Critical Perspectives on Accounting 21 (2010) 428–442

Contents lists available at ScienceDirect

Critical Perspectives on Accounting

journal homepage: www.elsevier.com/locate/cpa

Post-privatization performance and organizational changes: Case studies from Ghana

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ARTICLE INFO

Article history:
Received 13 March 2007
Received in revised form 20 December 2007
Accepted 4 January 2008

Keywords:
Privatization
Performance evaluation
Balanced scorecard
Less developed countries
Ghana

ABSTRACT

A significant number of less developed countries (LDCs), including Ghana, have embraced the World Bank/IMF led economic reforms. Ghana has been implementing these reforms since the early 1980. One of the conditions of the reforms is the privatization of former state-owned enterprises (SOEs). Such privatization activities have however generated debates among academics, practitioners, and policy makers. Research findings so far have been mixed. This paper analyzes the performance of two large privatized companies in Ghana. Both companies have been paraded by the Ghanaian authorities and the international financial community as success stories of privatization. Our objective is to examine how and why these firms have been claimed to be successful. Drawing on the dimensions of the balanced scorecard, we examine the performance of the firms from five main perspectives—financial, customers, internal business process, learning and growth, and the community. The analysis is based on data gathered from diverse sources, namely, semi-structured interviews and discussions with managers of the selected companies and with personnel from key government departments, and analysis of internal and external documents. We conclude that, overall the performance of both organizations improved after privatization under all the performance dimensions examined. These improvements were also accompanied by certain organizational changes, including changes in the accounting and control systems. However we are not claiming that all privatization programs in Ghana have been successful. In fact there are stories in the Ghanaian media of several other privatization failures in the country. Instead what we have demonstrated is the need to explain the performance of privatized firms beyond the myopic macro-level and financial analysis which has been widely adopted by the international financial community and policy makers and we encourage other researchers to adopt such multidimensional approaches.

1. Introduction

The objective of this paper is to explain how and why the performance of some former state-owned enterprises (SOEs) improved after privatization. Privatization programs have been widely imposed on less developed countries (LDCs) by the World Bank, the IMF and other western donors as a condition for bailing out the ailing economies of these countries (Cook and Kirkpatrick, 1995; Kikeri et al., 1994; Uddin and Hopper, 1999, 2001, 2003). It is argued that privatization will lead to

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doi:10.1016/j.cpa.2008.01.002

better productive and allocative efficiencies (Boycko et al., 1996; Dunleavy, 1986). Private enterprises are able to organize their factors of production to reduce production cost more efficiently than public enterprises. Private enterprises also have better rewards and incentive systems which are linked to economic performance and have a much clearer principal–agent relationship than public enterprises. Furthermore, the competition in the private sector enables private enterprises to be able to allocate resources more efficiently than public enterprises. As such privatized SOEs are subject to the discipline of the price mechanism through which inefficient activities may be eliminated (Rutherford, 1983). It is therefore assumed that productive and allocative efficiencies of SOEs would improve upon privatization (Adam et al., 1992; Hemming and Mansoor, 1988; Vickers and Yarrow, 1985).

Privatization was widely embraced in Ghana as part of the structural adjustment program (SAP) and was promoted by government officials as a panacea to the country's ailing economy (Appiah-Kubi, 2001). For example, the Head of Ghana's Civil Service in the 1980s commented that, "Ghana has chosen the privatization option as a means to revitalize its ailing state enterprises, so that they could operate more purposefully, contribute more to the national budget and generate employment" (West Africa, 1988, p. 87). Ghana's privatization program was hailed by the international financial community as one of the success stories on the continent. Such was the acclamation that the Fortune Magazine (2001, p. s9) published a feature article on Ghana's economic reforms (including its privatization policies) and noted that: "Ghana, and former President Rawlings in particular, were hailed as examples to be emulated across the continent".

Despite the lauds by policy makers and the international financial community, privatization has also been criticized in the Ghanaian media and by other groups in the country. An article published in one of the Ghanaian newspapers for example noted that: "Privatization could be a real beginning of quantifiable neo-colonialism".[1] Similarly, the Institute of Chartered Accountants, Ghana (ICA) (1990, p. 17) observed that: "*There is the need to recognize that the state has responsibility to its citizens and should not always look for maximization of profit*".

The issue of whether privatization improves the performance of enterprises or not has thus always generated controversies in Ghana and in other LDCs. For example, recently Uddin and Hopper (2003) questioned the claim by the World Bank that Bangladesh's privatization has been successful. The authors found that only one out of the eleven privatized enterprises they have examined could be judged as commercial success. Wickramasinghe and Hopper (2005) found that performance in the enterprise they examined in Sri-Lanka improved after privatization, attributable partly to the adoption of commercial oriented budgeting practices. However their study revealed how the privatization subsequently failed due to problems of cultural asymmetry. Very few studies of this nature which focus on non-financial micro level analysis of privatized firms exist in LDCs (Uddin and Hopper, 2003; Wickramasinghe and Hopper, 2005), and even in the western world such studies are sparse (Carter and Mueller, 2006; Cole and Cooper, 2006; Letza and Smallman, 2001; Ogden, 1995a, 1995b, 1997; Ogden and Anderson, 1999).

The majority of the research on the outcome of privatization programs has thus tended to be financial-macro-level examining the impacts of privatization on the economy such as in terms of GDP and government revenue. For instance, a study on behalf of the Organization of Economic Cooperation and Development (OECD) by Megginson and Bouchkoua (1999) used economic indicators to evaluate the outcome of privatization programs in 15 countries. Similarly, a study conducted by Bouton and Sumlinski (1997) and sponsored by the International Finance Corporation (IFC) on the impacts of privatization in developing countries based their analyses predominantly on financial indicators. The problem with this approach is that it is myopic and hence unable to explain the full impacts of privatization, especially at firm level.

For most LDCs privatization is much more complicated due to a number of factors, which called for a multi-dimensional analysis of the outcomes of privatization programs. First, privatization is usually a condition imposed by the IMF, the World Bank and other Western donors on governments in LDCs (Uddin and Hopper, 2003). Second, the majority of the privatized firms in the LDCs are sold to foreign investors with minimal participation by indigenous investors (Prizzia, 2001). Third, there are inadequate regulatory structures and weak financial markets in most LDCs. Performance measures based on financial indicators alone (are thus likely to distort the real outcomes of privatization policies. Financial indicators may for instance be adequate in reporting to the parent company about the return on invested capital and hence the economic viability of the investments. Financial indicators may also be sufficient in satisfying the IMF and the World Bank in terms of the ability of the LDCs to pay back borrowed funds. However, these measures are inadequate in assessing the full impacts of privatization decisions on those that the privatization is intended to benefit in the first place. Financial profitability as reported in some studies (Boubraki and Jean-Cleade, 1998; Megginson et al., 1994) may thus not be a good yardstick for measuring the performance of state enterprises, since the very objective of a state enterprise may be to promote social welfare and not to generate profit (Akinsanya, 1981). By focusing only on financial indicators therefore, the success or failure of privatization programs is viewed merely through one lens.

The World Bank (2000) recently identified the need to re-focus post-privatization performance measures from the existing short-term financial orientation to that of a long-term qualitative analysis focusing on human, social and environmentally sustainable development. This argument has been supported by other researchers including Prizzia (2001) who argued for a balance of economic and social measures of performance. Based on the argument that the financial indicators may not reflect all aspects of performance of privatized enterprises, this paper evaluates the performance of two privatized SOEs in Ghana

[1] See Ghanaian Chronicle, 15–18 November 1993, p. 8.