per employee, see table 7.1), however, increased during privatisation. During the public ownership period the figures ranged from 77,700 to 128,900 Nakfa, and during 1999 to 2003 they increased to amounts between 182,100 and 305,900 Nakfa. Also RSBSC's sales efficiency improved considerably after the firm was privatised. In the period 1998 - 2002 there was a steady increase. However, in 2003 there was a decline in performance. During the public ownership period the net income efficiency figures were higher than after privatisation. The firm's output was poor from 1993 to 1995 compared to 1996, although each year it improved. The 1999 output figures were three times higher than those in 1998. This increase continued throughout 2002, after which there was a slight decline in 2003.

Like all Eritrean firms, RSBSC had to pay various kinds of taxes to enhance the government's income. During the period under study (1995 and 1996 excluded), the firm's tax payments (tax per unit of sales) amounted to more than 20 percent of the sales revenue. From 1998 to 2000, sur-tax was added, resulting in a tax rate of higher than 27 percent. Although this was a considerable burden, the company put a great deal of effort into keeping its business running smoothly. In this respect, it benefited from financial as well as non-financial evaluation tools. Mr. Isaac added: *'The major success factor in running a business is the background of the owners. If the owners possess the necessary qualities and experience, they can make the enterprise successful. Otherwise, if they lack leadership they will cause failure.'* CCC with its wide experience, the team of qualified senior managers and the motivated employees all contributed to RSBSC's success. In a similar vein, Mr. Tesfai remarked: *'Many private firms have problems associated with the background of the owners, because most of them lack the know-how required to run such businesses. These owners should compensate their weaknesses by hiring qualified well-paid and motivated people. However, some of them carry out all the activities themselves, such as those carried out by the manager, finance head and administrator. And those who hire experts do not give them enough freedom to apply what they know. All these factors contribute to the collapse of many privatised enterprises.'*

The type of MCS currently used by the company could mainly be described as a combination of diagnostic and belief systems with some elements of an interactive system (Simons, 1995). The company exercised planning and budgeting methods, standard costing tools, and cost control and periodic performance evaluations. The firm uses both financial and non-financial information in its control practices. These are elements of a diagnostic system. The second nature of the current MCS practice includes the commitment to total quality, customer satisfaction, and reduction of costs and wastage. Customers were viewed very important and quality was the distinctive nature of activities in the whole input-output chain. This shows the application of a belief system. Further, the present MCS practice exhibits some characteristics of interactive system. The company allowed lower managerial levels to participate in the planning and budgeting activities but they were not expected to introduce major changes in the face of perceived opportunities or threats. The autonomy of lower levels was limited and that they do not have absolute freedom to set targets for their area. Normally, the planning and budgeting activity was controlled by the regional office of the CCC and targets were always negotiated with company managers. On other issues the organisation has taken some initiatives to solve the transparency problems when dealing with agents to import resources using forex from parallel markets. Such initiatives were taken by the managers when challenged by sudden government regulations.

7.3 Developments from the beginning of 2003 until mid 2005:

Government regulations**:** RSBSC expected to be granted unrestricted access to forex by the government in the implementation of its business and investment plans. Around November 2001, however, the government abolished the forex services, which forced the firm to look for alternative forex sources on the black market. The company started to import raw materials with black market forex purchased at 23 Nakfa per US dollar, and recorded the materials' value at the official bank rate (14 Nakfa per US Dollar, see IMF, 2003a). This affected the accuracy of the firm's records and undermined the cost principle. RSBSC decided to keep the difference separate in a *'loss on exchange'* account. However, the tax office was not willing to treat this amount as an expense, so the company had to pay tax over it nonetheless, which affected its profits.

Table 7.1 ***Firm performance of the Red Sea Bottlers Share Company during the pre- and post-privatisation periods (1993-2003)***

Measures		**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Profitability	Sales Trend	100*	125.22	148.14	165.84	147.04	141.12	386.97	568.15	781.59	1033.87	1176.99
	ROS1 (%)	45.07	44.21	41.82	36.86	21.47	(6.67)	7.04	12.98	13.67	4.86	10.97
	ROS2 (%)	22.41	24.13	25.71	22.66	12.63	(8.29)	2.71	6.14	7.96	3.04	6.84
	ROA (%)	22.80	21.80	20.86	19.34	2.38	(1.28)	1.04	3.15	4.87	2.50	5.75
	ROE (%)	67.49	39.09	58.43	57.17	2.73	(1.61)	1.42	4.51	9.96	3.66	8.56
Productivity	Revenue per employee	77,706	97,305	115,115	128,865	110,033	70,769	182,135	234,698	280,391	305,919	275,596
Operating efficiency	Sales	76,877	96,743	114,751	128,478	110,033	70,769	182135	234,699	280,391	305,919	275,596
	Net income	17,228	23,346	29,498	29,113	13,897	(5,866)	4,942	14,414	22,318	9,313	18,858
Output	Real Sales (%)	59.84	75.30	89.32	100*	85.64	78.29	201.49	259.64	310.18	338.42	304.88
Employment	Trend (%)	N.A.	N.A.	N.A.	N.A.	100*	142.13	142.13	142.13	142.13	142.13	142.13
Leverage	DAR	0.6622	0.4422	0.6431	0.6617	0.1276	0.2055	0.2678	0.3013	0.3432	0.3157	0.3278
	LTDAR	0.0862	0.0899	0.1107	0.1380	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
	LTDER	0.2551	0.1612	0.3103	0.4078	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Capital investment	CES	N.A.	N.A.	N.A.	N.A.	0.3717	4.3495	0.1655	0.1357	0.0208	0.0011	0.0331
	CEA	N.A.	N.A.	N.A.	N.A.	0.0702	0.6709	0.0636	0.0697	0.0127	0.0009	0.0279
Tax	TPUS	0.2266**	0.2008**	0.1611**	0.1420**	0.3324	0.2698	0.2718	0.2777	0.2782	0.2960	0.2917

Notes:

ROS_1= return on sales [based on operating income figures], ROS_2= 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.

* 1993 functioned as the base year for observing sales trends. 1996 was used as a base year since it was the most stable and productive year for the enterprise during public ownership. Similarly, 1997 was used to study the trends in employment since it was the oldest record available.

** The amounts indicated for the years 1993 to 1996 include only annual taxes. Total annual taxes and duties are reported for the remaining years (1997-2003).

N.B. The amounts of labour productivity and operating efficiency are in Eritrean Nakfa [ERN].

The full range of data sources and the detailed computations that accompany table 7.1 are presented in Appendix-C.

CCC allowed RSBSC to obtain forex from parallel markets by placing official bids to avoid problems with the tax office. These bids were announced in newspapers and directed at interested businessmen who could import raw materials with their own forex and receive payment from the company in local currency. Interested bidders were informed to buy the raw materials from authorised suppliers. An agreement had to be reached on the exchange rate as well as on the importer's commission charges. This process was supported by an auditor. In this way the company managed to import its raw materials for 2003. The black market rate was high, unstable, and stimulated inflation, thereby affecting the prices of the imported raw materials and the manufacturing costs. However, not obtaining forex also undermined the business operations, while the same applied to delays in shipments. In addition, the rising costs of fuel increased the transportation expenses. Obtaining forex on the black market helped the firm for some time, but in 2003 the government issued another regulation, which ordered enterprises to acquire an import permit and open an L/C account with their own forex for making their payments. This measure hampered the role of import-export business that offered firms assistance in dealing with valuation and tax problems.

The situation became really difficult when in 2004 the government prohibited firms to buy forex on the black market. The GM approached all government banks as well as the HIMBOL Exchange Bureau both in person and in writing to persuade them to grant RSBSC access to forex, but they did not respond. He then brought the issue to the attention of the Ministry of National Development (MND). The situation was also reported to both shareholders. Mr. Tesfai commented: *'It is necessary to keep pushing, be aggressive and obstinate, and make the authorities concerned understand the problem. Waiting patiently for solutions is of little use.'* Finally, RSBSC was given a one-time access to forex in 2004. The company continued its negotiations with the BOD and responsible government bodies. Eventually, however, the situation became so severe that by the end of 2004 the firm had to close down the Massawa and Keren depots. After that the product distribution was limited to Asmara and the surrounding areas. In the beginning of 2005, RSBSC formulated a plan to reduce its manpower. Finally, around May 2005, the company terminated its operations.

Mr. Tesfai indicated: *'The country should be in the position to offer soft drinks in view of tourism, although it is not a top priority item, like food and medicine. If soft drinks are not manufactured locally, businessmen will import them. This means the outflow of forex from the country. So why should we not have our own drinks rather than paving the way for import? After all Coca-Cola is a global product fit for the tourism industry, which the GOE strives to expand.'*

In 2004 the government put restrictions on the distribution times in the centre of Asmara. The delivery of the products to the outlets in the city centre was only allowed from 6:30 to 9:00 a.m. on weekdays. In the evening products could be delivered freely. Mr. Mahteme explained, however, that serving a client correctly involved a number of activities, including greeting the client, checking the stock supplies, informing whether there were any problems or complaints regarding the services and products, checking the empty bottles, delivering the product items, and issuing the invoice. This process took about twenty minutes per client. Mr. Mahteme argued: *'The new delivery restriction puts major limitations on the distribution schedule and severely affects the sales revenues and distribution costs. Firstly, it is impossible and would be unfair to force the staff members of outlets to get up so early in the morning to collect the products. After all the company's first goal is customer friendliness. Secondly, the sales agents cannot reach all clients within this restricted time frame while carrying out the usual sales procedure. Finally, the restriction will cause great concern about the working hours of the salesmen.'*

The company tried to convince the authorities of the difficulties that the delivery restrictions would cause, but they were not willing to negotiate. RSBSC also addressed its complaints to the MND and showed them its product distribution chart. The MND was surprised about the introduction of the restriction measure and advised the company to discuss the matter at the Mayor's office. There the authorities argued that the firm had to increase its number of distribution trucks. RSBSC indicated that it had to deliver its products to about seven hundred outlets (bars, cafés and restaurants), and that the restriction was not acceptable. Finally, the GM decided to ignore the restriction and to continue with the usual distribution schedule.

Before privatisation the DIR ordered companies to register all the products sold to the different outlets. Based on this information the companies' income was estimated as well as the annual tax amounts. After the firms had been privatised the DIR continued this procedure. At times it asked firms for records of specific past years. If companies complained about the tax rates, the DIR referred to the records. To RSBSC this practice meant an unnecessary increase in its workload and extra pressure. In addition, its clients did not approve of the fact that the company allowed the tax office to inspect its private information. Some of them even stopped buying RSBSC's products. For this reason the company urged the DIR to carry out the tax assessments in a different way. It also asked the DIR why it did not order the local import-export traders to keep similar records. The company indicated that it was not willing to keep client records if the local import-export traders were not ordered to do so. However, the DIR did not take the firm's arguments into consideration and simply forced it to co-operate. In 2003 the tax office obliged the entire business community in Eritrea to register its client data and bills, which RSBSC perceived as a slight relief.

For a concluding summary of the post-privatisation changes and developments at RSBSC, refer table 7.2.

Table 7.2 *Summary of post-privatisation developments at RSBSC*

General Changes: 1. Employment, training & benefits	- employment had increased but lack of skilled manpower was a concern - employees got better salaries, benefits, annual increments, bonuses, and regular training - employees had become committed, responsible, and conscious of quality, cost, and duty
2. Product market decisions	- sales department emerged well organised and stronger, strived on expansion of market area, hired and trained sales agents, and extended assistance to outlets - the CCC offered regular marketing support - strategy focused on availability, accessibility, and affordability of products, customer satisfaction, high quality, and introduced new products - production and sales activities were affected by government regulations
3. Source of raw materials [RM]	- dependent on imported RMs from authorized suppliers - water supply and delays in shipments were a challenge - impact of government policy on forex, customs, record keeping, and taxation was harmful
4. Organisation structure	- size increased and the number of departments and sections were expanded and gave rise to large capacity that facilitated MCS practice changes - hired qualified managers for top positions and empowered lower managers - little problem from gray-area of autonomy between departments and the GM
5. Investment	- more autonomy to decide on investments brought great changes - the firm was built completely new with automated bottling line and new delivery trucks - investment reduced wastes, improved quality, productivity, and efficiency and significantly reduced leverage
MCS Changes: 1. Planning & Budgeting	- utilized formal [long-term and short-term] planning and budgeting tools, updated regularly - sales forecasts were made recurrently - employees were rewarded based on performance results - information on standard input-output relations was used for planning and control
2. Product costing & Pricing	- product prices set at company and retail levels were kept constant in line with CCC policies - the CCC intervened when profitability deteriorated and/or inflation affected costs - costs were significantly affected by external contextual factors
3. Internal reporting & Decision-making	- reporting to MTI was standardised - the company adopted standardised coca-cola recording and reporting system - internal reports and customer feedback were used frequently - use of computers and software programs brought huge radical changes and decision-making has become swift
4. Cost control & Waste minimisation	- resource consumption was regularly monitored - rigorous quality checks at each plant and externally by the CCC - physical supervision and routine control of breakages were in place - effective use of non-financial data and advanced MCS practices [i.e., total quality system] for control purposes
5. Performance measurement and evaluation	- internal reports, financial and non-financial data, and physical supervision were greatly used - tight monitoring on market areas, sales agents and outlets - the firm made periodic variance computations and compared results of different periods - there were regular meetings of managers on top of the BOD's for monitoring performance - performance was good on sales, productivity, sales efficiency and output, but poor on profitability and net income efficiency - external factors strongly influenced firm activities and performance

7.4 Discussion and conclusions:

RSBSC was privatised in 1997 and became part of a global company. As a result, its activities, firm performance, and MCS practices changed significantly. These changes took place in terms of investments, the firm's organizational structure, its product-market strategy, operating procedures, and sales performance. After the firm was privatised it faced a number of challenges, both internal and external, which affected its activities and performance in an unfavourable manner. On the other hand, the company was completely modernised. Investments were made in buildings, new production machinery was purchased, the number of delivery trucks was increased, the production and sales processes were renewed and computerised, and quality as well as customer satisfaction became important focal points. As a result of the investments the leverage ratios were reduced and the CES and CEA figures rose (see table 7.1). In addition, the company expanded its market by opening new depots and hiring more sales agents. Its strategy was aimed at the availability, accessibility, and affordability of its products. Further, the company was an advocate of standard retail prices. In achieving its goals RSBSC was supported by CCC, which organised training courses for the employees and offered the firm's senior managers the opportunity to visit bottlers in other countries. CCC also assisted the firm in implementing the Coca-Cola quality system and standardising its operating procedures. RSBSC was well aware of the severe competition that characterised the beverage industry. This is why it paid much attention to activities such as monitoring the outlets, advertising and introducing new products on a regular basis. The sales agents and area managers received a commission when they performed above average.

General changes after the privatisation of the company included a rise in employment, the improvement of the employees' working mentality and technical skills, and a clear focus on quality, applying to the raw materials, the firm's end products and its service provision. To achieve a sufficient level of quality RSBSC strictly followed the Coca-Cola quality procedures. Further, the company succeeded in realising a considerable degree of waste reduction. This was achieved by automation, control systems, and the establishment of the Breakage and Sanitation Committee. With respect to the firm's MCS practices major improvements were achieved through computerisation. The introduction of software programmes, email systems and access to the Internet highly contributed to the increase in the firm's professionalism.

After the privatisation of our case firm its departments and their activities were expanded. The staff was increased with a large number of qualified people who held key positions. Management and control information was given a high priority, both by CCC and RSBSC. We can conclude that RSBSC's management control systems were more structured, direct and sophisticated than those of IMA and AW&LF.

The challenges that RSBSC faced were identical to those dealt with by IMA and AW&LF. They included a shortage of trained young employees due to the border war, inflation, and issues such as delays in the import of supplies, power failure, and shortages of raw materials, water, and spare-parts. Further, the government issued a number of unfavourable regulations, such as the obligatory military service, the introduction of excise tax, the abolishment of forex, limitations on the distribution hours as well as on advertising, and the obligatory provision of client information to the DIR. In addition, the DIR refused to recognise the loss on exchange as an expense. Of all these challenges, the forex problem affected the company the most. It severely undermined RSBSC’s business activities and firm performance, because the majority of its raw materials had to be imported. The abolishment of the forex services undermined the firm in such a way that it had to cease its operations in 2005. By introducing this measure the government undermined the development of a conducive business climate. It did not offer the companies the support they needed to start operating successfully and enable them to make a contribution to the country’s economy.

Becoming part of a joint venture was a favourable development for RSBSC. It gave the company the opportunity to benefit from the experience and know-how of a multinational and start to operate on a higher level. Through the extensive support of CCC in the form of training programmes as well as guidance and the advice of experts, RSBSC managed to improve its position significantly. The company became one of the top bottlers in the region. Privatisation certainly improved the structure and organization of the company. It increased the autonomy of the GM and the senior managers, and it allowed the firm to modernise and improve its management control systems. The capacity to introduce new practice changes has grown. The company has also benefited from non-financial information and has managed to use many of the unused forms and MCS practices of the public ownership period. Although the BOD was the highest decision-making body, it co-operated closely with the GM, who always participated in the quarterly meetings. The BOD considered the GM as a full-fledged partner, whose opinions and ideas were taken seriously. This would have been unthinkable in the public ownership era. In addition, privatisation had a major impact on the development of the firm’s MCS practices, which can be largely regarded as a combination of diagnostic and belief systems (Simons, 1995). The lower managerial levels were given some degree of participation, although they could not make major decisions. CCC’s regional office controlled the planning and budgeting processes, but the targets were always discussed and negotiated with the company’s management during the BOD meetings. With the exception of its profitability levels, privatisation led to a significant improvement of RSBSC’s organizational structure, firm performance, and MSC practices.