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Organisational change and accounting  
information systems: a case study of the  
privatisation of Jordan Telecom

Mohammed Shanikat  
University of Wollongong

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**Organisational Change and Accounting Information Systems: A Case Study of the  
Privatisation of Jordan Telecom**

**A thesis submitted in fulfilment of requirements for the award of the degree**

**Doctor of Philosophy**

**From**

**UNIVERSITY OF WOLLONGONG**

**By**

**Mohammed Shanikat**

**School of Accounting and Finance**

**February 2008**



## DEDICATION

*Dedicated this effort to my father (Musa), my mother (Aminh), my sisters:  
Najah, Najea, Nazeha, Hind, Nawal and Ghadeer and my brothers; Omer,  
Barakat and Laith.*

أهداء ألى:

أبي (موسى) و أمي (أمنه), و أخواتي: نجاح , ناجيه, نزيهه, هند, نوال, غدير. أخواني: عمر, بركات وليث



## **Certification**

I, Mohammed Shanikat, declare that this thesis, submitted in fulfilment of the requirements for the award of Doctor of Philosophy, in the School of Accounting and Finance, University of Wollongong, is wholly my own work unless otherwise referenced or acknowledged. The document has not been submitted for qualifications at any other academic institution.





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## List of special names and abbreviations

AIS: Accounting Information Systems.  
 ASE: Amman Securities Exchange.  
 CCBS: Customer Care and Billing System.  
 JD: Jordanian Dinar (JD 1 = US\$ 1.42).  
 JEMAA: Jordanian Euro-Mediterranean Association Agreement.  
 JT: Jordan Telecom.  
 JTC: Jordan Telecommunications Company.  
 JTG: Jordan Telecom Group.  
 FTAA: Free Trade Area Agreement.  
 FT: France Telecom.  
 IMF: International Monetary Fund.  
 IPO: Initial Public Offer.  
 IT: Institutional Theory.  
 LOCM: Laughlin's Organisational Change Model.  
 NTP: National Telecommunications Project.  
 Pre-PE: Pre Privatisation Era.  
 PEC: Privatisation Executive Commission  
 Post-PE: Post Privatisation Era  
 RDT: Resources Dependency Theory.  
 SOEs: State Owned Enterprises.  
 TCC: Telecommunications Corporation.  
 TRC: Telecommunications Regulatory Commission.  
 JITCO: Jordan Investment Telecommunications Company.  
 WTO: World Trade Organisation.  
*Muassast El Etessalat (Arabic name): TCC*  
*Wa Zeer Albareed Wa Aletesalat (Arabic name): the minister of Post and Telecommunication.*  
*Al barlaman ( Arabic name): Parliament.*  
*Majles Al Wozara (Arabic name): The Cabinet Council.*  
*Dewan Allmohasabah (Arabic name): The Audit Bureau.*  
*Alhesab Alkhetami (Arabic name): The Closing Account.*



## **Abstract**

This thesis provides an attempt to better understand organisational change and its impact on accounting information systems in privatised enterprises using the particular case study of Jordan Telecom (JT), which became subject to the liberalisation of the telecommunication industry. JT would not survive in its public sector form and the privatisation of JT remains very controversial. This study aims to understand the role of the Jordanian State in stimulating the external environment of JT in order to prepare for privatisation, to understand how the internal environment responded to change in the external environment, to understand how the accounting system shaped the pathway of the organisation development, to understand the perceived changes in the accounting information system that was influenced by the privatisation of JT. The literatures of theoretical foundations of the study include the role of the state in reforming the public sector as a basic milestone necessary for preparation of privatisation, and the organisational change and in particular the accounting system changes as a result of the adaptation of privatisation.

The thesis uses a case study approach. The data collection consisted of two techniques: an intensive field study of the organisation subject to the investigation in order to explore and explain the privatisation phenomenon. Data collection involved two sources; interviews and documents. The participants that were selected depended on the recommendation of the coordinator from inside the organisation, who was appointed to help the researcher.

A combination of theoretical perspectives is adopted to understand organisational change and the accounting information system role. These perspectives are; Institutional Theory, Resource Dependency Theory and Laughlin's (1991) Organisational Change Model. The theoretical integration built provides a holistic approach to offer an alternative explanation to social phenomena. A framework was developed which demonstrates the suitability of the theoretical integration for analysing the role of the state and organisational changes during the three distinct eras in relation to the telecommunication industry, which is identified through the historical context of JT. These three eras are pre privatisation, transformation and post privatisation. They provide a foundation for the empirical analysis, which explains the role of external stimuli in disturbing the external environment of organisation. The organisation's internal elements are shown to respond to the environmental disturbance and in particular the distinct change in the role of accounting systems.

This study adds a significant contribution in studying privatisation from the context of Jordan, a developing country and a Kingdom. The study has findings at two levels. First the level of the role of the government and JT's alliance with the external party France Telecom, for the provision of resources, is reflecting the unique intersection of external stimuli and JT. The study has addressed some of the ways in which an accounting information system has been instrumental in the process of organisational change in the telecommunication industry in Jordan. It demonstrates that without a basic change in the interpretative schemes from a 'technical vision' to a 'business vision', privatisation cannot achieve its objectives. It also provides a significant demonstration that the accounting information system acts as an interpretative scheme between the regulator (TRC) and regulated (JT). Second level, the framework developed here can be practically applied in other studies investigating organisational

change. Multi layers of analysis can help inform policy such as mission level, resource level, organisation's structure, design and role of the accounting information system, the flexibility to change, the use of new technology and the use of high level of training.

## **Acknowledgments**

I am grateful to almighty Allah who gave me the opportunity to complete this thesis. In completing this thesis, I owe a debt of gratitude and thanks to many individuals and institutions that have supported my aspirations in carrying out the project. While being thankful to all of them, I must register my gratitude to some in particular. First and foremost, I would like to express my deepest appreciation to my supervisors Associate Professor Mary Kaidonis and Dr Kathy Rudkin. I would like to thank all academics and administrative staff of the School of Accounting and Finance.

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## **Chapter 1: Introduction<sup>1</sup>**

### **1.1. Context of the study**

This thesis considers pathways of organisational change within Jordan Telecom (JT) during its period of transformation from a public sector organisation to a private sector enterprise through its privatisation program. The purpose of this study is to gain a deeper understanding of the organisational change and role of the Accounting Information System in Jordan's privatised enterprises, a developing country where circumstances are quite different. In particular, this thesis focuses on JT for several reasons. The first is regarding the telecommunication sector itself (in Jordan), which proves to be one of the most dynamic sectors in Jordan. It has achieved remarkable developments on more than one front, including the regulatory and legislative domains, infrastructure, new services, and improving the quality of existing services at more reasonable prices (Abu-Ghazaleh & Co. Consulting 2005). The second, JT has 250 million shares outstanding on 2006 and became the second largest listed company on the Amman Stock Exchange (ASE) in terms of market value (Global Investment House 2006). The third, it was the first successfully completed privatisation program in Jordan.

The requirement to change and adopt new norms of the behaviour and crucial importance for various resources for the organisation's survival; this creates complex relationships between the organisation and its technical and institutional environments. The study addresses the complexity of these relationships within JT by utilising a multi-

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<sup>1</sup> Most of the materials here have been extensively published in Shanikat, M. (2007). "Understanding organisational change in the privatised enterprise: Case study of Jordan Telecom." *EBS Review*, 22(1): 42-58.

method investigation. This study focuses exclusively on the JT organisation, and uses this as an opportunity to examine the complex interaction of institutional factors and resource requirements during the transition period, and interpret the internal organisational change in JT as a response to that interaction complex.

### **1.1.1. Background**

Jordan is a small country with very few natural resources and a population of about 5.5 million. Jordan is quoted as having a GDP per capita of US \$4900 in 2006. The Jordanian economy is a service economy, not an oil-based one. Its economy faces several obstacles, including the lack of natural resources and the Israeli wars and subsequent occupations of Palestine in 1948 and 1967, which drove thousands of Palestinians into Jordan as refugees.

During the 1970s and early 1980s, Jordan's economy greatly depended upon using external sources of finance, which included assistance and loans from more developed countries, such as Arab countries and international institutions, in addition to the remittances from Jordanians working abroad (Al-Quaryoty, 1989; Abu Shair, 1997). "...This makes the country's foreign exchange pool very vulnerable to external shocks, particularly the tourism sector, remittance inflows, and official development assistance and aid from the Arabian oil-rich countries" (El-Sakka 2005, p. 2). From 1982, Jordan experienced an economic recession (Al-Quaryoty, 1989); many problems built up, leading to the country's economic collapse in 1988-89 (El-Sakka, 2005). Al-Quaryoty (1989) identifies the external problems that confronted the Jordanian economy as the increase of foreign debt and its servicing, deficits in the balance of payments, the decrease in remittances from Jordanians working abroad, the decrease of foreign aid, and the existence of various managerial problems such as over-staffing, un-clear line of

**Chapter 1: Introduction**

responsibility, and low efficiency. Surpluses which became available through foreign aid and remittances in the late 70s and early 80s resulted in an economic boom with great public sector investment in heavy capital-intensive industries, representing 40 percent of the total government expenditure in the five year plan of 1976-1980 (Al-Quaryoty, 1989). Most of these industries, however, were not developed in a timely or effective manner. Al-Quaryoty (1989) observes that delays in implementation were costly, and that many of the public agencies in charge of the preparation and implementation of development plans were enormously overstaffed. The negative effect of the losses incurred by these major industries was substantial. Instead of making profits, or at least breaking even, these ventures became a drain on Jordan's scarce resources.

This research explains the organisational change in the state owned enterprises (SOEs) in Jordan, a country of the Middle East, and aims to develop a framework of the variety of actors that played a major role in changing the pace of the privatisation of JT. Followed by section 1.1, the context of the study, section 1.2 provides an overview of the literature reviewed and identifies the areas in which there is a need for further research with consideration of the Jordan privatisation program. Section 1.3 presents the research methodology. Section 1.4 describes the study design, based on the purposes, research questions, and the conceptual context. An outline of the theoretical framework is presented in section 1.5. The context of Jordan and Jordan Telecom is presented in section 1.6. An overview of the empirical chapters is presented in section 1.7. Expected contributions to knowledge are presented in section 1.8. Finally, outline of thesis is presented in section 1.9.



## **1.2. Literature review**

The main focus in this study is on organisational change in privatised telecommunication industry. Privatisation in its economic context is predicted that organisational resources would be operated more efficiently in the private sector than in the public sector (Ogden 1995; Parker 1995; Martin and Parker 1997). The objective of this thesis is to investigate the impact of privatisation, and its attendant changes in accounting information systems and organisational change.

Chapter 2, the literature review discusses several models for interpreting the public and private sectors' philosophy, particularly in providing basic public benefits. Stewart and Ranson (1988) built a model emulated by some authors to study a transformation enterprise from the public to the private sector. Conrad and Sherer (2001) built their study frameworks based on Stewart and Ranson's model with some modification to describe the transitional periods which companies undergo in the privatisation transformation. Martin and Parker (1997) provide a list of conventional distinctions between the public and private sector based on six contingency factors: goals, management, labour, communications and reporting systems, organisational structure, and the nature of the business.

The literature review establishes the role of accounting information as a mechanism of communication and a technology of control and evaluation of performance. A review of accounting literature emphasises the importance of the role of accounting information in constructing an organisation's activities as well as reporting on them. This study will contribute to this literature by providing an empirical demonstration of accounting's impact on a telecommunications industry in Jordan.

### **1.3. Research methodology**

Chapter 3 presents a detailed description of the research methods and methodology used in this study. Consideration of the research design needs to take into account the different demands of collecting, analysing and interpreting data with particular reference to the condition of Jordan and JT.

This section is devoted to qualitative research in Accounting Information Systems (AIS). Qualitative research involves the use of qualitative data, such as interviews, documents, and participant observation data, to understand and explain social phenomena. Qualitative researchers can be found in many disciplines and fields, using a variety of approaches, methods and techniques. In Accounting Information Systems, there has been a general shift in AIS research away from technological to managerial and organisational issues, hence an increasing interest in the application of qualitative research methods.

### **1.4. Design of the study**

The design of the study will be discussed in chapter 3, section 3.2. This study adopts the design model of qualitative research that Maxwell (2005, p.5) suggested. It is a “reiteration process between the different components of the design” (Maxwell 2005, p. 5). The model involves the ultimate purposes of the research; the conceptual context which theory or model the study will use; the questions which the study attempts to answer; the approaches and the techniques which the study will use to collect and analysis the data; and the validity, which leads to the credibility of an explanation, description, conclusion and interpretation (Maxwell 2005). This model will be used in this thesis as follows.

### **Purposes:**

Understanding organisational change occurs by providing an appropriate framework to the study of privatisation and to other forms of organisational change in both the public and private sectors.

### **Research questions:**

There are two general research questions this study tries to investigate:

- What is the role of the state in stimulating the public enterprises environment in order to influence an organisational form?
- Is the organisational form affected by the privatisation process, and if so, how?  
How is the role of the accounting system influenced by the privatisation process?

In Chapter 3, section 3.3, there are four sub questions as well, which the study will try to address.

### **Conceptual context:**

This study uses three conceptual frameworks namely, Institutional theory, Resource dependency theory (RDT), and Laughlin's (1991) organisational change model (LOCM). The study integrates the three conceptual frameworks in order to understand the JT pathways during its periods of transformation.

### **Methods:**

Information was accessed using semi-structured interviews, internal documents and reports analysis. These resources helped to collect the organisation data from the perspective of key players within JT, as well as from outside the organisation.

### **1.5. Theoretical frameworks**

This thesis uses three theoretical frameworks, institutional theory, resource dependence perspective and Laughlin's (1991) organisational change model (LOCM). This theoretical combination of institutional theory, resource dependence perspective and LOCM allows for better understanding of the determinants of organisational change in conditions of environmental uncertainty, and the organisational response to these conditions. Using the institutional and the resource dependency theories enables to provide a complementary view of the interaction of the external environmental pressures on an organisation, and the variety of organisational alternatives in responding to the external constraints and demands (Oliver 1991). Using Laughlin's (1991) organisational change model allows to provide an interpreting organisation's response to these factors, and the organisation's alternative in responding. This model assumed that the environment disturbances initially lead to change in the design archetype then to both the sub-systems components and the multiple layers of interpretative schemes.

A number of empirical studies have combined these two perspectives in explaining various aspects of the organisational phenomenon. Tolbert (1985) demonstrates that the pattern of organisational structure in institutions of higher education can be seen as a function of both institutional processes and resource dependency. Furthermore, several studies used the interaction between the two theories to explain the organisational changes in different professional organisations (Powell *et al.* 1999), examining organisational responsiveness to new external regulatory pressures, such as the Ontario (Canada) Environmental Bill of Rights, by using both resource dependence and institutional theories (McKay 2001) and institutional change in large law firms; and

through integrated resource dependency and institutional theory (Scherer and Lee 2002). The theoretical integration between Resources Dependency Theory and Institutional Theory provides a better understanding of the resources scarcity, which eventually led to institutional change (McKay 2001; Scherer and Lee 2002). Erakovic and Wilson (2005) conducted empirical investigation of the period of ownership transition in five New Zealand state-owned enterprises between 1985 and 1995. They provided evidence that the dynamics of radical change are shaped by the complex interaction of different institutional, market, technological and organisational factors.

The theoretical combination allows for better understanding of the determinants of organisational change in conditions of environmental uncertainty and the organisational responses to these conditions. Using the institutional and the resource dependency theories enables and provides a complementary view of the interaction of the external environment pressures on organisation and the variety of organisational alternatives in responding to the external constraints and demands. Institutional theory can be used for highlighting the environmental pressures, resource dependence theory for articulating the significant relationship between JT and France telecom (FT) in terms of transferring the new technology and knowledge; and Laughlin (1991) “colonisation” model of organisational change for interpreting the organisational responsiveness to the external environmental pressures and demonstrating how a new interpretative schemes replaced the previous scheme within the JT.

Chapter 4 provides a justifications for using institutional theory, resource dependency theory and the Laughlin (1991) organisational change model for interpreting organisational change influenced by the privatisation; and, the change in design subsystem “accounting information system” are discussed.

**1.6. The context of Jordan and Jordan Telecom**

In studying the Jordanian context, chapter 5 provides insights about political and economic conditions that shaped a major motivation for expanding public organisations in Jordan. Public organisations demonstrate evidence that they were dominant in terms of provision of the public utilities in Jordan. In addition, this context provides information about the privatisation program in Jordan. Also, highlighting the government actions at the macroeconomic level in terms of reforming the economy structure and improving the legal environment aims to create a friendly environment to attract foreign investments. These actions are considered to be a foundation for achieving a successful privatisation process.

Privatisation was one of the economic policies that characterised Jordan in the beginning of the 1990s. The economic and financial impact of privatisation has been widely reported in a number of studies (Al-Quaryoty 1989; Abu Shair 1997; El-Said 2001; Awamleh 2002). Privatisation in Jordan has received much attention from economists and political scientists, and this thesis adds to this literature by considering the role of AIS and organisation change in privatisation.

Chapter 6 gives a historical background of Jordan Telecom (JT) and provides an important context to JT. Telecommunications, along with other public utilities is considered an important service for the standard of living of the people and for the development of the economy. This chapter provides a pathway of development of Jordan Telecom since the formation of the Kingdom in 1946 till the end of 2005 when the sector became fully privatised. Providing the historical context of the organisation enables the researcher to build the framework of the organisation's pathway to privatisation. Moreover, it highlights the pace of development of organisational change.

However, the literature on Jordan asserts that there are also economic, social and political objectives that link social support packages to privatisation of State Owned Enterprises (SOEs).

### **1.7. Empirical analysis overview**

A case study of the Jordan Telecom (JT) is carried out by providing evidence of its organisational change. This has been done by dividing the JT's life into three eras depending on the major motivation through it. The first era is a pre-privatisation era. This period represents the JT's life from 1971 to 1994. The major role player during this time is the government, exercising its role for stimulating the organisational form to enable JT to provide public services. The government appointed the board of directors of JT who were governmental members, selecting the executive manager and assigning a Minister in charge of organisational management.

The second era is called the transformation era. During the transformation era there were many governmental directives to restructure the telecommunication industry in order to establish the new vision. In a step to privatise the telecommunications sector, Jordan's government corporatised Telecommunications Corporation (TCC), a government-owned enterprise, and created Jordan Telecommunications Company (JTC), a public shareholding company that has opened most activities to private operators. The corporatisation of state enterprises in Jordan is regulated by the Companies Law, which allows the transformation of these enterprises into public shareholding companies fully owned by the government. During this era, the government issued and renewed several laws such as the Privatisation Law, Securities Law and Investment promotion Law.

The third phase is the post privatisation era, which started from 2000 to the end of 2005. The main distinguishing feature of this period was the alliance between France Telecom (FT) and JT, in order to acquire a certain newly developed technology in the telecom sector of which JT itself was unable to obtain technological development. The Jordan government (1998) points out the importance of seeking its interest and taking some considerations of the industry under the privatisation process particularly the telecommunication sector. Therefore, the government determined certain conditions that should be available after choosing the strategic partner. Jordan's government revealed the desperate need of the JT for certain sources not available in the local market, such as new technology and managerial expertise. The Jordan government (1998) asserted that JT was desperately needed to acquire the developed technology, which can be achieved by conducting an official relationship with a strategic partner as an alliance. Therefore, this study considers the existence of the unique relationship between the JT and the FT, as a significant factor for the organisational changes that JT underwent in order to prepare JT for the potential regional competition.

### **1.8. Expected contributions to knowledge**

It is expected this study will contribute to the existing literature on organisational change through its main context of privatised enterprises in Jordan — a Kingdom and a developing country where circumstances are quite different from those of the developed countries. Therefore, economic institutionalisation factors are unique to the understanding of privatisation in the context of Jordan. In this sense, it is expected to highlight the circumstances, economic, political and social reasons which drove the government to adopt the privatisation program. Also, it is expected to explore the role of the government in the process of privatisation. In terms of building a theoretical framework, the use of a combination of two theories, Institutional Theory and



Resources Dependency Theory, and Laughlin's Organisational Change Model, provides better analysing and understanding to the organisational change instigated by turbulent external environment. Also, it is expected to provide a better explanation to the change into the three internal levels of organisation — interpretive schemes, design archetypes and sub-systems. Therefore, in terms of the change in accounting information systems, it is expected to explore the role of accounting information system as an interpretive scheme between the external control body and the operator. It is expected to highlight multiple insights and increase richness of analysis by using the three theoretical frameworks.

## **1.9. Outline of Thesis**

Chapter 2 to follow gives a literature review of the privatisation literature including the provision of public services, public sector reforms and accountability issues of privatisation and their impact on organisational change. Chapter three describes the methodology and research methods of this study, giving a full explanation of the case study approach. Chapter four builds a unique theoretical framework used in this study, blending institutional theory, resource dependency theory and Laughlin's organisational change model. Chapter five introduces the research site, Jordan telecom and describes its features, development. Three stages of the privatisation process are then discussed: chapter 6 identifies development periods, chapter seven describes the pre privatisation era, chapter 8 describes the transformation era and chapter nine examines the post privatisation era. Conclusions and contributions from the study are drawn in Chapter 10.

## **Chapter 2: Literature review<sup>2</sup>**

### **2.1. Introduction**

The focus in this study is organisational change in a privatised JT. The economic case for privatisation is predicated on the assumption that organisational internal resources and their provision of goods and services would be more efficiently applied in the private business form than in the public form (Ogden 1995; Parker 1995; Martin and Parker 1997).

The literature review is organised into six sections as follows. The first section is the introduction. The second section, 2.2, differentiates between the public and private sector domains. The third section, 2.3, explores the role of public sector organisations in society. The fourth section, 2.4, articulates the concept and characteristics of privatisation as a mechanism of reform. The fifth section, 2.5, introduces the relationship between privatisation and accountability. The sixth section, 2.6, clarifies the impact of privatisation as a force for organisational change, focusing on the role of AIS. These sections are followed by section seven, 2.7, giving discussion, and a summing up section, 2.8.

The next section, 2.2, describes the public and the private sectors as contradicting ideologies, in terms of the nature of them, including the provision of public benefits, their aims and their approaches for satisfying citizens.

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<sup>2</sup> Most of the materials here have been extensively published in Shanikat, M. (2007). "Understanding organisational change in the privatised enterprise: Case study of Jordan Telecom." *EBS Review*. 22 (1): 42-58.

## **2.2. The ideology of the public and private sectors**

Although the two sectors are presented as providing different services to society, there are also different ideologies. In addition, the public and private sector models show the unique responsibilities of these two sectors. Thus, understanding these models helps my perceptions in building the study's framework in chapter 4.

### **2.2.1. Nature of Public Sector**

The public sector is that part of a nation's economic activity that is traditionally owned and controlled by the government. Broadbent and Guthrie (1992) pointed out that the public sector is composed of several public organisations that exist to provide basic utilities and services to society. It is believed the private sector to some extent is unable to provide and manage public services in a better way. Public organisations are traditionally called state owned enterprises (SOEs) (World Bank 1988). Furthermore, the public sector field is a wide concept involving both organisations and activities (Abu Shair 1997). Broadbent and Guthrie (1992 p. 7) provide a framework for the public sector field, claiming that "the public sector could be seen as comprising two areas of activity: one is funded by grants raised by government from taxation; the other is those monopolies which supply services and utilities seen as part of the infrastructure of society".

The public sector field brings into view the area of public responsibility (Stewart and Ranson 1988). According to the World Bank's (2004) report, there are two sets of beliefs regarding the public sector's responsibilities towards society and for the necessity of government intervention in the economy, particularly in the provision of public goods. The World Bank (2004) asserted that this responsibility has expanded and aims to address 'market failures' and provide social justice. The market failures arise

because society's expectation for producing and providing public services cannot be met without public sector intervention (World Bank 2004). Moreover, private businesses have few motivations to involve themselves in building and maintaining services and infrastructures (World Bank 2004). The public sector relies upon the concept of public good. According to the World Bank's report (2004 p. 33), "public goods (goods that, once produced, cannot be denied to anyone and whose consumption by one person does not diminish consumption by others, such as water, electricity and health services) are an extreme form of market failure". As such, government intervention is required to produce public goods. The second reason for public sector responsibility is equity. The World Bank (2004) justified that the public sector responsibility exists to provide public goods that reduce the socio-economic gaps among various social classes. To sum up, market failures and the achievement of social justice are normative considerations for the public sector to take responsibility for; they justify governments' involvement in the economies.

Stewart and Ranson (1988) identified the key characteristics of the public sector model and the private public model. They provide a useful framework for distinguishing between these two sectors, as shown in Table (2.1).

*Table (2.1) Public Domain Model*

Please see print copy for Table 2.1
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*Source: Stewart and Ranson (1988, p 15)*

### **2.2.2. Public sector model**

In clarifying the nature and role of the public sector, it is obvious that most such definitions and explanations emphasise that the main responsibility of the public sector is to take 'collective' decisions and actions for the provision of public services and to address issues of social equity and justice (Stewart and Ranson 1988). Stewart and Ranson (1988 p. 15) compare and define these two terms as follows:

the public are not merely clients or customers of the public service organisation. They are themselves a part of that organisation as citizens. Citizenship can be a basic value in the public domain. In building citizenship management has to encompass a set of relationships for which the private sector model allows no place.

Moreover, Harden (1992 p. 11) explained the differences between the three terms, consumers, citizens and customers, and their relevance to decisions regarding provision of public services:

Consumers, citizens and customers thus represent three overlapping and imprecise ways of expressing of legitimate interest in relation to public services. 'Customer' refers not only to individuals but also to a variety of corporate interests, public and private. 'Consumer' and 'citizen' both refer to individual interests, but no clear difference between them appears in present patterns in usage. This confusion of terminology reflects deeper uncertainties; about which services should be public and why; about how far they should be marketed or charged for; about the nature, scope and purpose of individual rights as regards public services, and about the relationship between these different issues.

'Customer' is a ambiguous term (Harden 1992) sometimes used to refer to the public body, which purchases a service from a provider. This term also describes a variety of different relationships when it comes to different types of services, including potentially marketable services that are not marketed as well as services which are not marketable (Harden 1992). Another term often used by the public and private sectors is 'stakeholder', and this refers to any party having some interest in the performance and

operation of the organisation. Employees, shareholders, investors, creditors, the government and the general public are all examples of stakeholders.

Stewart and Ranson's (1988) public domain model emphasises that the public sector has a limited amount of resources available for satisfying a great many needs. Therefore, 'collective choice' is involved in clarifying the public's needs and in collecting the resources to meet those needs (Stewart and Ranson 1988). These collective decisions and actions are accomplished through a political process (Stewart and Ranson 1988). Consequently, all citizens have the right to influence those decisions through legitimate channels (Stewart and Ranson 1988).

### **2.2.3. Private Sector model**

On the other hand, the significant structures in the private sector model emphasise the superiority of free market operations, with the forces of supply and demand efficiently allocating available resources (Stewart and Ranson 1988). The most significant component in this model is the concept that competition will ensure that customers receive high quality services at a reasonable price (Conrad and Sherer 2001). Harden (1992) argues that the focus of the private sector is predominantly on the customer. Moreover, it seems that 'customer sovereignty' is dominant in the private sector when free market operations exist (Conrad and Sherer 2001).

However, Conrad and Sherer (2001) analysed these two ideal types and found that these concepts and roles failed to fully describe the transitional periods in which companies undergoing privatisation transform, British Gas being a case in point. To address this weakness, they proposed an additional model, saying that "in attempting to chart the processes of change from a nationalised to a privatised industry it was found necessary

to extend this framework by including an intermediate stage identified as the commercial model and it exhibits characteristics that distinguish it from the other two models” (p. 514). Table (2.2) summarises their commercial model:

*Table (2.2) Commercial Model suggested by Conrad and Sherer*

Please see print copy for Table 2.2

Source: Conrad and Sherer (2001, p. 514)

Another study by Conrad (2005) investigates the three life stages of the British Gas Company: pre-privatisation, early privatisation and mature privatisation. With regards to the pre- privatisation life stage, she asserted that the public sector was the significant perspective and operative framework of this stage. The engineering ethic was the dominant approach to meeting the public sector obligations towards its citizens. And, notably, she asserted that the system of accountability in operation at that time was not based on the accounting considerations and that the organisation was officially first accountable to the public via the minister in charge and then to Parliament. She also claimed that this stage insured equity and justice of services in terms of pricing and provision to all.

The early privatisation stage in the lifecycle was a temporary stage during which the enterprise was introduced to the market. She also found that because of the prevalent opinion in the economy was that public sector management would be unable to improve the organisation’s performance, a profit-conscious style and language of financial

accountability emerged to tackle this perceived weakness in the style of management usually practiced in the public sector.

In the mature privatisation stage, competition and superiority of market forces were underpinned by investors. The regulatory Office of Gas Supply (OFGAS) agency's responsibility became the formal control of the performance of the privatised enterprise in terms of pricing and quality of services provided. At this stage, consumer choice became evident. Regarding the significant role of the accounting system in this stage, she observed that (Conrad p. 20),

the increasingly important role of accounting information in reinforcing domination structures is illustrated by examining some of the Office of Gas Supply (OFGAS) activities at this time. Accounting systems, as interpretative schemes within the signification structure, gave visibility to new aspects of organisational activities, and enabled new associated legitimisation and domination structures to emerge.

#### **2.2.4. Differences between the public and private sector**

In spite of differences, there are many similarities between the public and private sectors, although there are certain distinctions in operations and focus. According to Parker (1995), if these distinctions are considered, privatisation should lead to significant improvements in performance. Also, Martin and Parker (1997) provide a list of conventional distinctions between the public and private sector. These distinctions are summarised under six headings, and an examination of these distinctive characteristics of the two sectors provides a significant framework for analysing the potential impact of privatisation programmes. The six features are: goals; management; labour; communications and reporting system; organisational structure; and, nature of the business. Table (2.3) summarises the conventional distinctions between the public and private sectors mentioned in Martin and Parker's (1997) study.



Table (2.3) Distinctions between public and private sectors

Features	Public Sector	Private Sector
Management	Agent, Politically constrained	Marketing focus, shareholder interest but less constrained
Goals	Public interest, equity and probity, focus on input, non-market price	Uni-dimensional (profit) entrepreneurial, focus on outputs, market prices
Organisational structure	Hierarchical pyramid, centralised, Functional	Decentralised, business based, profit centres
Labour	High security	Less security
Communication and reporting systems	Bureaucratic and formal, external environment more static, formal committee structure, management and accounting information system underdeveloped	Non-bureaucratic and informal, external environment more turbulent, team working, strong accounting and MIS systems
Nature of the business	Political constrained	Commercially determined, diversification and investment

*Adapted from Martin and Parker(1997, p. 178)*

The management literature asserts that there are similarities and differences between the public and private sector in terms of the nature or the style of organisation (Parker 1995). Parker (1995) classifies these differences into six categories: (1) goals, (2) management style, (3) labour, (4) communications and reporting systems, (5) organisational structure, and (6) the nature and the location of the organisation. He states that some of the results of privatisation can be predicted in terms of changes in these factors.

Parker (1995) also outlined the differences between the public and private sectors, breaking them down to the following areas: (1) the degree of external intervention in management, (2) the degree of ambiguity or precision in objectives, (3) the complexity of strategy formulation and implementation, and (4) the organisation structure, decision making and control systems.

In the private sector, the management of the organisation is eventually accountable to shareholders through the audit of the company which has powers to exercise this role on behalf of them, while the public organisation is subject to the political considerations by

ministers (Parker 1995). The public sector goals classify them as often uncertain, because it has to take into account the “public interest”, which is quite a political theme (Parker 1995, p. 48). The policy in the public sector is highly structured and centralised in order to maintain high standard in its implementation (Parker 1995). The public sector has political hierarchy and accountability. Regarding the nature of organisation structure, decision making process and control system mechanism, Parker (1995, p. 51) identified that,

Traditionally the public-sector has been associated with a strict hierarchy of accountability. This has necessitated clear chains of command, tight forms of accountability and central control through detailed rules and procedures. Roles have usually been precisely defined. In essence, public-sector organisations have tended to be very hierarchical, conforming closely to the traditional pyramid shape. This has meant that decision making has been highly centralized and top down, involving long chains of command.

#### **2.2.5. Public service philosophy**

In the public service sector, the search for justice and equity are crucial (Stewart and Ranson 1988; Conrad and Sherer 2001). Moreover, justice is a product of the public domain (Stewart and Ranson 1988). One of the most significant organisational tasks under public sector style management is implementing the law and maintaining order (Stewart and Ranson 1988). Consequently, in the public sector, an organisation’s activities will be done within the framework of the law, and its policies would be set with a view towards the implementation of order (Funnell and Cooper 1998). In the public sector, political accountability is especially important. Hence, the systems of accountability are set up with the aim of ensuring that management is publicly accountable via the relevant minister to Parliament, and so we have a politicians with powers for appointment to the board of directors and having the ability to intervene indirectly to a significant extent in decision-making (Funnell and Cooper 1998; Conrad

and Sherer 2001). Moreover, decisions are made through a political process (Stewart and Ranson 1988). Given that a public service enterprise is indirectly accountable to the Parliament, a board director of such an enterprise is managerially accountable to the relevant minister and the minister to the Parliament (Funnell and Cooper 1998).

Another important issue is that of the performance of enterprises in the public domain. Stewart and Ranson (1988) and Conrad and Sherer (2001) examine this issue, distinguishing between public service ethos and private sector ethos. They argue that the public service ethic emphasises the provision of service to all who need them, while a private sector ethic focuses and emphasises the internal goals of the organisation, including wages and salaries issues, working conditions, job security and the implementation of rules and procedures. As such, private sector organisations focus on their employees, as internal stakeholders, rather than on citizens and consider customers as external stakeholders.

The public sector's relationships with the public are more complicated than in the private sector, and the behaviour of the customer in the public sector is different than that of the private sector customer (Stewart and Ranson 1988). Furthermore, as regards consumer behaviour, Stewart and Ranson (1988 p. 19) point out,

management has to develop theories of consumer behaviour, to re-conceptualize marketing as the influence to the public behaviour, to develop approaches based on the recognition of the role of both consumer and citizen and to organise that the interests of customers have to be balanced as well as met".

The next section describes State Owned Enterprises (SOEs) to demonstrate their conditions and their impacts, particularly on the public budget.

## **2.3. State Owned Enterprises: provision of public services**

This section provides an introduction to SOEs particularly from the World Bank's point of view. SOEs play significant role in delivering public services in an equitable manner. Also, their contribution is in increasing public budgetary deficits, and they have had a negative impact on the budgetary balance particularly in developing countries (World Bank 1988). Solutions are provided for solving their problems, which were encountered while adopting reforming programs in these countries.

### **2.3.1. Role of SOEs**

The World Bank (1988) report concentrates on the role of SOEs. The report examined a wide variety of goods and services produced by SOEs. These include water supply, telecommunications, transport, manufacturing, mining, agricultural marketing, and finance (World Bank1988). The World Bank report (1988) identified two reasons with respect to confirm the diversity of SOEs, the extent of state control and the nature of the state legislation. However, the pricing and borrowing practices and policies of SOEs have much in common, as do their financial implications for government budgets (World Bank1988). As a result, the report (World Bank1988) asserted, SOEs have been a major element in public finance in developing countries. In the past, their fiscal effect was often hidden by a lack of consolidated financial data on their operations, ambiguous budgetary procedures, supplementary budgetary financing, implicit subsidies, and protection from competition (World Bank1988). More recently, budget constraints, limits on domestic and external financing, and the effects of devaluation and trade liberalisation have exposed the weakness of SOE finances and their distressing effect on the fiscal stability of many developing countries (World Bank 2004).

In spite of the great aims behind the establishment of SOEs, they have generally exhibited certain negative and potentially negative characteristics (Lieberman 1993 p. 10). These are summarised in Table (2.4):

*Table (2.4) General SOEs Characteristics in developing countries*

Please see print copy for Table 2.4
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*Source: Lieberman (1993 ,p. 10)*

One of the main arguments for privatisation of public enterprises in developing countries is to overcome the negative impact on the budgetary balance. Short (1984), on conducting an international statistical comparison, found that the overall deficit of public enterprises in the mid 1970s in a sample of 12 industrial countries was only 1.7 per cent of GDP as opposed to the 3.9 per cent of GDP in a sample of 25 developing countries. After the deduction of government transfers and subsidies, this overall deficit increased to 3.5 percent and 5.5 percent respectively (Short 1984). Short's (1984) findings indicated that public enterprises in developing countries were a source of inflation and balance of payment problems.

Furthermore, the World Bank (1988 p. 55), in a discussion on the fiscal deficit problem, states:

So while foreign borrowing permits the fiscal deficit to expand without undue pressure on domestic inflation and interest rates, the build up of external debt makes countries more vulnerable to external events such as global recession, falling commodity prices, and sudden changes in the cost and availability of new foreign lending. If fiscal expansion is unsustainable,

the continued accumulation of external debt only delays an adjustment that is all the more severe for being postponed.

In any event, fiscal deficits were a principal cause of the international debt crisis, directly, because they necessitated a huge level of public borrowing, and indirectly, because they encouraged the private sector to send its capital overseas (World Bank 1988). Most developing countries have recognised that fiscal discipline helps prevent future debt problems and helps resolve the present ones (Short 1984). So, there is global evidence or momentum for the privatisation of SOEs in an effort to avert fiscal deficits.

### **2.3.2. Reforming the public sector**

Significant changes in the international economic environment have occurred since the late 1980s and early 1990s (World Bank 2004). Both developed and developing countries have been moving towards an ever more liberal and open economy.

Reforming the public sector was not a new issue, as the following World Bank (1991 p. 139) discussion of Arabic treatise on this subject argued:

In about the fourteenth century, Ibn Khaldun, [in] an Arabic treatise argued: "Commercial activity on the part of the ruler is harmful to his subjects and ruinous to the tax revenue ... crowds out competitors; dictates prices for materials and products which could lead to the financial ruin of many businesses. When the ruler's attacks on property are extensive and general, affecting all means of making a livelihood, the slackening of business activity too becomes general". One of the most striking legacies of the 1980s is the rediscovery of these ancient truths.

During the 1980s and 1990s, many governments reconsidered their involvement in the economy, reviewing their spending priorities and undertaking fewer commercial activities (World Bank 2004).

Reforming the public organisation of part package of reforming the public sector exposes the crucial role of the state in achieving that. Economists have pointed out that there are two roles for the state, normative and positive (Tanzi 1997). The normative role determines principles, guidelines to maximise welfare. “what the government should do to correct market imperfections and to complement the market in other ways to promote and maximum social welfare” comes under this category (Tanzi 1997 p. 4). Whereas, “the positive role describes and analyses what the government actually does” for ensuring the welfare of the citizens (Tanzi 1997 p. 5). The role of the state is a combination of making direct investment particularly in heavy industries in the initial phase of development and developing a set of policies, which ensures availability of some incentives and control mechanisms to minimise risk associated with investment. Krueger (1990) argues that in the large-scale activities, such as infrastructure and provision of information, the state is in a good position to intervene successfully (Tanzi 2000). Evidence shows the market cannot by itself create appropriate industries or strategic investment (Tanzi 1997). Therefore, the need for selective government intervention becomes a crucial theme (Krueger 1990).

In many developing countries, the state’s intervention in the economy was influenced by their experience as colonies of external powers (Tanzi 1997). In these countries, the nationalisation of business enterprises had become a crucial decision at the time of independence (Tanzi 1997). In the 1950s and 1960s, especially in the developing countries, the economic literatures often assumed that the government was the best judge in deciding which public goods are essential or necessary and which are not (Tanzi 1997). The assumption is that the government has more knowledge than the private sector on how the market and the economy operate and what are the citizens’ needs (World Bank 1988).

In recent years, the role of the state is changeable over time, it is not a static role (Tanzi 2000). The role of the government is changing from one that “competes with the market to one that augments the markets and improves its working”(Tanzi 2000 p. 17). As a result of that, in many countries, public organisations are privatised, economic restrictions particular on free trade are reduced, and price controls are reduced as well (Tanzi 2000). All these actions are expecting to increase the market force and limit the government intervention. In addition, the role is influenced by changing or different social views and by changing technologies, which influence what the state should do (Tanzi 2000). It is in this global context that Jordan and in particular JT is being considered.

The next section argues that privatisation is a significant mechanism for public sector reformation.

## **2.4. Privatisation as a mechanism for public sector reform**

This section provides many controversial issues related to difference privatisation: the concept of privatisation, the justification for adopting the privatisation programs and reasons for privatisation as a remedy for solving deep-seated problems.

### **2.4.1. Privatisation phenomenon**

Privatisation is the process of transferring assets and activities of State Owned Enterprises (SOEs) from the public to the private sector (Cunha and Cooper 2002). It is “generally used to mean the formation of a Companies Act company and the subsequent sale of at least 50 percent of the shares to private shareholders” (Beesley and Littlechild 1983 p. 1). It is a change from government to private ownership as well as a change in management style (Forrer et al. 2004). Privatisation, in the broadest sense, means



making an economy more private, and this is quite a complicated process. It is inevitably a political process because it implies the transfer of power from the public to the private sector (Mastrangelo and McPhail 1993). Moreover, “a privatisation program’s direction is usually dictated by political considerations and realities” (Mastrangelo and McPhail 1993 p. 5).

The results of privatisation have, mainly, been reported from the economic, financial and strategic perspectives. Some of these issues include the reduction of both the public sector deficit and the constraints on corporate financing (Karlaftis and McCarthy 1999), the strengthening and developing of the capital market (Bortolotti et al. 2001), improvement of the efficiency of other state activities and the efficiency and productivity improvements resulting from market incentives to managers and workers (Goodman and Loveman 1991; Parker and Hartley 1991). Privatisation is not merely an economic concept, rather it is a more “comprehensive and complicated socio-economic and political philosophy” (Awamleh 2002 , p. 237).

A number of studies have asserted that governments have made many justifications for their decisions to adopt privatisation programs. Lieberman (1993 p. 11) mentioned various commonly sited objectives connected with privatisation, as shown in table (2.5):

*Table (2.5) The privatisation objectives*

Please see print copy for Table 2.5
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source: Lieberman (1993, p. 11)

#### **2.4.2. Reasons for privatisation**

Scholars have investigated many reasons that have motivated government leaders to privatise SOEs. Ramamurti (1992) tested five hypotheses regarding the reasons for privatisation, using a sample of 83 developing countries. Within this sample, there were 34 non-privatisers, Jordan among them, 21 privatisers, and 28 actively privatising countries. The hypotheses examined were that privatisation occurs in countries characterised by higher budgetary deficits, a large domestic public and external debt, higher dependency on loans from international organisations, IMF and World Bank, a large share of SOEs in total investment, inferior SOE performance in comparison with non-privatisers, and lower long-term growth (Ramamurti 1992). The empirical test of these hypotheses revealed that privatisation occurs in countries facing greater financial problems, such as large budgetary deficits and external debt as a percentage of GDP. There is also a positive correlation between privatisation and dependency on loans from international organisations: the greater a country's dependence on loans from the World Bank and IMF, the greater the probability of it being an active privatiser (Ramamurti

1992). However, the econometric analysis does not support the assumption that privatisation is related to poor financial performance by SOEs and to poor long-term growth (Ramamurti 1992).

The next section introduces privatisation as a basic solution for making accountability more efficient and transparent. Regulating activities by a government body are vital under the prevailing circumstances. These include the provision of a model that sets standards for performance for the telecommunication industry and also controls the quality and the prices of the public services provided by the industry constituents.

#### **2.4.3. The Environment for Privatisation**

In many countries, the economic, social, and political environments in which the privatisation takes place are the influences constraining the success of the privatisation process. There are many external constraints that could significantly obstruct the privatisation process. Lieberman (1993 p. 13) lists these constraints as shown in Table (2.6):

*Table (2.6) Environmental constraints for Privatisation*

Please see print copy for Table 2.6
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Source: Lieberman (1993, p. 13)

## **2.5. Privatisation and Accountability**

The main issue raised in adoption of a privatisation program is the accountability issue, particularly when privatised organisations provide public utilities and where there are no potential competitors or their strength in terms of size and market share is very low. Thus, the role of a regulating body is of immense importance where privatised organisations operate under conditions of monopoly, or where the competitors are not strong enough to compete with these organisations. Privatisation requires the creation of a new body to control the performance of the operator in terms of prices and quality of the provision of products (Ogden 1995).

Appeals for accountability are common, requiring reports on accounting practices in the public sector. On this issue, Hopwood (1984, pp. 173-174) asserted that “accounting is seen as a way of both making visible and disciplining performance so that accountability can be demanded, policed and enforced...accounting has been implicated with the development of notions of stewardship and accountability”.

To illustrate the mechanism of accountability in the public sector and the flow of accounting information, Hopwood (1984) pointed to the flow of accounting information from agencies of the state to parliament.

### **2.5.1. Privatisation and regulation**

In the UK, many enterprises still hold monopolies in their industries, and in gaining a dominant position there is still the potential to abuse their power (Martin and Parker 1997). Consequently, a regulatory system is usually introduced to prevent such abuse, and in the UK, regulation has taken the form of legislation that lays down certain operational requirements including: “an operating license for the company; a pricing

formula to determine maximum price, and therefore determine indirectly a maximum profit; and the regulatory office headed by a director general” (Martin and Parker 1997, p. 24).

In the UK, prices of utility services are essentially regulated under a RPI-X formula of price control (Rees and Vickers 1995). Hence, price cap regulation has become a popular form of regulation in many industries, including the telecommunication industry (Bernstein and Sappington 2000). RPI-X price control was introduced for British Telecom, and the general method has been adapted to use in other privatised industries with monopoly power, for instance gas, airports, water, and electricity (Rees and Vickers 1995). Rees and Vickers (1995, p. 358) gave the following definition for the RPI-X regulation formula which is commonly used by several regulatory industry bodies in the UK:

RPI-X price control is a type of price-cap regulation. In its basic form, it requires that the retail price index to a defined ‘basket’ of the firm’s regulated products and services should increase by no more than the rate of retail price inflation minus X per cent per annum for a period of years. In short, average price must fall by at least X per cent in real terms, or rise by at most  $-X$  per cent if X is negative.

To clarify the X factor in this formula, Bernstein and Sappington (2000, p. 63) defined the X factor, saying that “price cap regulation typically specifies an average rate at which the prices that the regulated firm charges for its services must decline, after adjusting for inflation; this rate is called the X factor”.

Bernstein and Sappington (2000) stated that the basis of price cap regulation is to select a value for the X factor, and this is an issue that requires a great deal of discussion and compromise on various significant issues. They also provided a basic guideline for the X factor, in that it should reflect the extent to which the regulated industry has achieved

higher productivity growth and confronted lower input price inflation than other industries in the economy, saying that “the X factor should reflect the extent to which: the regulated industry is capable of increasing its productivity more rapidly than are other factors of the economy; and the prices of input employed in the regulated industry grow less rapidly than do the input prices faced by other sector of the economy” (Bernstein and Sappington 2000 p. 64). Regarding this guideline, to achieve a productivity growth rate equal to the rate of input price inflation, the X factor should be set to zero (Bernstein and Sappington 2000).

### **2.5.2. The need for institutional regulation**

The fact that enterprises have been privatised and still had a natural monopoly in their industry necessitated the establishment of a regulatory framework to protect customers from monopoly abuse and to provide incentives to the companies to sustain efficiency and potential competition (Ogden 1995; 1997; Evaristo 1998; Ogden and Anderson 1999). The external regulation of privatised utilities is essential to prevent abuse of monopoly power (Conrad 2005).

Grout (1995) asserts that in a regulated industry, almost all regulated prices will be effected, therefore the determination of a reduction of the operating costs is clearly difficult. Rees and Vickers (1995) describe the main aims of the regulator as trying to model the company’s business in order to identify opportunities for cost reductions and efficiency improvements.

The next section presents several issues related to the process of privatisation and the effect on an organisation. Organisational change is the main result of the privatisation

phenomenon in terms of changing the organisation's ownership, structure, culture and communication and information systems.

## **2.6. Privatisation and organisational change**

Privatisation is a change from government to private ownership, and it is the end-point of a continuum of changes in ownership structure and management style. Forrer et al (2004) assert that transferring ownership from the public to the private sector will lead to changes within the organisation. They assert that some of these changes are structural, such as changes in the membership of the Board of Directors, changes in management style, strategic changes such as in mission, goals and values, changes in capital investment, and changes in investment in employees. They also explored changes in organisational culture, such as changes in decision making, changes in human resource management, and changes in employee perceptions (Forrer et al. 2004). Organisational change has also been reported on by Macias (2002), with an exploration of the impact of ownership structure on management accounting systems. Macias found that transforming an enterprise from a public to a private sector organisation entails fundamental changes in the overall aspect of the management and in the accounting system. The privatisation process leads to changes in the context of management public organisation and this has implications for the accounting system (Pallot 1998). The accounting system is an organisational element that can be used to monitor and evaluate the decision-making behaviour of actors (Ogden and Anderson 1999). Coram and Burnes (2001) studied the privatisation of the Property Services Agency (PSA) in the UK, and concluded that "it is necessary to adopt an approach to change which integrate both the structural and cultural aspects of change, and which organises the need to appreciate and respond to staff fears and concerns" (p. 94).

Cultural changes have also been observed, these being associated with a change of attitudes towards an ethic advocating efficiency and quality (Dent 1991). Considering these results, it is clear that companies undergoing privatisation have adapted to changes in their external environment namely deregulation and increased competition and market requirements with major changes in their internal organisation (Goodstein and Boeker 1991). This change is reflected in the development of new strategies and increased responsiveness to environmental changes, and also in restructuring namely to more profit-orientated and customer-orientated structures (Goodstein and Boeker 1991). These changes, all of which are likely to lead to changes in the internal organisational environment, will affect an organisation's activities.

Several studies, for instances Berry et al (1985), Pallot (1998) and Cooper, have focused extensively on organisational change in different countries and organisations. They studied organisational changes and how the changes may or may be not effected. Berry et al (1985) studied one area of the National Coal Board in Britain and investigated how the technical perspective for production planning is more important, while finance is effectively ignored. Pallot (1998) conducted her study on New Zealand Telecom to explain how the change in Telecom's organisational environment and culture had impinged on the organisation structure and culture. Regarding the organisation structure, there was a change from a highly bureaucratic structure with a large head office in the capital city of Wellington to more regional autonomy (Pallot 1998). Organisational structuring in Telecom was mostly geared towards greater decentralisation (Pallot 1998). Concerning the organisation's culture, there was a shift from an engineering culture with an emphasis on physical production to a commercial culture in which there is an emphasis on markets and finance (Pallot 1998).



Cooper (2004) conducted a study to find which factors stimulated the government to reform the public organisation of the UK Metropolitan Borough (local Government) Council Housing division as it attempted to move towards adopting a private sector organisational structure and management style.

This study is distinct from these other studies. It examines the nature of the Jordan regime, the nature of its privatisation program and the nature of its telecommunication industry. Jordan is a Kingdom and is a developing country with a monarch regime where the power of decision-making is in the hands of the King through the executive authority. The nature of the privatisation program was driven initially by political and economic reforming programs. There were both monarchy and governmental interest in developing the telecommunication industry because of the economic significance of this industry. This study provides significant explanation of the organisational change in Jordan Telecom and its accounting systems in its social context.

### **2.6.1. Accounting is a dynamic phenomenon**

Accounting is not an autonomous phenomenon; social, political, and economic factors provide a basis for accounting change (Hopwood 1987). Accounting is not merely a technical instrument for assisting management decision-making; it is also implicated in organisational practices (Ogden and Anderson 1999). Hopwood (1987 p. 213) asserted this point, saying

accounting is not a passive instrument of technical administration, a neutral means for merely revealing the pre-given aspect of organisational functioning. Accounting is seen as having played a very positive role in the creation of a manageable organisational domain”.

Thus, accounting seems to be a dynamic phenomenon impacted by and shaping organisational perspective. Moreover, an accounting system and its information system

needs to be seen playing a more active role in controlling enterprise performance rather than merely giving static information for decision-making (Hopwood 1987). This study tries to explore the increasing power of accounting, and its information system, resulting from privatisation, but also drawing the additional confronting issue of Jordan as a Kingdom.

### **2.6.2. Accounting and the construction of an organisational perspective**

A number of studies during the 1980s argued the constitutive role of accounting in construction of organisational perspective (for instance: (Burchell *et al.* 1980; Hopwood 1983; Roberts and Scapens 1985; Loft 1986; Neimark and Tinker 1986; Hopwood 1987; Laughlin 1987; Nahapiet 1988). They argued that accounting is not merely a process of collecting and processing data; that the nature of accounting does not only revolves around technical aspects, but also in playing a positive role in the creation of organisational reality. Morgan (1988, p. 482) argued that “accounting systems do more than just monitor or mirror reality; they also shape reality”. Burchell *et al.* (1980, p. 6) talk about the role of accounting, saying that it does not simply involve “assessment of individual economic magnitudes...it now functions as a cohesive and influential mechanism for economic and social management”. Hopwood (1983) argued that modes of accounting “are difficult to disentangle from the functioning of organisations as we know them”, as accounting has become “centrally implicated in the modern form of organising” (p. 287). The role of accounting in influencing conceptions of organisational perspective, as Ogden and Anderson (1999 p. 92) argued, “is especially potent in processes of organisational change”. Accounting, to some extent, involves the creation of new organisational aspects, articulates new visions of management practices and may provide sense and meaning to the organisation’s purposes and activities (Ogden and Anderson 1999). A number of studies of organisational change in both the

private and public sectors have focused on the importance of accounting in the creation of new organisational perspectives, for instance Jones (1992). Some examples of accounting in organisational change are available in studies of privatised organisations such as the Regional Water Authorities (Ogden 1995; Ogden and Anderson 1999).

Privatisation, as Ogden and Anderson (1999 p. 92) argued, “provides a particularly rich site for studying the constitutive role of accounting in organisational change”. Management of organisations undergoing transition have to take real actions to push the transition from a public sector body to a private sector body, thus throwing the processes of organisational change into tighter focus than usual (Ogden and Anderson 1999). This transition represents a strategic change, involving “the adoption of new competitive postures or alignments with the environment...often it involves refashioning organisations’ structures and systems to support the new alignment” (Dent 1991 p. 8). Such change is often difficult to achieve as “structural and political factors create inertia” (Dent 1991 p. 8), but privatisations have involved strategic changes in public sector organisations. These changes have brought with them “the ideology of the private sector and the market place as an alternative to the now redundant notions of public sector service” (Ogden and Anderson 1999 p. 93). This philosophy of the private sector has centred on “the apparent inefficiency, lack of cost effectiveness, unprofitability and even scope of public sector activities” (Hopwood 1984 p. 167). Hopwood also stated that the cost and efficiency of public sector bodies, “rather than effectiveness”, have been highlighted and “the practices of accounting ...used to infiltrate and change, rather than merely record”, their activities (Hopwood 1984 p. 171). As discussed earlier, the World Bank (1988) endorsed Hopwood’s view, and, in addition, extensively focussed on the significant role of SOEs in delivering public services in an equitable manner, their contribution is in increasing public budgetary

deficits and their negative impact on the budgetary balance particularly in developing countries

### **2.6.3. The role of accounting through a privatisation process**

Crompton and Jupe (2002) examined the role of accounting system played in the organisational transformation to the privatised British Railway system. Their study followed Dent's study (1991) investigating the new business culture created in the privatised British Railway. They also asserted that the use of accounting system concepts as gears of change provided an opportunity for the pursuit of efficiency. This opportunity was discussed by Hopwood (1984 p. 186), saying "perhaps we should use the current pressures for change as a basis for starting to account for accounting and to ask questions about what is actually achieved in the pursuit of efficiency".

Before privatisation, most public organisations focused on legality and fraud prevention. After privatisation, these organisations focused on efficiency and profitability (Macias 2002). Thus privatisation led to the appearance of new philosophies with regard to the objectives of enterprises (Macias 2002). This may be occurring in many countries, but in the context of Jordan the outcomes may be different because it is one of the developing countries where circumstances are quite different. In addition, the nature of the industry itself and its importance to the people are different.

Furthermore, changes in the ownership structure not only brought about new incentives for control, but also a fundamental shift in the object of control, with profitability and efficiency being the main points of concern (Macias 2002). These new philosophies and concerns created new demands on accounting information systems, and often necessitated a system redesign in order to generate the required data (Macias 2002).

The philosophy of enterprise under Spanish government management emphasised the implementation of legal frameworks and the prevention of fraud (Macias 2002). Hence, the Spanish government monitored price regulations and quality of services. However, with privatisation, enterprises came under private sector management and philosophy, bringing a change in focus towards greater efficiency and maximisation of profits (Macias 2002). This brings up the issue of how these newly privatised enterprises will be controlled, particularly in pricing and the quality of service, when enterprises have monopoly in their industries. Ogden (1997 p. 537) pointed to this issue, saying:

the continued absence of competitive market conditions in the water industry after privatisation necessitated the establishment of a new regulatory framework to protect customers. The UK government claimed that this would be designed to ensure that the benefits of greater efficiency are systematically passed on to customers in the form of lower prices and better service than would otherwise have occurred.

Thus, the regulatory responsibility was given to the Office of Water Services (Ofwat), with the regulator controlling the price of services using a pricing formula based on the retail price index plus K factor. The K factor is evaluated on the basis of operating expenses and revenues, meaning that the formula motivates the management of the privatised enterprise to reduce the cost of services in order to enhance the enterprise's profitability (Ogden 1995; 1997; Shaoul 1997; Ogden and Anderson 1999). As for quality of services, there are various evaluation criteria available, including: the size of the capital expenditure for increasing service coverage to more areas and customers, the diversity of services, the number of payment methods available to customers, and the level of customer service and response to customer complaints (Ogden 1997). Consequently, new organisational objectives require new systems of accountability, and eventually accounting systems come to play a key role here.

The reduction in cost of services was a key performance indicator and a basic centre of accountability during the pre-privatisation period. With privatisation, profitability became the key performance indicator and centre of accountability (Ogden 1995). Moreover, in response to the new imperatives for cost reduction and improvement in financial performance, the management of the newly privatised enterprises had to improve the means of management and control. Consequently, Ogden (1995 p. 198) asserted that

considerable organisational resources were devoted to developing more elaborate management information systems; developing planning and mechanisms; ensuring detailed specification of objectives; generating more accurate assessment and allocation of cost to each unit of operational activities; and introducing performance indicators and output measures which could be used to evaluate and compare achievements.

#### **2.6.4. Organisational Culture**

Several empirical studies, for instance Dent (1991), Pallot (1998), Conrad and Sherer (2001) and Conrad (2005), introduce the concept of culture as metaphorical terminology. Dent (1991) studies the role of accounting in producing and reproducing the organisational culture of the British Railway. Dent (1991 p. 705-706) asserted how new business culture replaced the old culture,

Organisations have long been known to have cultural properties. Organisations as cultures: system of knowledge, beliefs and values in which action and artefact are vested with expressive qualities. The operation of work technologies in organisations is embedded in a cultural system of ideas (beliefs, knowledge) and sentiments (values) in which actions and artefacts are vested with symbolic qualities of meaning.

Accounting practices are a mutual aspect of most organisations' activities. Dent (1991, 706) pointed out that these activities are "planning and budgeting activities, systems of hierarchical accountability, performance appraisal procedures, budgetary control and remuneration arrangements, all rely to a greater or lesser extent on accounting

practices”. Given this fact, accounting is likely to have a close relationship with organisations’ cultural systems (Dent 1991).

Accounting was incidental, perhaps existing as a practice, but with no particular significance under the dominant engineering culture in most SOEs (Pallot 1998). Dent (1991) examined this issue in a longitudinal study of British Railway Company, investigating organisational culture prior to the study, and the culture that emerged during the course of the study. Prior to Dent’s (1991) study, the dominant culture within the Railway Company was established and centred on engineering and production considerations. Within this culture, accounting was incidental (Dent 1991). Then, during the period of the study, a new culture, a business culture, emerged. The former engineering dominant culture was replaced by a new orientation centred on economic and accounting considerations (Dent 1991). New necessitated accounts emerged and through action and interaction, they were associated with organisational activities to reform organisational aspects (Dent 1991). As a result “a new set of symbols, rituals and language emerged to celebrate an economic rationale for organised activity” (Dent 1991, p. 708).

These cultural issues were also examined by Pallot (1998). Pallot’s study investigates how accounting was implicated in organisational culture, and refers particularly to the case of New Zealand Telecom. The study asserted that the change in NZ Telecom’s organisational environment and culture had two major facets: there was a change from a highly bureaucratic structure with a huge headquarters to a more regional autonomy. Therefore, the organisational restructuring of Telecom was geared towards greater decentralisation. Second, there was a shift from an engineering culture, emphasising physical production, to a commercial culture, with an emphasis on markets and finance.

Moreover, the greatest change was in its organisational structure and in personnel, with a supporting change in accounting systems and a greater involvement by accountants at all level of the company (Pallot 1998).

#### **2.6.4.1. Accounting system under the technical perspective**

Pallot's (1998) study found inadequate accounting systems, with accounting efforts struggling under predominantly manual systems, which were particularly primitive in key areas like customer billing, purchases and job costing. Moreover, much of information was not available in a timely manner, and the quality of much of the data was either questionable, due to slack controls on record keeping, or even misleading (Pallot 1998).

It seems, with the dominant engineering culture and in the absence of commercial vision, the accounting system was unable to present information in a form clarifying management accountability. In addition, inevitably, any investment in computer technology had been to meet the needs of engineers, neglecting the needs of other organisational apparatus, particularly in the accounting function (Pallot 1998). Consequently, the information required for decision-making, controls and accountability were not available in a relevant form, time, quantity and quality.

#### **2.6.5. Communication and an Accounting Information System**

Privatisation can influence both communication and reporting systems. In post-privatisation, the organisation's various mission objectives will be more complex and interdependent, leading to an increasing need for information processing capabilities (Parker 1995). Also, less slack and fewer excess resources mean that the organisation must react more quickly to unfavourable environmental conditions. In addition to the



attempts of management to communicate with employees, the privatisation may entail changes in the type and form of information that management wants to receive and spread throughout the organisation (Parker 1995). With privatisation, the new management needs to emphasise reporting and checking on the operation of various procedures (Martin and Parker 1997). In addition, there is also an emphasis on achieving commercial goals. Where privatisation brings decentralisation of management control systems, management needs to develop new accounting systems and increase investment in management information systems. Certainly, Ogden and Anderson (1999) pointed out several observations demonstrating the consequences of development of an accounting system that provided managers with a level of authority related to their positions, allowing them to take greater responsibilities for achieving operational and financial targets. Such a high-quality accounting system requires a perfectly integrated information system (Ogden and Anderson 1999). The system coordinates the information that will be received from other information systems in the enterprise, with information being custom formatted for the ease of use of each individual manager and reflecting that manager's specific areas of responsibility (Ogden and Anderson 1999). By using computer technology, the managers in different levels can access this system through their personal computers, allowing them to access information on their own performance and that of their employees, as well as on other managers (Ogden and Anderson 1999). Ogden and Anderson (1999 p. 111) talk about this, saying that such a system "also encouraged self-assessment and self-monitoring so that managers could compare their performance against their own current targets, against their past performance in previous periods, and against their peer group of other similarly positioned managers". Thus, the system adds a further dimension to self-monitoring, encouraging managers to take responsibility for and check the accuracy of data inserted

into the system since that is the data on which their performance measures are based. Roberts and Scapens (1985 p. 455) articulated the consequences of studying the accounting information system, saying that,

An alternative avenue for research ... is to explore the conditions and consequences of the production and use of accounting information, and in this way to begin to develop an understanding of the way that accounting information not only reflects, but through different forms of use also shapes organisational reality.

And it is in this way that this thesis considers JT.

Nicolaou (2000) examined the relationship between the degree of integration between organisational requirements for coordination and control with the design of an accounting information system and the perceived effectiveness of the system. The contingency theory served as the basis for the development of the hypothesis in the study. Nicolaou (2000) identified the factors that influenced the design of AIS. Thus, the topic is relevant but uses different methodology. The results indicated internal dependence is due to (1) required information sharing across organisation functions, (2) organisational formalisation, and (3) inter-organisational dependence in terms of both resource importance and accessibility (Nicolaou 2000). The fit between AIS design and those requirements significantly contributed to the perceptions of monitoring effectiveness and to perceptions of accuracy in information outputs (Nicolaou 2000). The increasing complexity of organisational structure requires an increasing amount and variety of information to be processed (Tyrrall and Parker 2005).

## **2.7. Discussion**

The foregoing review of the literature identified that there were political and economic aspects of change in the public sector. Reforming the public sector was basically a

governmental mission. Thus, the discussion about this role will be demonstrated in the empirical chapters where the public service principle is applicable to the establishment of Jordan Telecom (JT) as a nationalised monopoly, where the emphasis was the provision of a public service to the citizens, and how the development consequences changed these services under the privatisation project. The aim of these actions was to focus on the preparation of the industry to cope with more commercial principles in order to prepare them for the proposed privatisation. While, the telecom operator is still providing a monopoly services to the customers, subsequently, the priority became the creation of market values from the telecommunication industry to customers with free choice of providing several of its products.

The development of public enterprises and changing their culture has been discussed by several of authors. The reform undertaken encourages the enterprise culture to be involved in the development of free market values and establish a competitive environment. The reform required reorganisation of the public enterprise in the line of a commercial orientation.

In addition, the literature has discussed several models for interpreting the public and private sectors, particularly in providing main public products. Stewart and Ranson (1988) built a claimed model emulated by some authors to study the transformation of an enterprise from the public to the private sector. Conrad and Sherer (2001) built their study frameworks based on Stewart and Ranson's model with some modification for concepts and roles they thought failed to fully describe the transitional periods in which companies are undergoing privatisation transform. Martin and Parker (1997) provide a list of conventional distinctions between public and private sectors based on six

contingency factors: goals, management, labour, communications and reporting systems, organisational structure, and the nature of business (see table 2.3, p. 19).

Considering these efforts, the researcher classifies the organisational elements under pre and post privatisation which will be effected by the transformation process into four concepts: organisational philosophy, organisational structure, communication and control systems and human resources. Table (2.7) summarises these factors.

*Table (2.7) Pre and Post privatisation framework*

<b>Factors</b>	<b>Pre privatisation</b>	<b>Post privatisation</b>
Organisational philosophy	Public service, politically constrained, justice and fraud prevention, technical ethos	Marketing focus, , shareholder interests, profitability and cost effectiveness
Organisational structure	Hierarchical authority, centralised, functional	Decentralised, business based, profit centres
Communication and control systems	Bureaucratic and formal, static external environment, self control, weakness of MIS and AIS	Non-bureaucratic and informal, external environment more turbulent, external control, competition, boost of MIS and AIS
Human resources	Less focus	More focus

The literature review described the role of accounting information as a mechanism of communication and a technology of control and evaluation of performance. A review of accounting literature emphasises the importance of the role of accounting information in constructing an organisation's activities as well as reporting on them. This study will contribute to this literature by providing empirical demonstration of accounting's impact on privatised industries.

## **2.8. Summing up**

The literature discussed has revealed a gap in the study of the impact of the privatisation project in the context of Jordan as a kingdom and developing country. All the insights

discussed are valuable to address the main topic of this study, organisational change and the accounting system's role in communication in the privatised telecommunication industry. Public services, before privatisation, were a centralised structure, large organisation, with ministerial accountability, but lacking in adequate accounting systems. Reforming the public sector attempts to introduce commercial principles and have led to a new emphasis on financial concepts and efficiency. This also revealed a shift in an organisation's culture where engineers rather than accountants influenced the organisational structure and kinds of information generated. The theory chapter will analyse the change culture.

The next chapter discusses the methodology and research methods. It presents the concept of the qualitative research and interpretive research in order to study the privatisation phenomenon in the social context. In addition, it introduces the concept of the case study as the research approach and its capacity to explain such phenomenon.

## **Chapter 3: Methodology and research methods<sup>3</sup>**

### **3.1. Introduction**

This chapter presents a detailed description of the research design and methodology used in this study. The purpose of this study is to gain a deeper understanding of the organisational change and the major change in the accounting information system (AIS) and its role in the privatisation of Jordan Telecom. This research explains the organisational change in the state owned enterprises (SOEs) in Jordan, a country of the Middle East. It aims to develop a framework of the variety of actors that have exerted a major role in understanding the pace of the privatisation process. Consideration of the research design needs to take into account the different demands of collecting, analysing and interpreting data under Jordan's circumstances. Data gathering must be consistent with the research methodology in order for organisational change issues and the change in AIS in the context of Jordan to be thoroughly understood.

One of the main differences between qualitative research and quantitative research is the way of collecting data, and the mechanisms used to interpret this data. Interviews, official and unofficial documents, participants' observation and different reports are considered as sources for data collection in order to study a social phenomenon using qualitative research (Myers 1997). This reflects the focal shift from more technical issues to more managerial issues (Myers 1997).

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<sup>3</sup> Most of the materials here have been extensively published in Shanikat, M. (2007). "Understanding organisational change in the privatised enterprise: Case study of Jordan Telecom." *EBS Review*, 22(1): 42-58.

This chapter is organised as follows; followed by the introduction, section 3.2 describes the design of the study, section 3.3 shows the research's purpose and questions, and section 3.4 presents a perception of qualitative research into the social context, and identifies the research's philosophical assumptions, while section 3.5 highlights the case study as a research strategy and describes the qualitative research methods which are be used in this study. Finally, Section 3.6 brings together the research method consistent with the methodology considered appropriated for the study of JT. Theses sections are followed by section 3.7 giving the discussion and section 3.8 the summing up.

### 3.2. Design of the study

Maxwell (2005, p. 5) provides a systematic model to design research named “interactive” research. He stated that the model is composed of five elements: goals, conceptual framework, research questions, methods, and validity. The research questions are the core of the model and all the elements should be integrated in different ways (Maxwell 2005). Maxwell (2005 p. 4) provided a brief guidance to create insights into these elements.

*Goals:* Why is your study worth doing? What issues do you want it to clarify, and what practices and policies do you want it to influence? Why do you want to conduct this study, and why should we care about the result?

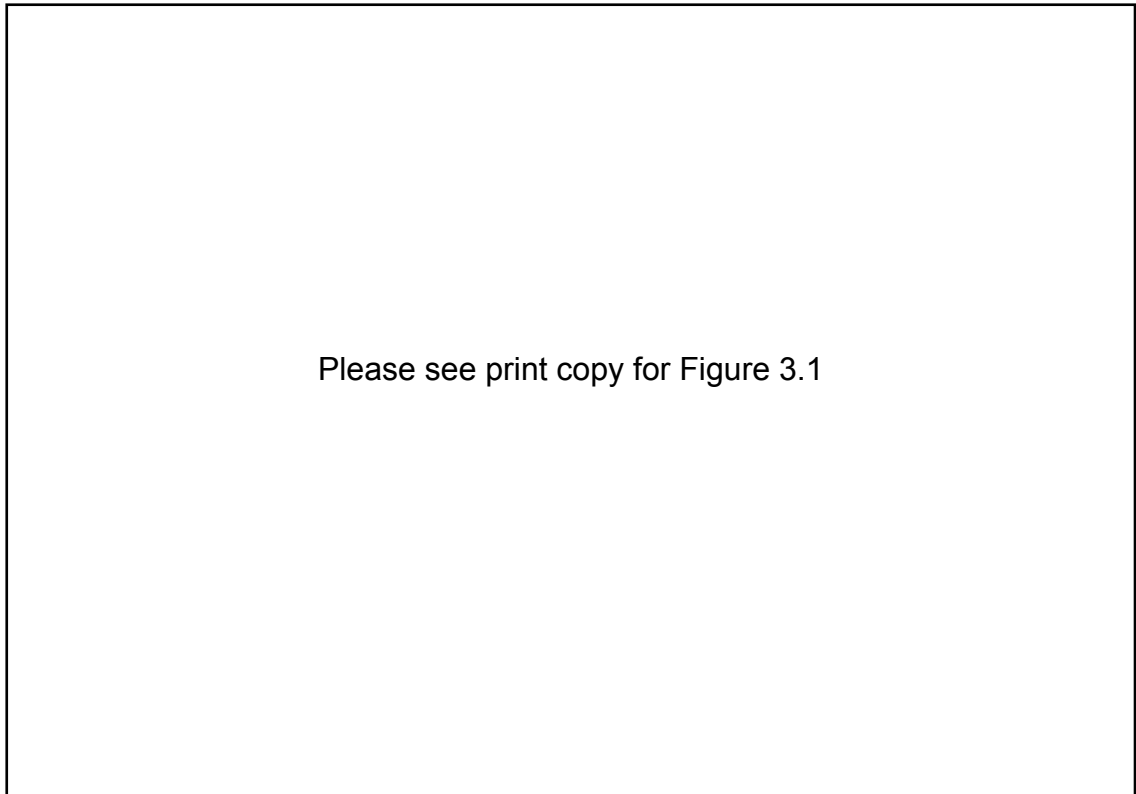
*Conceptual framework:* what do you think is going on with the issues, settings, or people you plan to study? What theories, beliefs, and prior research findings will guide or inform your research and what literature, preliminary studies, and personal experiences will you draw on for understanding the people or issues you are studying?

*Research questions:* What, specifically, do you want to understand by doing this study? What do you not know about the phenomena you are studying that you want to learn? What questions will your research attempt to answer, and how are these questions related to one another?

*Methods:* What will you actually do in conducting this study? What approach and techniques will you use to collect and analyse your data?

*Validity:* How might your results and conclusions be wrong? What are the plausible alternative interpretations and validity threats to these, and how you will deal with these? How can the data that you have, or that could potentially collect, support or challenge your ideas about what is going on?

*Figure (3.1) An interactive model research design, Maxwell (2005, p. 5)*



This study follows Maxwell's model in order to provide a systematic framework for this study. This chapter presents the purpose and the research questions, the methodology, the methods and the validity of research, while the conceptual framework, particularly the theories chosen to conduct this research, will be presented in details in the next chapter.

### **3.3. Purpose and research questions**

The main purpose of this research is to provide an understanding of the organisational changes, which have occurred by the privatisation project. JT has been chosen as the case study. Jordan is a developing country and a kingdom, where generally the authority is in the hands of the king through the ministerial cabinet. In addition, the circumstances



that have driven the governments to adopt the privatisation program are different to previous studies on privatisation, for example Abu Shair (1997), Al-Quaryoty (1989), Awamleh (2002), El-Said (2001); as has been highlighted in chapter 1, section 1.1. Taking into account these insights and the general questions in Chapter 1, section 1.4, the study asks the following sub questions:

- What is the role of Jordan State with transforming a public enterprise environment to a private enterprise?
- What organisational form reflects this transformation? How is the AIS reflected or transformed to this new organisational form?
- What are the external pressures exerted on the Jordan Telecom, and how did the organisation respond to these pressures?
- What was the interplay between Jordan Telecom as a public enterprise and the Jordan State and were there other players, for example, France Telecom, and what role did they play?

### **3.4. Qualitative Research: A Social Perspective**

Qualitative research helps to study a phenomenon in its social context. Qualitative research methods were developed in the social sciences to enable researchers to study social and cultural phenomena (Patton 2002). Qualitative methods entail the involvement of a researcher in describing and explaining the behaviour of people and events rather than focusing on measurable attributes (Murray 2003). Quantitative methods, on the other hand, focus on measurements or financial issues (Myers 1997; Murray 2003). Quantitative research methods of events constructs were originally developed in the natural sciences to study natural phenomena (Guba and Lincoln 1994).

Murray (2003, pp. 1-2) provides a definition of qualitative methods:

Qualitative research is multimethod in focus, involving an interpretive, naturalistic approach to its subject matter. This means that qualitative researchers study things in their natural settings, attempting to make sense of, or interpret phenomena in terms of the meanings people bring to them. Qualitative research involves the studied use and collection of a variety of empirical materials- case study, personal experience, introspective, life

story, interview, observational, historical, interactional, and visual text... Qualitative researchers seek to make sense of personal stories and the way in which they interact.... Qualitative inquiry is an umbrella term for various philosophical orientations to interpretive research. For example, qualitative researchers might call their work ethnography, case study, phenomenology....

In addition, Murray (2003 p. 2) also provided a definition of quantitative methods.

Quantitative research uses numbers and statistical methods. It tends to be based on numerical measurements of specific aspects of phenomena; it abstracts from particular instances to seek general description or to test causal hypotheses.... Quantitative researchers seek explanations and predictions that will generalise to other persons and places. Careful sampling strategies and experimental designs are aspects of quantitative methods aimed at produce generalisable results. In quantitative research, the researcher's role is to observe and measure, and care is taken to keep the researcher from 'contaminating' the data through personal involvement with the research subject.

By contrast, qualitative data sources include observation and participant observation, interviews and questionnaires, documents and texts, and the researcher's impressions and reactions (Myers 1997).

The motivation for conducting qualitative research comes from the consideration that the privatisation phenomenon is "complicated socio-economic and political philosophy" (Awamleh 2002 p. 237). Humans are different from the natural world in one aspect; that is, the scientific research does not quantify, manipulate, or control many of the aspects of human nature. Thus the human science research is deemed insufficient by the experimental oriented psychologists for completely exploring all issues relevant to human beings (Kirk and Miller 1986).

Qualitative research methods are designed to help researchers understand people and the social and cultural contexts within which they live (Streubert and Carpenter 2002). Kaplan and Maxwell (1994) argue that the goal of understanding a phenomenon from

the point of view of the participants and its particular social and institutional context is mostly lost when sources of data are quantified. Also, Maxwell (2005) points out that the strength of qualitative research comes from its focus on particular phenomena, and its emphasis on a language rather than a number. Qualitative research allows one to gain semi-structured understanding of underlying reasons and motivations and to obtain 'rich', 'real', and 'deep' information with 'nonstatistical' data analysis (Deshpande 1983). The findings of qualitative research are not used to test a theory and make generalisations about a population; but rather, to build a perspective for further interpreting (Easterby-Smith et al. 1991; Maykut and Morehouse 1994; Marshall and Rossman 1999).

There are several advantages to adopting qualitative research. Das (1983) and Patton (1987) suggest that qualitative methods offer a broader and more holistic perspective to the research than quantitative methods. In qualitative research, the researcher is involved with the phenomenon of study (Patton 1987). In addition, the qualitative method of inquiry encourages the researcher to obtain a better understanding of how factors interact for their functioning (Bryman 1989).

The human experience is a crucial part in conducting a qualitative research, either through the participants' points of view or through the researcher's interpretation. Murray (2003 p. 148) pointed to the qualitative aspects, which include " (a) participants' opinions expressed during interviews about how they developed their attitudes toward the controversial issues and (b) the researchers' interpretation of the questionnaires and interviews in relation to the pair of theories on which they study is founded". Consequently, qualitative research is "interpretive research" (Creswell 1994 p. 147), where the researcher's judgment and values become stated explicitly in the research results (Creswell 1994; Murray 2003; Maxwell 2005). Miller and Glassner

(2004) argued that a deep understanding of particular social phenomenon is achievable through conducting qualitative research and collecting valuable information through in-depth interviewing (Miller and Glassner 2004). This is relevant to research of accounting and related disciplines (Humphrey and Lee 2004). “Qualitative researchers in accounting tend to be catholic in their selection methods for research” (Humphrey and Lee 2004 p. 70).

#### **3.4.1. Qualitative research assumptions**

In qualitative research, conceptualising the aspect of the social phenomenon under the question is based on some primary assumptions in order to obtain real acceptance about which research methods are appropriate (Creswell 1994; Myers 1997). In confirming the importance of the qualitative method for the multiple realities of the social world, Merriam and Simpson (2000 p. 97) write:

The key philosophical assumption, upon which all types of qualitative research are based, is the view that reality is constructed by individuals in interaction with their social world. Thus, there are many realities rather than one observable, measurable reality which is key to research based in the positivist paradigm.

Creswell (1994) identified six qualitative assumptions, which refers to distinctions between qualitative and quantitative research. These assumptions are particularly concerned with the qualitative research itself and the qualitative researcher's experience and thought. Creswell (1994) stated that qualitative researchers are concerned with the process of conducting the study rather than the outcomes, the researchers are considered as the primary instrument in collecting the data, and the researchers are interested in how people give meaning and conceptualise their sense of a social phenomenon or event. Also, he identified that qualitative research involves fieldwork in which the researcher goes to a certain institution and meets participants in order to gain the

required information, classifies as a descriptive in which the researcher is interested in examining process, meaning and understanding of a social phenomenon. This is inductive in how the researcher can use concepts and theories in order to interpret the collected data. Murray (2003) also pointed out the assumptions in which the investigator may be seeking a research approach in terms of accumulating knowledge about particular phenomenon, collecting information through different means, selecting the participant in the study, and ways of organising and interpreting the collected information.

The particular approach in this chosen study depends on beliefs about the importance of studying a social phenomena and its impact. This leads to a basic knowledge about how this approach aids in the understanding of the social phenomena and introduces knowledge about it.

The most relevant philosophical assumptions are those that relate to the underlying epistemology which guides the research. Epistemology refers not only to the fundamental assumptions, but also contains aspects of the situation from which sources of knowledge can be obtained (Bauer et al. 2004). Morgan and Smircich (1980 p. 491) assert that,

...the case for any research method, whether qualitative or quantitative, cannot be considered or presented in abstract, because the choice and adequacy of a method embodies a variety of assumptions regarding the nature of knowledge and methods through which that knowledge can be obtained, as well as a set of root assumptions about the nature of phenomena to be investigated.

Chua (1986) identifies three categories which she believes are useful particularly for accounting researchers, based on the underlying research epistemology: mainstream, interpretive and critical. Whereas, Guba and Lincoln (1994) suggest four underlying

patterns for qualitative research: positivism, post-positivism, critical theory, and constructivism. While these three research epistemologies are philosophically distinct, in the practice of social research these distinctions are not always so clear (Sandberg 2005). There is considerable disagreement as to whether these research approaches or underlying epistemologies are necessarily opposed or can be accommodated within the one study (Sandberg 2005).

However, it is clear from the above discussion that qualitative research may or may not be interpretive, depending upon the underlying research assumptions (Myers 1997). Therefore, there are three approaches that can be adopted by a qualitative researcher, positivist or “empirico-analytical” (Fossey et al. 2002, p. 718), interpretive and critical (Myers 1997; Neuman 2004). It follows from this that the choice of a specific qualitative research method such as the case study method is independent of the underlying philosophical position adopted. For example, case study research can be positivist (Yin 2002), interpretive (Scapens and Roberts 1993), or critical. These three philosophical perspectives are discussed below.

Fossey *et al.* (2002, p. 719) provide comparisons of the three basic approaches, positivist, interpretive and critical, which are used in the social sciences. These theoretical approaches consider ways of looking at the world (Fossey *et al.* 2002). These three approaches are summarised in Table (3.1).

### **Positivist Approach:**

Positivist theorists argue that theory is not the central importance in their approach; rather they are concerned with prediction and explanation and the theories are used in order to investigate and verify (Myers 1997; Fossey et al. 2002; Neuman 2004). The

positive methodology attempts to use the approach of natural sciences in order to understand and perceive a social phenomenon (Myers 1997). For example, as discussed in Chapter 2, section (2.6.5), Nicolaou (2000) studied the factors influencing the design of AIS from a social context. The positivist see that the experiment is the ideal way to conduct research (Neuman 2004). Examples of a positivist approach to qualitative research include Yin's (2002) and Watts and Zimmerman' (1979) work on case study research.

Lowe and Machin (1983) and Whitley (1988) criticise that the use of the research methods of natural sciences fails to take account of the dynamics of the social context. Use of a natural science approach pays little attention to the actions of the individuals (Lowe and Machin 1983; Whitley 1988). Also, Fossey *et al* (2002 p. 718) asserted that “one of the major criticisms is that within the positivist paradigm it is assumed that an objective reality, or truth, exists independent of those undertaking the inquiry and the inquiry context”. Qualitative and critical researches generally can provide more understanding of meanings of the human actions (Fossey *et al.* 2002).

*Table (3.1) Comparison of three major social researches, cited at Fossey et al. (2002 p. 719)*

Please see print copy for Table 3.1



## **Interpretive Approach**

Neuman (2004 p. 42) writes:

Interpretive researchers say that human social life is qualitatively different from other things studied by science. This means that social scientists cannot just borrow the principles of science from the natural sciences. Instead, they believe it is necessary to create special type of science, one based on the uniqueness of humans and that can really capture human social life.

The purpose of interpretive research “is to develop a theoretical framework that is capable of explaining the quality of observed social systems and the practices of human actors” (Ryan *et al.* 2002 p. 147). Interpretive researchers build their assumption upon what they believe and how they socially interact and respond (Neuman 2004). It is socially constructed beliefs and perceptions (Myers 1997; Neuman 2004). Interpretive studies generally focus on understanding the human action and interaction in the social world (Fossey *et al.* 2002). Interpretive research is not concerned with the description of dependent and independent variables, but focuses on researchers paying more attention to the human sense as a significant factor, rather than building a scientific framework for understanding social phenomenon in the social context (Myers 1997; Fossey *et al.* 2002; Neuman 2004). Therefore, interpretative studies are trying to understand a social phenomenon through the sense of the human being. Neuman (2004 p. 42) writes about the significance of qualitative data in conducting the interpretive research:

interpretive researchers tend to trust and favor qualitative data. They believe that qualitative data can more accurately capture the fluid processes of social reality. In addition, they favor interpretive over causal forms of theory.

Thus, interpretive research is suitable for understanding the privatisation phenomenon in its social context, mainly its impact on the organisation’s construction. This methodology is suitable to investigate the privatisation of Jordan Telecom, because it allows the researcher to enter the site and discover multiple understandings and

constructions of the privatisation process as understood by the various participants in the field. In this study, individual managers representing different interests and stakeholders are allowed a voice to build a rich understanding of the privatisation process. The interpretive methodology also allows the researcher to locate these participants' views within the specific and unique institutional context of Jordan, that is its unique parliamentary governance and regulatory regime, and in the context of external investors such as France Telecom. This is important because it challenges a functionalist perspective of a realist ontology, and acknowledges the social construction of knowledge in the site. Specific to this study, at the level of the organisation's communication systems, interpretive research can aid understanding of the accounting information system in the social context of the organisation Jordan Telecom, through its understandings of internal participants.

Roberts and Scapens (1993) use the interpretive approach in the study of organisational control. They investigated attempts by a company to install a new accounting control system and the reasons that led to the failure of the project. According to Roberts and Scapens (1993), these reasons are the location of accounting system within its organisational context, the treatment of accounting practice and the corresponding neglect of the relationship between accounting and the other functional areas within organisations such as marketing, production and human resources. In the case of this research, the study tries to explore these reasons. Also, Roberts and Scapens (1993 p. 2) identified their study aims as:

to explore the complex web of social processes which compromise the accounting change, to illuminate their historical and contingent character, and to illustrate how the process of change inadvertently created conditions which defeat the content of change.

The case study research method is being used with an interpretive methodology. Roberts and Scapens (1993) point out that their objective is not to derive a common fact or generalize their findings, but rather to explain the social process at work, and to identify the reasons for the lack of the project to introduce a new accounting system.

### **Critical Research**

Critical research emphasises that knowledge is socially and historically constructed (Myers 1997; Fossey *et al.* 2002; Ryan *et al.* 2002). Fossey *et al.* (2002 p. 720) write,

...critical approaches emphasise the social and historical origins and contexts of meaning, regardless of the individual or collective forms of embodiment and expression they might take. Critical research derives from socio-political and emancipatory traditions,...It focuses on the critique and transformation of current structures, relationships, and conditions that shape and constrain the development of social practices in organisations and communities, through examining them within their historical, social, cultural and political contexts.

Critical researchers try to build knowledge about social context and how people can use and act to change their social circumstances (Myers 1997; Neuman 2004). Critical researchers recognise and emphasise that the social reality is composed of multiple layers with social, cultural and political dimensions (Neuman 2004). Although all the research approaches usually build on that, there is mutual relationship between the theory and the empirical evidence; but critical research “tries to dissolve the gap between abstract theory and the empirical experiences of using the theory to make changes in the world” (Neuman 2004 p. 43). In arguing for a critical approach to accounting research, Laughlin and Lowe (1990 p. 37) assert:

The reason briefly is that accounting systems are a social construct which are created by organisational actors who are free to both change the design and provide, implicitly, the meanings which guide the design. We would argue that in addition, and possibly more questionably, that accounting systems and their designers should be actively involved in critically

analysing the current state of the organisation and society of which they are part, and looking for what changes they can bring into being in pursuing emancipation and development in our social world.

In another study, Berry *et al.* (1985) carried out an in-depth study of the National Coal Board. Their study (Berry *et al.* 1985, p. 3) aimed to “explore the rationales offered by the participants for the accounting and management control processes in which they are involved”. They found analysing these rationales emphasise that the current practices of financial planning and control systems do not appear to be dominant mode of organisational control for the organisation investigated, while the production planning appearing to be more dominant. In a recent study, Siti-Nabiha and Scapens (2005) investigated the relationship between stability and change within an accounting system. Their study (Siti-Nabiha and Scapens 2005, p. 44) aimed to:

explore the relationship between “stability and change” within with process of accounting change. It focuses on the ceremonial way in which a new system of value-based management (VBM) was implemented and how the key performance indicators (KPIs) became decoupled from the day-to-day activities of the business, thereby creating a level of stability which ultimately contributed to accounting change.

From the foregoing discussion, the mainstream research assumptions and the importance of interpretive factors have been identified by several accounting researchers (Burchell *et al.* 1980; Hopwood 1983; Hopwood 1984; Chua 1986; Arrington and Francis 1993). There is knowledge that interpretive research is concerned with understanding the social practice and accounting system and its practice as well (Ryan *et al.* 2002). Therefore, it is necessary to choose an interpretive approach in order to understand a social phenomenon such as privatisation.

### 3.5. A case study as a research strategy

Adoption of a particular methodology has implications for the choice of research method. Ryan *et al* (2002) discuss the link between the methodology and method. They suggested choosing a particular approach to increase our knowledge and understanding of empirical observation by choosing theories and models, which it is believed can explain a certain phenomenon in a practical context (Ryan *et al.* 2002). Generally, in case study research, the researcher tries to investigate in depth many features relating to a particular case through extensive data, that comes often in a qualitative form (Das 1983; Neuman 2004). Ryan *et al* (2002) suggested that case studies have a valuable role to play in interpretive research, when research uses theory to understand how social order is produced and reproduced. Case studies have been widely used in accounting research (Ryan *et al.* 2002). Also, they are attaining general acceptance as a research method (Ryan *et al.* 2002). The interpretive accounting research seeks to provide a deep understanding of the accounting practices in their social context and to materialise these practices in their organisational and social context (Ryan *et al.* 2002). Case study research is obviously more harmonious with the interpretive methodology discussed early in this chapter, and has been chosen for this study.

#### 3.5.1. Research method

A research method is a strategy of inquiry which derives, in particular, from the underlying philosophical assumption that, “the researcher holds regarding the nature of phenomenon’s reality (ontology) will affect the way in which knowledge can be gained about that phenomenon (epistemology), and this in turn affects the process through the research can be conducted (methodology)” (Ryan *et al.* 2002 p. 35). The choice of research method influences the way in which the researcher collects data (Ryan *et al.*

2002). Specific research methods also imply different skills, assumptions and research practices.

### **Case Study Research**

The term "case study" is used to understand a single unit of analysis such as a certain organisation, phenomenon, event, program, process or social group (Creswell 1994; Myers 1997; Neuman 2004). Neuman (2004 p. 19) writes in a case study “a researcher examines, in depth, many features”.

Yin (2002 p. 13) provides a definition of a case study as a research strategy:

a case study is an empirical inquiry that investigate a contemporary phenomena within its real-life context, especially when the boundaries between phenomena and context are not clearly evident; and in which multiple sources of evidence are used.

This definition not only helps to understand case studies, but also distinguishes them from other research strategies. Also, Woodside and Wilson (2003 p. 493) provide a definition of case study research as, “case study research is inquiry focusing on describing, understanding, predicting, and / or controlling the individual (i.e. process, animal, person, household, organisation, group, industry, culture, or nationality)”. It seems Woodside and Wilson’s definition has a broader perspective than Yin’s definition. Thus, Woodside and Wilson (2003) pointed out the suitability of the case study research, which is often appropriate for multiple research purposes.

Yin (2002) explains five possible research strategies and their suitability for different research questions. The research strategies that he explained are composed of a survey, archival analysis, experiment, historical analysis and case study. Choice of a suitable method for particular research, Yin (2002) suggests, will depend on three factors: the

form of the research question, whether there is a need for control over behavioural events and whether the research focuses on contemporary events. Also he suggests that the survey and archival analysis are appropriate for answering questions of the who, what, where, how many and how much type, where the research goal is to describe the prevalence of a phenomena, or when it aims to provide a prediction of a phenomena outcomes. The other three methods, Yin (2002) suggests, are suited to answering questions of a how, or why type.

Neuman (2004) identified three groups of methods, depending upon the purpose of the study based on what the researcher is trying to achieve, exploring a new idea, describing a social phenomenon and explaining why something behaves in such way. Neuman (2004, p. 15) provided a comparison among three groups of research. Table (3.2) shows a summary of the comparison.

In an explanatory case study, generally the theories are used in order to provide an understanding and explanation of the specific case (Ryan et al. 2002). Sometimes, the theory can not provide sufficient explaining to the phenomenon under investigation; the researcher will turn to modify an existing theory or to develop new theory in order to extend an explanation of the case (Ryan et al. 2002). The case study research is often associated with the building of theory (Woodside and Wilson 2003).

*Table (3.2) Purpose of research*

Please see print copy for Table 3.2
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*Source: Neuman (2004, p. 15)*

Also, Neuman (2004) revealed that the studies may have multiple purposes, exploratory, descriptive and explanatory, but one of them is usually dominant. The researcher uses the exploratory study in order to obtain a general knowledge to help in designing or conducting a deep study, therefore it addresses the “what” question (Neuman 2004). While, descriptive research addresses the “how” and “who” questions and explanation focuses on the “why” question (Neuman 2004). Also, he asserted that explanatory usually builds on exploratory and descriptive research (Neuman 2004).

The descriptive case study research is designed in order to answer such questions like, who, what, where, when and how. Whereas, the explanatory case study research attempts to answer the ‘why’ question. Sometimes case study research explanations include documents provided by the participant in the case study; as evidence or support for his or her opinion (Woodside and Wilson 2003). Table (3.3) summarises the relevant situations for different research strategies.



Table (3.3) Relevant situations for different research strategies

Strategy	Form of Research Question	Requires control of Behavioural Events	Focuses on Contemporary Events
<b>Experiment</b>	How, why?	Yes	Yes
<b>Survey</b>	Who, what, where, how many, how much?	No	Yes
<b>Archival analysis</b>	Who, what, where, how many, how much?	No	Yes/No
<b>History</b>	How, why?	No	No
<b>Case study</b>	How, why?	No	Yes

*Adapted from Woodside and Wilson (2003, p. 502)*

Ryan et al.(2002) also discussed the three case studies that Yin pointed out to them. There are exploratory studies, descriptive studies and explanatory studies. The exploratory study is basically used to explore reasons for particular practices, and enables the researcher to generate ideas about reasons for practices (Yin 2002). The descriptive case study is used to describe contemporary systems and practices, possibly with a view to determine best practice (Yin 2002). The explanatory case study is used to explain the reasons for observed practices (Yin 2002).

Regarding the objectives of the case study research, Woodside and Wilson (2003) revealed that a case study is appropriate for several research objectives: description; explanation; prediction and control of the individual process, animal, person, household, group or organisation.

As a research strategy, Yin (2002) also revealed the possibility of using the case study in many situations, among them, organisational and management studies, community, political and social science, as well as the conduct of dissertations and theses in social sciences. The next section presents five explanatory studies using the case study

research method in studying the organisational change in different countries and organisations. In addition, these case studies are compatible with interpretive research.

### **Case study methodology and organisational change**

Berry et al(1985), Dent (1991) and Pallot (1998) studied organisations as a case study. They studied organisational changes and how the changes may or may not be effected. Berry et al (1985) investigated how the technical perspective for production planning is more important, while finance is effectively ignored. In Pallot's (1998) explored how the change in Telecom's organisational environment and culture had impinged on the organisation structure and culture is articulated. Regarding the organisational structure, there was a change from a highly bureaucratic structure with a large head office in the capital city of Wellington to more regional autonomy (Pallot 1998). Organisational structuring in Telecom was mostly geared towards greater decentralisation (Pallot 1998).

Concerning the organisation's culture, there was a shift from an engineering culture with an emphasis on physical production to a commercial culture in which there is emphasis on markets and finance (Pallot 1998). Cooper (2004) used an explanation case study to reveal the factors affecting a UK Metropolitan Borough (local Government) Council Housing division as it attempted to move towards adopting a private sector organisational structure and management style.

Reviewing the above empirical studies provides evidence of compatibility between the research methodology and method chosen identified for this study. All five of the studies discussed illustrate the value of case study method in identifying the significance of accounting and its information in shaping and reshaping the organisational reality.

These explanatory case studies introduce insights into the development of the concepts of organisational change, by providing rich descriptions of the practices of the external agencies and the interaction of the internal organisational apparatus. Thus, the case study research method was considered appropriate for understanding organisational change in privatised enterprises. This study is distinct from mentioned studies including Shanikat (2007), which are: the nature of the Jordan regime, the nature of the privatisation program and the nature of the telecommunication industry. Jordan is a Kingdom and developing country with a monarch regime where the power of decision-making is in the hands of the king through the government. The nature of the privatisation program was driven initially by political and economic reforming programs. There were monarchy and governmental interest in developing the telecommunication industry in the kingdom because the significance of this industry, particularly in the economy. In addition, it is distinct in terms of using an explanatory interpretive research approach and building a theoretical framework (see chapter 4), which expects to provide significant explanation to the organisational change in Jordan Telecom and its accounting system in social context.

Otley (1984) studied the relationship between organisation theory and accounting practice and recommended more qualitative and interpretive research, and particularly case studies. Studies pertaining to organisational change have examined the impact of environmental factors such as technology, regulations and competition on the organisations' structure and culture (Ryan *et al.* 2002).

### **3.6. Research method techniques**

The research method adopted in this thesis involved two data collection methods; documentary evidence, and semi-structured interviews. The documents analysed included official records (corporate annual reports, documents, annual budget, presentation analysis and parliament minutes), newspapers, and periodicals.

An important part of the research consisted of semi structured interviews with JT's staff and other involved parties such as the project manager of the privatisation of the JT. Interviews were conducted with 19 managers; among them 10 interviews were done in the Arabic language and translated to English by the researcher. The majority of those interviewed were in the financial sector of JT – 9 participants (see appendix B.1), as well as some senior managers from other JT sectors; marketing, technical, strategic, information technology and human resources. Interviewees also included external parties such as a non-executive board member of JT. The financial accounting manager was appointed as coordinator; thus, choosing the participants was dependent upon his recommendations. All interviews were tape recorded except one interview, because the interviewee did not wish to be taped. Each interviewee was provided with a summary of the research objectives prior to the actual interview. The interviews conducted could be categorised as exploratory, in-depth and follow-up interviews. Permission was sought and granted for all three categories to be recorded on tape and later transcribed. In addition, notes were taken of significant points to facilitate follow-up probing questions. The exploratory interviews began with eight general (semi structured but focused) questions (see appendix A) on JT and its accounting and financial management systems. Interviews in this category lasted between 30 minutes and (sometimes) more than one

hour, depending on the issues raised by the respondent. In depth interviews were conducted within the financial sector and its staff in the main JT offices in Amman.

The in-depth interviews had three objectives, which include obtaining a description of organisational change in terms of the structure and the culture, accounting information systems, and to understand what the systems were and what they are today. During the fieldwork, the tape recordings made during the day were played back in the evening in order to reflect on the day's work. This invariably resulted in the need to seek clarification on certain issues which were either unclear or required a substantive support. Follow-up interviews therefore became necessary for such issues. During follow-up interviews, some interviewees produced documents including memos to support their statements. Interviews were conducted over a three-month period.

JT's administration demonstrated high interest in the study and was helpful in providing the author with access to all the relevant data. Consequently, at the beginning of the fieldwork stage, JT's financial officer appointed the financial manager to arrange the interviews with the other JT's managers who was initially interested. All the interviewees were showing their interest by allocating significant time for the interview itself as an important part of their job. This is evidence of the authenticity of the interview as a significant method of data collection in explaining a phenomenon in its social context.

### **3.7. Discussion**

Choosing a particular methodology is an important aspect of any research project, which will influence the type of study that can be undertaken, as well as the research methods adopted and the results that can be obtained. Qualitative research in managerial

studies engages in empirical work to collect information on organisational actions, events, structures and process (Llewelyn 2003).

This chapter overviewed alternative research methods available to study recent phenomenon from a social perspective. The qualitative approach has been adopted in the study based on the beliefs about the importance of the social phenomenon under investigation. The qualitative approach can help to understand the social phenomenon and introduce knowledge about it.

The adoption of a particular methodology has implications for the choice of the research method. Ryan et al (2002) discuss the link between methodology and method. They suggested that an alternative approach is to try to increase an understanding of empirical studies by developing theories to explain the people's actions in their practical context. Also, in their discussion of appropriate research methods, they suggested that the case studies have a significant role to play in interpretive research, and that researchers use theory to interpret action to understand how the impact of social phenomenon has occurred.

This study will build a theoretical framework in order to provide a better explanation to the underlying phenomena of the privatisation of JT. This will be discussed in Chapter 4 in detail. It combines explanatory and exploratory forms of the case study form to provide a better understanding of the developments that occurred over a period of time in a historical context. The developments pertaining to the periods before and after the privatisation of JT will be covered and discussed in Chapter 6. The study uses interpretive research because of its compatibility with both of these forms of case study.

### **3.8. Summing up**

So far the study is intended to provide an analysis of organisational change in relation to an industry that transferred from public to private status. The research methods chosen are consistent with the validity and suitability of a case study method for the research questions being addressed in this study. Also, it showed that the compatibility of the research method with an interpretive methodology and its capacity for introducing a rich understanding of organisational change and the factors influencing change in organisation. Further, it has identified several studies, which used an interpretive methodology and case study method to consider interpretative schemes in transferring an enterprise from the public to private form.

The next chapter will discuss the building of the theoretical framework. It will present the contribution of three theories chosen, Institutional theory (IT), Resource Dependency Theory (RDT) and Laughlin's (1991) Organisational Change Model (LOCM) in order to provide better understanding of the organisational change. It will identify the significant integration among these three theoretical lenses in order to study the pathway of organisational change.

## **Chapter 4: Building the theoretical framework<sup>4</sup>**

### **4.1. Introduction**

The purpose of this chapter is to develop a theoretical framework to understand the research phenomena in question. The framework draws on insights from multiple elements of organisational theory and alternative organisational models; aspects of institutional theory, resource dependency theory and Laughlin's (1991) organisational change models. The framework is expected to provide a significant explanation of the role of institutional agents at the macro level and to identify a significant gap in understanding organisational transformation. Much of the focus in this chapter is on the intra organisational dynamic. However, it does provide a potentially useful framework for understanding the design of the accounting information system as a communication system. In addition, examination of the impact of the external environment on organisational change exposes the consequences of the political and economic reforms underpinning the privatisation process in Jordan and the significance of these factors on the forces behind the mobilisation for organisational change in the public sector.

This chapter is organised as follows; the first section focuses on institutional theory (IT) and its relation with privatisation, organisational change and accounting system. Following this, limitations of the theory for its contribution in the study are noted. The second section of the chapter discusses the contribution and the limitation of the resource dependency

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<sup>4</sup> Most of the materials here have been extensively published in Shanikat, M. (2007). "Understanding organisational change in the privatised enterprise: Case study of Jordan Telecom." *EBS Review*. 22(1): 42-58.



theory (RDT) in the study. The third section provides Justifications for using Laughlin's (1991) organisational change model (LOCM) for interpreting organisational change influenced by the privatisation, and the change in design subsystem "accounting information system (AIS)" are discussed. This is followed by a section of integration between three theoretical frameworks.

## **4.2. Institutional theory**

Institutional theory is "one way of looking at organisations" (Irvine 1999 p. 70). It is "a way of thinking about formal organisation structures" (Dillard *et al.* 2004 p. 508). It is built in the belief that institutional environments are socially constructed (Meyer and Rowan 1977; DiMaggio and Powell 1983; Carruthers 1995). It is looking at the organisation as an open system, which means that the external environment and its participations play crucial roles in shaping organisational structure and operations. Scott (1998 p. 12) explains this concept:

Every organisation exists in a specific physical, technological, cultural and social environment to which it must adapt. No organisation is self-sufficient; all depend for survival on types of relations they establish with larger systems of which they are a part.

Also, Scott (2001 p. 151) points out that organisations cannot be understood by insulating it from to its surrounding and to the social and cultural context:

institutionalists remind us that no organisation can be properly understood apart from its wider social and cultural context. These environments create the infrastructures – regulative, normative, and cognitive – that constrain and support the operation of individual organisations".

#### 4.2.1. The institutional isomorphism

DiMaggio and Powell (1983) provide an ideal classification for identifying a mechanism through which thought drives institutional change. They pointed out that the institutional change could occur from coercive, mimetic and normative isomorphism. Scott (2001 p. 48) followed basically the three mechanisms of change identified by DiMaggio and Powell (1983). He explained the underlying meaning for the mechanisms and his explanation became a vital component of institution behaviour. Scott (2001, p. 48) asserts that,

Institutions are social structures that have attained a high degree of resilience. [They] are composed of cultural-cognitive, normative, and regulative elements that, together with associated activities and resources, provide stability and meaning to social life. Institutions are transmitted by various types of carriers, including symbolic systems, relational systems, routines, and artifacts. Institutions operate at different levels of jurisdiction, from the world system to localized interpersonal relationships. Institutions by definition connote stability but are subject to change processes, both incremental and discontinuous.

The categories of these elements are identified and vary in some ways. Irvine (1999 p. 76) provides summary of the classification of the three viewpoints of institutional pressures based on the original classification made by DiMaggio and Powell (1983). Table (4.1) shows the three viewpoints of institutional pressures:

*Table (4.1) Three viewpoints of institutional pressures, Source: Irvine (1999 p. 76)*

<b>Researcher(s)</b>	<b>Coercive isomorphism</b>	<b>Mimetic isomorphism</b>	<b>Normative isomorphism</b>
(DiMaggio and Powell 1983)	Political influence. Formal and informal pressures.	Uncertainty encourages imitation.	Professionalisation of the work force. More concern with status than efficiency.
(Scott 1995)	Regulative: coercive rules, laws, and sanctions	Cognitive: taken for granted, symbolic mimetic aspects of social life.	Normative: social beliefs and norms.
(Covalesski and Dirsmith 1988)	Formal and informal coercive pressure.	A more passive response.	Normative: legitimization of professional autonomy.

### **Coercive isomorphism**

DiMaggio and Powell (1983 p. 150) clarify that the

Coercive isomorphism stems from political influences and the problem of legitimacy. Coercive isomorphism results from both formal and informal pressures exerted on organisations by other organisations upon which they are dependent and by cultural expectations in the society within which organisations function.

These pressures which stems from the organisation field are exerted through the need for technical and managerial resources, legislation and regulations (Hassan 2005). In this sense, the organisation's behaviour and structure are affected by the government regulations and the legal environment in order to survive (DiMaggio and Powell 1983). Also, Hassan (2005 p. 127) points out that the "Coercive isomorphism is illustrated by the influence of the state on the organisations through the enactment of the legislations". Therefore, reformation of political and economic programs and the development of legal environment are considered to be a coercive role played by the government. With regard to the telecommunication industry, issuing numerous laws that have direct influence on the telecommunication industry, such as privatisation law, and the establishment of the regulatory body as a legislation framework to exert control and organise the telecommunication sector are considered external agents action, which aim to influence the structure of the industry.

### **Mimetic isomorphism**

DiMaggio and Powell (1983 p. 151) assert that the institutional isomorphism is not only derived from coercive authority, but also derived from the uncertainty of the organisational environment, which is considered a powerful force that may encourage imitation. Hassan (2005 p. 127) reveals that the "mimetic isomorphism is the force that drives organisation to

mirror other organisations that are, in effect, deemed to be both successful and worthy copying”. However, the mimetic isomorphism may take place when organisational technologies are poorly understood, when goals are ambiguous, or when the environment generates symbolic uncertainty; organisations may then model themselves on other organisations that they perceive to be more legitimate or successful (DiMaggio and Powell 1983). Organisations have a desire to adapt what is deemed to be normal, particularly where there is great uncertainty about what is the correct way to behave (Scott 2001).

### **Normative isomorphism**

Professions play a major role in normative isomorphism (DiMaggio and Powell 1983; Carruthers 1995). It stems from professional organisations through education and training processes (Hassan 2005). DiMaggio and Powell (1983 p. 152) determine two aspects of professionalisation are important source of isomorphism, “one is the resting of formal education and legitimation in a cognitive base produced by university specialists; the second is the growth and elaboration of professional networks that span organisations and across which new models diffuse rapidly”. Consequently, universities and professional training institutions are important actors for the development of organisational norms and rules among managers and their staff (DiMaggio and Powell 1983). One important mechanism for encouraging normative isomorphism is the filtering of personnel (DiMaggio and Powell 1983). In the sense of the institutional perspective and the interaction between the institution and its external environment, Hassan (2005, p. 127) asserted that “organisations interact with their wider environment in ways perceived as acceptable to various constituents in that environment and may adopt new accounting systems as tools for documenting institutional compliance or as means for seeking external legitimation”.

#### **4.2.2. Institutional theory and privatisation**

Privatisation can be seen as the shift from one institutional template to another and can be seen as a coercive institutional change (Johnson et al. 2000). To understand the privatisation process, Johnson et al. (2000) argued that using institutional theory can help to perceive the process of privatisation. Moreover, they revealed that institutional theory's proponents enable the researcher to realise that privatisation is comprised of institutional change proponents and proposes mechanisms that are creating an optimal pattern of organisation not only through a coercive mechanism, but also through normative and mimetic mechanisms (DiMaggio and Powell 1983). The underlying privatisation seems to be an organisation, which is subject to new private sector forces. Thus the potential pressures from the market naturally will create desired changes in the nature of the work process of organisation. Kondra and Hinings (1998) predict that the change is likely to occur in institutional environments where there are more impacts from other organisational fields. They also revealed that organisational fields exert a regulative and normative effect on institutional perspective. (Greenwood and Hinings 1996 p. 1025) point out the importance of using institutional theory to articulate organisational responsiveness to external institutional pressures:

Institutional theory shows how organisational behaviours are responses not solely to market pressures, but also to institutional pressures (e.g. pressures from regulatory agencies, such as the state and the professions, and pressures from general social expectations and the actions of leading organisations).

Consequently, institutional pressures lead organisations to adopt the same organisational form. Greenwood and Hinings (1996) define convergent and radical change. Convergent change occurs within an existing typical pattern while radical change involves moving from

the existing orientation by the transformation of the organisation (Greenwood and Hinings 1996). It occurs when an organisation moves from one pattern to another one in use. In this sense, the institutional changes that occur by the privatisation process seem to be seen as a radical change, because it constitutes a change in such institutional templates that is challenging and problematic (Greenwood and Hinings 1993).

#### **4.2.3. Institutional perspective and change**

The institutional perspective focuses on the mechanism of organisational adaptation, through the process of change with their external environment (Meyer and Rowan 1977; DiMaggio and Powell 1983). Therefore, in the line of the institutional theory, Scott (2001, p. 48) gave a new idea about institutions.

- Institutions are social structures that have attained a high degree of resilience.
- Institutions are composed of cultured-cognitive, normative, and regulative elements that, together with associated activities and resources, provide stability and meaning to social life.
- Institutions are transmitted by various types of carriers, including symbolic systems, relational systems, routines, and artefacts.
- Institutions operate at multiple level of jurisdiction, from the world system to localised interpersonal relationships.
- Institutions by definition connote stability but are subject to change processes, both incremental and discontinuous.

Ruef and Scott (1998) claim that an organisation changes passively in response to an environmental disturbance. Scholars of Institutional theory insist that organisational change may involve several issues. Greenwood and Hinings (1996) argue that adaptation of an organisation in response to external environment disturbances may be limited to a certain degree by the institutional pressures impacting on the organisation. Similarly, other studies advise researchers to consider the role of agency in analysing organisational change.

Townley (2002), in her study, for instance, highlighted the power of the internal management's members in adapting the organisational elements and shaping the nature of change, particularly in a public sector organisation. In addition, scholars on Institutional theory advised researchers to give due importance to the process of institutional change. Tolbert and Zucker (1996) studied how new institutional norms and values are diffused through an organisation and how they are legitimated by the existing players. Greenwood et al.(2002) resorted to the same concepts while studying professional organisations and their adaptation to new institutional values.

Scott (1991) argues that new organisational structures emerge when organisations undergo an adaptation process with respect to its policies and practices. Therefore, after undergoing the adaptation process, existing organisational elements will be abandoned at the organisation and new tangible and intangible organisational elements will take their place (Hinings and Greenwood 1988). This elimination of old organisational elements in the light of new institutional elements carries utmost significance for the organisations concerned and their members. In the literature pertaining to Institutional theory, three concepts have been discussed in relation to major or radical changes in organisations, such as those involving ownership transfers, with particular emphasis from scholars: coercive pressures, as discussed above, the extent of an organisation's dependence on other organisations in terms of acquiring the resources, and the organisation's internal processes and procedures (Erakovic and Wilson 2005).

Institutional theory advocates the fact that organisations are coerced by different agencies to undergo a variety of changes as far as their different tangible and intangible

organisational elements are concerned. These agencies include government, prevailing rules and regulations, legislations and professional associations (DiMaggio and Powell 1983; Greenwood *et al.* 2002). In addition, societal expectations also play a major role in shaping organisations' structures (DiMaggio and Powell 1983; Covalleski and Dirsmith 1988; Scott 1991; Covalleski *et al.* 1993). As DiMaggio and Powell (1983) put it, certain legislations put pressure on organisations to adopt certain structures, policies, and procedures. Moreover, other organisations which control the resources needed by the organisation in question also force it to adapt its organisational elements according to their will (DiMaggio and Powell 1983).

When an organisation responds to an external disturbance more radically, 'coercive' elements of institutional theory are more relevant to explain such organisational adaptation (DiMaggio and Powell 1983). Governments' legitimate powers to formulate and impose laws, and other governments' regulations and standards are enforced by different government agencies to define an organisation's functioning and its dealings with other entities in the same industries; these pressures are an example of the 'coercive' pillars of institutional theory (Scott 1994). There are several studies in the literature that have elaborated on such pressures. Tolbert and Zucker (1996), for instance, studied the inculcation of civil service regulations by different commercial organisations in response to external disturbances. Similarly, Amis *et al.* (2002) worked on the radical changes that the Canadian amateur sports organisations underwent in response to external disturbances. These studies demonstrated that coercive pressures, like those discussed above, were mainly responsible for initiating a change process and tailoring the organisations' tangible and intangible organisational elements.



Hinings and Greenwood (1988), in their study, provide an understanding about the role institutional values and norms play in shaping an organisational culture and organising the change process that an organisation passes through when affected by institutional pressures. Their study suggests that strategies adopted by organisations to adapt their organisational elements in response to external pressures may vary widely among different industries depending on the extent to which organisations are embedded in the prevailing institutionalised norms and values. They maintain that in the case of organisations that operate in an environment where prevailing institutional norms and values are not strong (the literature refers to such an environment as loosely coupled institutional fields) and organisations are not clearly directed by the institutional field for conformity to a particular set of values and norms, the response will be completely different to other organisations which operate in a strong institutionalised environment and where prevailing institutional values and beliefs are widely shared and enforced among the constituents. The first set of organisations, described above, is more likely to undergo radical changes in most of its organisational elements, while the later set will tend to retain more of its organisational elements in the face of external pressures.

#### **4.2.4. Institutional Theory and Accounting**

A variety of organisational aspects and organisational change have been discussed in the light of institutional theory (Covaleski et al. 1993; Lapsley 1994; Scapens 1994; Abernethy and Chua 1996; Hoque and Alam 1999; Burns and Scapens 2000; Carpenter and Feroz 2001; Hassan 2005; Scapens 2006). Institutional theory has widely been resorted to as a theoretical base for understanding relationships among organisations in the same field and the role that accounting system plays in developing societal values (Hassan 2005).

The theoretical underpinnings of institutional theory have guided many studies on a variety of organisations in different fields, their internal functioning, relationships with other organisations, and the mechanism of their adaptation and reorientation in response to a particular set of external environmental pressures. Covalleski *et al.* (1993), in their study over the American health care, concluded that the institutional perspective can provide a significant contribution in upgrading the efficiency and the effectiveness of the diagnostic-related group and case-mix accounting system. Lapsley (1994) asserts that the institutional perspective contributes insights about the responsibility of the accounting system in the UK health service and how the accounting system acted as ‘a buffer or shield’ in order to meet the external agencies requirements.

Scapens (1994 p. 316) states that “new accounting techniques and procedures will be introduced from time to time through the actions of both managers and accountants”, therefore, in the light of institutional perspective, “these techniques and procedures will evolve and adapt to new environmental conditions, as they became taken-for-granted part of organisational activity”. Abernethy and Chua (1996) argue that institutional theory insights contribute to exploring the mechanisms of accounting control system change and its design. Burns and Scapens (2000, p. 22) built institutional framework in order to provide a better understanding of the change in accounting systems in organisations.

Carpenter and Feroz (2001) identified five institutional pressures affecting the accounting choice in the public sector in four American States, and developed an institutional framework to explore these pressures. Hassan’s (2005) paper over the public hospital organisational change within the developing country in transition, Egypt, used a framework

informed by institution theory. He revealed that the study attempted to understand the technical and social role of a management accounting system during a public sector reform of its State Owned Enterprises undergoing privatisation programs. Scapens (2006), in his personal journey in understanding management accounting system practices, revealed that there are external environment considerations shaping management accounting system. In addition, institutional perspective can provide an explanation to the multiple interconnections between an organisation's accounting system change and the broader social and institutional pressures (Burns and Vaivio 2001).

From the perspective of the theoretical underpinnings of institutional theory, understanding the role of accounting systems can be followed from the insights of the dynamic role of the external institutional agencies (Meyer and Rowan 1977; DiMaggio and Powell 1983; Scott 2001), and the reaction of the internal organisation elements with the pressures exerted by these agencies and how an accounting system can change in both of its practices and its design in particular (Abernethy and Chua 1996; Burns and Scapens 2000; Hassan 2005). They study the change in the accounting system due to the change in the institutional environment context.

The process of institutional isomorphism indicates that “the central forces explaining why several practices (like management accounting) are developed” (Hassan 2005 p. 127). In other words, processes of isomorphism are the ways in which organisations come to have the same general form (Carruthers 1995). Therefore, organisations come to imitate each other because they are operating in similar environments (DiMaggio and Powell 1983). Organisations in the same line of industry are structured into an actual field, by the

competition, the state, the professions and powerful forces appear to lead them to become more similar. On the other hand, organisations may change their goals or develop new practices, and new organisations may enter the same field of industry. DiMaggio and Powell (1983) asserted that there are two types of isomorphism; competitive and institutional. Competitive isomorphism “concerns efficiency” (Carruthers 1995 p. 317), while, the “institutional isomorphism includes the elaboration of rules, symbols and beliefs to which individual organisation must conform to gain social legitimacy” (Hassan 2005 p. 127).

These institutional isomorphisms, coercive, mimetic and normative, impose the organisation to create rules in order to obtain legitimacy. Hassan (2005) points out that the organisations have to adapt these rules, such as management accounting practices, in order to obtain social legitimacy. In this sense, “to institutionalise is to infuse with value beyond the technical requirements of the task on hand” (Scott 2001 p. 24), and this includes the accounting system as well (Hassan 2005). Therefore, the institutionalisation plays a vital role to introduce the organisation’s task to be available in usage. Although an accounting system is a set of rules and routines aimed to provide an accurate and sufficient information which is an inevitable help in decision-making processes (Scapens 1994; Burns 2000; Burns and Scapens 2000; Hassan 2005; Scapens 2006), it is also expected to participate in building new reality for organisations in transition (Meyers 1998).

Institutional theory is not regarded as a theory of organisational change but as an articulating of the similarity of organisational arrangement in the field of an organisation, so the institutional theory introduces not much guidance regarding organisational change

(Greenwood and Hinings 1996). In this consideration, the possibility of institutional theory to explain and analyse the internal dynamics of organisational change through the processes of privatisation is not sufficient (Erakovic and Wilson 2005). Erakovic and Wilson criticised the ability of institutional theory in answering some questions regarding the mechanism of response to the external environment disturbance, and how a transformation of an organisation from a government template to a private template affects the organisation's managers to follow a prevailing system or create a new one.

Despite the contribution of institutional theory, it does not sufficiently explain JT's organisational change. Therefore, this study reveals that Resource Dependency Theory (RDT) can explain such change as substantiated in the next section. In addition, institutional theory focuses on providing a significant prevailing to the organisation's environment and of the pressure exerted by the external environmental agencies (Greenwood and Hinings 1996; Erakovic and Wilson 2005). Resource dependence theory is chosen to address some organisational change.

### **4.3. Resource dependency theory**

The resources management aspect of an organisation can be analysed from the perspective of Resource Dependence Theory (RDT). In today's world of stiff competition among business enterprises, the sustainability and long term survival of an organisation depends to a large extent on the extent to which it controls the available technological and non-technological resources (Pfeffer and Salancik 1978). In the context of resource dependency theory, an organisation's success is considered dependent on its ability to maximize its power over other organisations in the same field (Pfeffer 1981).

External disturbances of a variety of kinds affect organisations from time to time. The management of an organisation always strives to mitigate the severity of such environmental disturbances on its overall organisational structure (Pfeffer and Salancik 1978). After an organisation is faced with external disturbances, there are two possible outcomes: first, the organisation may submit to the external pressures and adapt and reorient accordingly and, second, it may successfully avoid the effects of external disturbances and keep its overall organisational structure intact in the face of the external disturbances depending on the level of its existing power and capabilities (Pfeffer and Salancik 1978). However, in many cases it happens that the organisation's peculiar external and internal circumstances limit the number of alternative courses of action available to it, and, thus, tailor its possible responses and capabilities according to the prevailing environment and existing institutional norms and values (Pfeffer and Salancik 1978; Campling and Michelson 1998). Thus, the decisions of the organisation's management in respect of the handling of the external disturbances remains dependent on the organisation's external and internal circumstances and is limited to few available choices.

### **Elements affecting an organisation's dependence**

RDT is resorted to providing a theoretical base for explaining the process of an organisation's privatisation and elaborating on its unavoidable dependence on resources over a period of time, particularly in relation to the transfer of new technology. (Pfeffer and Salancik 1978) maintain that two main factors are responsible for an organisation's extent of dependence on other organisations for resources. The first factor determining the extent of its dependence is the level of importance of these resources for its survival. In other words, how important these resources are for the sustainability and long term survival of

the organisation will determine the extent of its survival (Pfeffer and Salancik 1978). The second factor refers to the struggle the organisation has to make to gain access to these resources, which in turn depends on the extent of the availability of the resources and the level of control other organisations have over these resources (Pfeffer and Salancik 1978).

Organisations get control over resources using a variety of avenues, such as through competing with other organisations. Parent organisations or regulating agencies may also grant an organisation with resources (Pfeffer 1981). To ensure their long-term survival these organisations are required by their parent organisations and other regulating agencies to carefully manage their current situation of dependence on other organisations for resources. Making these facts a base, (Suen 2002) develops a framework to gauge the importance of a firm from two perspectives: first, its importance to its alliance as a whole and, second, to its individual partners. Suen's framework identifies the extent of a firm's dependence on others' resources, the magnitude of the impact of a partner's actions, and whether the firm has the ability to respond. Suen used cases from different industries in which the type and uniqueness of the resources contributed, a firm's financial position, and the extent to which partners are technologically or operationally integrated. Suen also found out that the ability of action depends on how much a firm needs its partners' resources, how tightly integrated they are into the alliance, and what external options are available.

In cases of high environmental turbulence such as in the telecommunication industry where technological advancements take place more frequently and where resources, both technological and non-technological, are scarce, the severity of organisations' dependence on others, in general, is more high and intense. Organisations in the telecommunication

industry, therefore, have a comparatively high level of dependence on other organisations controlling the resources. Thus, as the dependent organisations' sustainability and long term survival are at stake, most of them adopt a survival policy of entering into formal agreements and contracts with other organisations that are equipped with the much-needed resources. Organisations with a control over the available scarce resources are thus able to tailor the activities of dependent entities according to their own interests and long term well being (Pfeffer and Salancik 1978).

However, despite the significant contribution of the RDT in giving more understanding and articulating some aspects of organisational change, there are many questions that need answers. As such, how did the company respond to the disturbance in the external environment that was stimulated by the state action? Which organisational elements were influenced by the change in the external environment? What are the changes in the organisation's form? How is change in one element of the organisation structure affected by the others? Thus, this study uses Laughlin's Organisational Change Model (LOCM) to answer such questions and to give better understanding of organisational changes in JT.

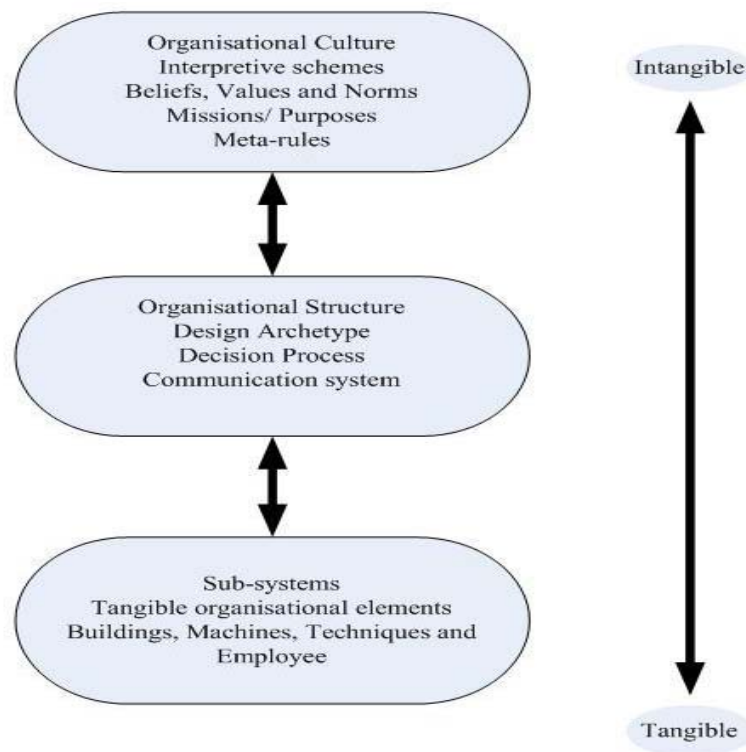
#### **4.4. Laughlin Organisational change model (LOCM)**

Laughlin (1991) provides a framework for the analysis of organisational change. The framework classifies the organisation into a combination of Interpretative Schemes, Design Archetypes and Sub-Systems, Figure (4.1). He (1991 p. 213) asserted that the three elements must be in some dynamic balance with one another to "bind the organisation together and make it a coherent whole" therefore "the sub-systems an ideal-type situation



are, guided by the design archetype in ways which are commensurate with the values represented in the interpretative schemes” (Broadbent 1992 p. 345).

*Figure (4.1) A model of organisations, source: Laughlin (1991, p. 211)*



This model assumed that the environmental disturbances initially lead to change in the design archetype then to both the sub-systems components and the multiple layers of interpretative schemes.

Laughlin (1991) provides a series of "skeletal" models of organisational change, which the researcher can utilize and develop during the period of study. He built his perspective based on the assumption that understanding the organisational change process and the dynamics of change can be understood better by tracing the pathway, which an environmental stimulus takes through an organisation. Basically, this is considered a major motivation to

adapt the Laughlin organisational change model (LOCM) as a theoretical framework for understanding organisational change on Jordan Telecom (JT), which was influenced by the privatisation process.

According to Laughlin (1991), organisations are a collection of three main elements named "interpretative schemes", "design archetypes" and "sub systems". Among these elements, the 'interpretative schemes' show the organisation's main coherence and keep the organisation bound as a whole entity (Laughlin 1991 p. 211). The nature of these elements and their mutual relationships are diagrammatically represented in Figure (4.1).

Laughlin maintains that among these elements some elements, such as buildings, people, machines, finance and the behaviours and natures of these elements, are agreed upon by researchers to be tangible in nature compared to the other organisational elements, which represent intangible or less tangible aspects of organisations. These intangible or less tangible organisational elements refer to the organisation's values, policies, procedures, and overall organisational structure, and assign meaning to the organisation's aims and objectives. These elements are named in the literature 'design archetypes' and 'interpretative schemes' and they both progressively shift from less tangible to more and more intangible. The literature suggests that it is comparatively less likely to find agreement among researchers about the nature of these intangible or less tangible organisational elements (Richardson *et al.* 1996). Both these intangible organisational elements are developed over time by the organisational members. These organisational members play a major role in sustaining these elements in an organisations (Richardson *et*

*al.* 1996). Laughlin (1991) argues that organisations try to resist a change in these organisational elements as long as possible in the face of an environmental disturbance.

An external environmental disturbance penetrates into the organisation through different routes, described as pathways, in the literature. Laughlin (1991) classified these pathways, which an environmental disturbance may take to induce a change in an organisation, into four categories: "rebuttal", "reorientation", "colonisation" and "evolution". Laughlin (1991) classifies these pathways on the basis of the severity of change that an organisation undergoes in response to an environmental disturbance. He calls them first order changes, if an organisation undergoes less severe changes, and second order change, if it undergoes severe changes. If an organisation responds to an external environmental disturbance by adapting its 'design archetypes' and parts of its 'sub-systems', Laughlin calls it a first order change. In such a change, the organisation will successfully keep its 'interpretative schemes' intact. On the other hand, if the organisation perceives the external environmental disturbances as more serious, it may have to adapt its basic organisational coherence i.e. its 'interpretative schemes' in addition to altering its 'design archetypes' and 'sub-systems'.

Laughlin classifies change of a rebuttal nature as those involving adaptation of the organisation to a limited extent only. In such types of changes, the organisation's 'design archetype' normally undergoes a change process while its 'interpretative schemes' and sub-systems' will remain unaffected by the external disturbances. Thus, the organisation successfully defends its overall balance and the basis coherence (Laughlin 1991). This type of change leaves limited influence on the overall functioning and life of the organisation.

In changes of a reorientation nature, as opposed to changes of a rebuttal nature, which are comparatively of a more rigid nature wherein the organisation not only adapts its 'design archetypes' but also reorients its 'sub-systems' (Laughlin 1991). Thus, the organisation is internally incapable of ignoring the external disturbances and undergoes changes to its two organisational elements as mentioned above. However, it successfully retains its basic organisational coherence, i.e. it successfully saves its original set of 'interpretative schemes'. That is why Laughlin regards it as a first order change (Laughlin, 1991).

The level of organisational change is referred to in the literature as 'colonisation'. Laughlin regards such type of change as of a more severe nature as compared to 'rebuttal' and 'reorientation' types of change, and classifies it as a second order change. The organisation in such type of changes does not have a choice to ignore the external disturbances. In these types of changes the external disturbance penetrates into the organisation compelling it to adapt and reorient not only its 'design archetypes' and 'sub-systems', but also the 'interpretative schemes'. Laughlin asserts that a small group of organisational participants is behind the adaptation process within the organisation which often impose the change on other organisational members (Laughlin 1991). Thus, changes of a colonisation type tailors the basis of coherence and values, norms, internal rules, regulations, policies, and procedures of the organisation, in addition to changing its tangible organisational elements, such as location, buildings, and premises (Laughlin, 1991). Such types of changes are referred to as 'transformation' in the literature.

The last type of change that an organisation may undergo in response to external environmental disturbances is referred to as 'evolution', which is, in Laughlin's

terminology, also a second order change. Changes of an evolutionally nature also involve adaptation of all the three organisational elements on the part of the organisation in response to external pressures. Under these changes, the organisation's 'interpretative schemes' undergo a major shift (Laughlin 1991). However, 'evolution' types of changes are different from the 'colonisation' type. Under the changes of an 'evolution' nature, the change process is accepted whole heartedly by all the organisation participants without any coercion from any group within the organisation (Laughlin 1991).

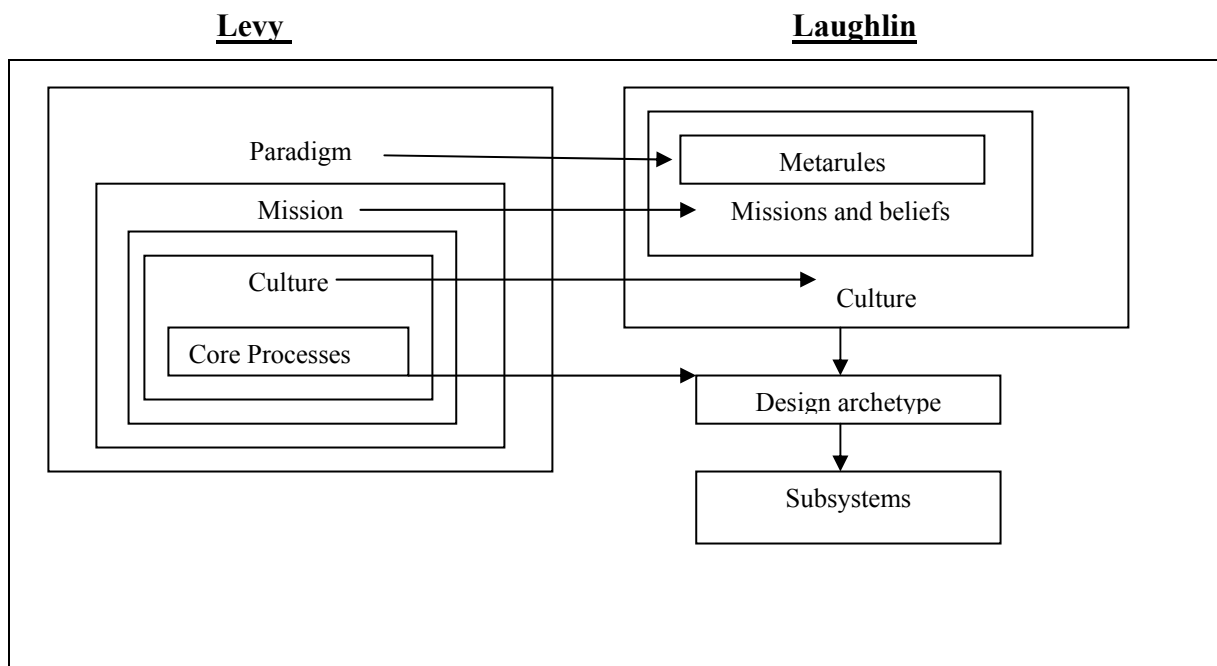
Levy (1986) concludes that the organisation's rapid growth and expansion without changing in mission, purpose and paradigm, do not classify as second order change; it is first order change. He defined the second order change as a change that can be seen in four dimensions: in core processes, in the mission and purpose of the organisation, in organisational culture, and in the organisational paradigm. Therefore, Levy (1986 p. 19) suggested "every change in the paradigm will entail changes in the other dimensions", so it is proposed that change in one dimensions might entail change in the other dimensions.

Laughlin (1991) conceptualised organisations as consisting of three elements or layers; interpretative schemes, design archetypes and sub-systems. Interpretative schemes are identified as the organisational purpose and mission, organisations members' values and beliefs and meta rules (Laughlin 1991). Design archetypes consist of an organisation's structures and management systems, which are tangible aspects of the interpretative schemes (Laughlin 1991). The subsystems are the tangible features of the organisation such as the human resources and office facilities (Laughlin 1991). Levy (1986) and Laughlin (1991) suggested that two types of change might take place in an organisation, first order

and second order change. They argued that the first order change takes place at the level of the design archetype only. While, the second order changes takes place at all the organisational levels, particularly at the interpretative schemes depth.

Broadbent (1992) compares Levy (1986) and Laughlin's (1991) models for understanding organisational change, providing a light on the distinction between the culture of the organisation as a factor and as a metaphorical expression. Also, she revealed both of them are concerned with finding a difference between first and second order change, the first order change considered a minor change while the second order change considered a more deep stated change. Figure (4.2) shows the comparison between the two models.

*Figure (4.2) Relationship between models of Levy (1986) and Laughlin (1991)*



*Source: Broadbent (1992 p. 346).*

The role of accounting in an organisational change process cannot be ignored. Broadbent (1992) asserts that accounting, being a part of the “design archetypes” organisational

element, gives a prominent position to the intangible organisational elements of the organisation such as those grouped under the organisation's "interpretative schemes". She goes further and suggests that the design archetype "is a tangible manifestation of the values of the interpretative schemes, there to guide the sub-systems in a way commensurate with those values" (Broadbent 1992 p. 347).

Kaidonis (1996 pp. 59-60) identifies three reasons for choosing LOCM to study the organisational change and the participation of accounting information systems in a critical reflexive ethnography of the South Australian Housing Trust.

First his work draws and consolidates a number of perspective of organisational change Laughlin's model incorporates a number of issues, including how the change(s) have occurred (that is whether accepted or not), offers organisational levels to identify where the change(s) have occurred, and provides ways of determining the significance of the changes. Secondly, LOCM also refers to the relationship between the elements of organisation and also indicates that they will be affected differently depending on the type of responses the organisation makes. ...Thirdly, this model incorporates all the dimensions referred to by Dunphy and Stace (1988) and specifically builds on the importance of identifying the significance of changes as stressed by levy (1986).

#### **4.5. Study's frameworks**

The earlier studies identified that the phenomenon of privatisation is simply a process of transferring public organisations from the public sector form to the private sector form. The transformation process cannot occur without a crucial stimulation from several agents in the external organisational environment. In addition, how the internal organisational elements respond to these stimuli is evidence of the impacts of privatisation. A theoretical framework

is described that can give help in understanding these themes. Table (4.2) provides a general framework for the external and internal organisational environment.

*Table (4.2) External and internal organisational environment framework*

**1. The External organisational Environment Elements: Stimuli**

- Agents: The role of the state
- Legislations: Laws and regulation
- Resources: Technology and Knowledge

**2. The Internal organisational Environment Elements: Organisational Form**

- Design archetypes: organisational structure
- Interpretative Schemes: organisational culture
- Sub-systems: Human resources

#### **4.6. The integration of theoretical frameworks**

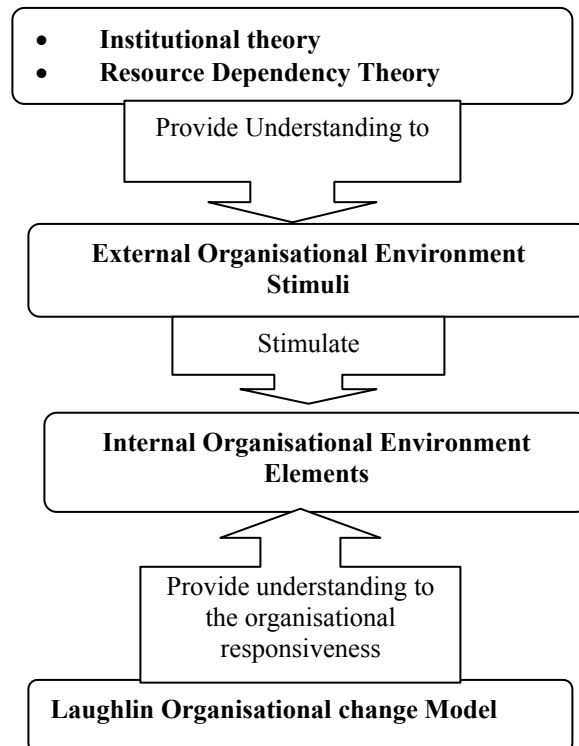
Theoretical combination of institutional theory, resource dependence perspective and LOCM allows for better understanding of the determinants of organisational change in conditions of environmental disturbance, and the organisational responses to these conditions. Using the institutional and the resource dependency theories enables and provides a complementary view of the interaction of the external environment pressures on organisations and the variety of organisational alternatives in responding to the external constraints and demands (Oliver 1991). Furthermore, using Laughlin's (1991) organisational change model allows for and provides an interpretation of an organisation's responses to these factors and the organisation's alternative in responding. This model assumed that the environmental disturbances initially lead to change in the design archetype



then to both the sub-systems components and the multiple layers of interpretative schemes.

Figure (4.3) shows the theoretical integration.

*Figure (4.3) The integration between the three theoretical frameworks:*



A number of empirical studies have combined these two perspectives in explaining various aspects of the organisational phenomenon. Tolbert (1985) demonstrates that the pattern of organisational structure in institutions of higher education can be seen as a function of both institutional processes and resource dependency. Furthermore, several studies used the interaction between the two theories to explain the organisational changes in different professional organisations (Powell et al. 1999), examining organisational responsiveness to a new external regulatory pressures, the Ontario(Canada) Environmental Bill of Rights, by using both resource dependence and institutional theories (McKay 2001), and institutional

change in large law firms by integrated resource dependency and institutional theory (Sherer and Lee 2002). Recent work to Connolly and James (2006) conceptualises the notion of educational collaboration by developing a framework through a review of the relevant literature. Shanikat (2007) conducts an empirical investigation of the transmission of Jordan Telecom from the public sector to the private sector. He built a theoretical framework in order for a better understanding of organisational change in the privatised enterprise. The theoretical was combined into three theoretical frameworks, institutional theory, resources dependency theory and LOCM. The framework suggested that the organisation will tend to remain in balance between the three organisational elements of organisation form: design archetype; interpretative schemes and subsystems, unless the external environment changes against the organisation.

They argued that the analytical framework makes a paradigmatic distinction between resource dependency and institutional perspectives on collaboration. Erakovic and Wilson (2005) conducted an empirical investigation of the period of ownership transition in five New Zealand state-owned enterprises between 1985 and 1995. They provided evidence that the dynamics of radical change are shaped by the complex interaction of different institutional, market, technological and organisational factors. Also, they integrated their findings with institutional and resource dependency theories to argue that organisational change depend on old institutional factors and on patterns of resource dependency.

The requirement to change and adopt new norms of behaviour and the crucial importance of various resources create complex relationships between the organisation and its technical and institutional environments. The study addresses the complexity of these relationships

within JT by utilising a multi-method investigation. This study focuses exclusively on the JT organisation that had already been established as undergoing a radical change, and uses this as an opportunity to examine the complex interaction of institutional factors and resource requirements during the transition period and interpret the internal organisational change in JT as a response to that interaction complex.

Digesting the accounting system into this integration is coming from the emergence of business terminologies after the organisation has privatised, which means a focus on profitability and cost consciousness. Financial information is often seen as a very important basis of evaluation for performance and accountability. Accounting information is an important mechanism in the communication process, with some important changes in privatised industries relating to a new emphasis on performance and market orientation. The accounting system within the new vision that has emerged by the privatisation process can be viewed as an 'interpretative schemes', enabling communication between the controlling body (regulator) and the operator (regulated). The industry is required to provide the regulator with certain information in order to exert its role in terms of pricing and quality of provision services.

The previous discussion illustrated the importance of accounting information in the context of external communication. Accounting information is also playing a significant role in internal communication, introducing required information to the decision makers at all levels. Thus, it is worthy to investigate the changing role of accounting information since privatisation. This investigation can be seen in the context of whether changing role of accounting has influenced power relations, what new themes have been introduced and the

impact of changing importance associated of accounting information on new organisational interpretative schemes.

#### **4.7. Discussion**

The foregoing sections articulated that the adoption of institutional theory, resource dependency theory and Laughlin's organisational change model are a holistic approach for a study of organisational changes. Institutional theory is concerned with the role of the external agent, mainly the role of the state, in stimulating the external organisational environment. The institutional theory's contribution is restricted in giving a better explanation of the state's actions at the micro level, which is aimed to stimulate the micro level. Resource dependency theory provided a conceptual framework for elaborating privatisation as a process and means of resolving organisational dependence on resources over time, particularly in transferring the new technology and knowledge. Thus, the RDT use in the study provides a better understanding of the relationship between JT and FT that has been made. LOCM provided an elaboration about the mechanism of organisational response to the environmental disturbance, which has been stimulated by the institutional agents. Therefore, these models, as has been suggested by Laughlin, are to be used in the study in order to provide a holistic understanding of organisational change at the micro level.

The model has been built, and the integration between the three theoretical frameworks would provide a better understanding of the organisational changes as crucial privatisation consequences affecting JT.

#### **4.8. Summing up**

The three theoretical frameworks are adopted in this study to give a better understanding of organisational change. The three theoretical frameworks have been chosen in order to help understand the changes. The contribution of institutional theory is materialised in explaining the role of the state in stimulating a change in the organisational environment. Completing the institutional theory contribution, the RDT was chosen in resolving organisational dependence on resources over time, particularly in transferring the new technology and knowledge. Both institutional and resource dependency theories provide explanations of the external environment change. In providing explanation to the internal organisation change, the LOCM was chosen. Also, the theoretical integration is expected to provide a significant interpretation to study the organisational change.

The next chapter will present a brief review of the context of Jordan. It highlights the political and economic reason, which forced the Jordanian government to adopt the economic reforms.

## **Chapter 5: The context of Jordan: A brief review**

### **5.1. Introduction**

This chapter describes political and economic conditions that shaped a major motivation for expanding the public organisations in Jordan. Exhibition of public organisations presents evidence to the extent that these organisations' dominance of the provision of public utilities in Jordan. In addition, this chapter provides brief information about the privatisation program in Jordan. It is not an assessment of economic and financial aspects, which influenced the privatisation programs.

Privatisation was one of the economic policies that characterised Jordan in the beginning of the 1990s. The economic and financial impact of privatisation has been widely reported in a number of studies (Al-Quaryoty 1989; Abu Shair 1997; El-Said 2001; Awamleh 2002). However, the literature on Jordan asserts that there are also economic, social and political objectives that link social support packages to privatisation of State Owned Enterprises (SOEs). Privatisation in Jordan has received much attention from economists and political scientists, but little from management academics. On the issue of privatisation in Jordan, the literature seems quite scarce on the specifics of the organisational changes and how the role of the accounting information system in the privatised companies is affected by this change.

The chapter is organised into three sections as follows. Followed by the introduction section, the second section, 5.2, provides a brief review of the Jordanian context, a brief

history of periods of development and the public enterprises in Jordan until the implementation of privatisation. The third section, 5.3, introduces privatisation in Jordan in terms of reasoning for privatisation, building a foundation for privatisation and the privatisation transactions. The fourth section, 5.4, provides privatisation in Jordanian literature.

## **5.2. The Jordanian Context: A brief review**

The aim of this chapter is to provide an introduction to the context of the Jordanian economy. This consists of a brief history of periods of development and a short discussion about public enterprises in Jordan. Providing this context introduction aims to help the reader to understand the Jordanian context and its circumstances, which led to introduce reform programs.

### **5.2.1. Periods of development**

The Jordan economy is a service economy, not an oil-based economy (El-Sakka 2005). The Jordanian economy faced several obstacles, including lack of natural resources, and the Israeli occupation of Palestine in 1948 and 1967, which drove thousands of Palestinians out of their land and into Jordan as refugees (Marashdeh 1995). Nevertheless, Jordan has achieved noticeable growth in terms of infrastructure and the establishment of several industrial and agricultural projects (El-Said 2001).

#### **1952-1966: The beginnings**

During the period 1952-1966, Gross Domestic Product (GDP) at market prices grew by 6.9 percent annually and Gross National Product (GNP) grew by 7.5 percent (Jreisat 1989).

Real per capita income increased by 4.4 percent during this period. During that period, agricultural, industrial and service incomes grew by 3.6, 14.2, and 9.1 percent annually respectively (Marashdeh 1995). In addition, fixed capital formation growth increased by 11.1 percent and constituted 14.7 percent of GDP at market prices. Moreover, government investment constituted the mass of investment as the government provided capital for several infrastructural projects, which the private sector was not able to provide (El-Said 2001). Indeed, the construction sector was the main engine of growth during this period. These projects were financed through external borrowing and foreign aid (Marashdeh 1995; Abu Shair 1997; El-Said 2001).

### **1967-1972: The Crises**

In 1967, Jordan lost the west Bank of Jordan to Israel. The Israeli occupation drove thousands of refugees into other parts of Jordan. This crisis greatly stressed the financial and natural resources of Jordan (Marashdeh 1995; Kanaan and Kardoosh 2002). Even though GDP at market prices grew by 4.6 percent annually, real GDP declined by 11 percent as a result of the 1970 civil war (Marashdeh 1995). GNP at market prices grew by 9.2 percent annually from JD142.5 million in 1967 to JD221 million in 1970, compared to a growth of 4.2 percent in real GNP (Marashdeh 1995). Consumption as a ratio of GDP reached an average of 118.5 percent annually, whereas investment as a ratio of GDP only reached an average 17.2 percent annually (Marashdeh 1995).

Moreover, Abu-Shair (1997) observed that, since the foundation of the Jordanian Kingdom in 1950, the private sector became the leader and the main engine of investment, particularly in small projects, while the large projects, like the establishment of the Cement Corporation in 1951, were the responsibility of the State. One of the reasons Abu-Shair



gave for the State's lead in mass projects was the limited financial capability of the private sector.

### **1973- 1981: A Short Boom**

The Jordanian economy experienced rapid expansion over the period 1973-1981 (Kanaan and Kardoosh 2002), with a real GDP growth of 10.3 percent per year (Marashdeh 1995). However, this expansion was mainly financed through Arab aid and remittances from Jordanians working in Arab oil-producing countries (El-Said 2001). During the 1980s, however, the pace of economic growth slowed and the economy experienced recessionary trends when the oil revenues of Arab oil-producing countries began to decline (El-Said 2001). At the same time, Arab oil-producers limited their aid to Jordan, and the number of Jordanians working in these countries declined (Marashdeh 1995; El-Sakka 2005).

During this period, the Jordanian state became more involved in the economy (El-Said 2001). The government established an industry revolving around Jordan's natural resources of Phosphate and Potash (Marashdeh 1995). Abu-Shair (1997 pp. 139-140) justifies the Jordanian state's increasing participation in the economy, saying:

the Jordanian state participates directly in the production for three reasons. The first is the substantial capital required for capital-intensive projects, particularly in mineral projects, which the private sector cannot afford. The second is the high risk surrounding investment in some projects, and the final reason is related to the two above, namely control of the commanding height industries, which the state [was] keen to be in, in order to generate revenues and foreign exchange.

El-Said (2001) also pointed out that Jordan enjoyed a noticeable economic boom between 1970 and 1982. Jreisat (1989) states that this economic prosperity originated from the oil

boom which led to an increase in Arab aid to Jordan and in remittances from Jordanian professionals who worked in the Gulf markets.

### **1982-1990: The economic crises**

Marashdeh (1995) describes the decline of the GDP in this period. In spite of a 17.6 percent growth in real GDP in 1980, growth declined to 9.8 percent in 1981, to 5.6 percent in 1982, and down to 2.5 percent in 1983, eventually hitting the bottom at 0.8 percent in 1984. Recovery started slowly, with a growth of 2.7 percent in 1985, 2.4 percent in 1986, and 1.9 percent in 1987. In 1988, the real economic crises struck, with a real growth rate that reached -2.1 percent, and with the Jordanian Dinar losing 50 percent of its value (El-Sakka 2005). The growth rate fell further to -3.9 percent in 1989 and -0.8 percent in 1990 (Marashdeh 1995).

A number of Jordanian authors, including Al-Quaryoty (1989), Marashdeh (1995), Abu-Shair (1997), El-Said (2001) and El-Sakka (2005) contended that there were at least three external factors behind the recession during the 1980s: (1) decreased external aid, particularly from the wealthy Gulf States, (2) reduced Jordanian remittances from the Jordanians, particularly those working in the Gulf states, and (3) a decline in Jordanian commodity exports. In the economic collapse 1988-1989, the Jordanian economy encountered several problems, such as the high unemployment rate, the high external debt and the decline in remittances, putting Jordan in a critical balance of payment position and leading to a downgrading by international credit agencies (El-Sakka 2005). Moreover, these economic pressures forced the country to devalue the Jordanian Dinar by 50% in

1989 (El-Sakka 2005). Furthermore, Jordan was forced to approach the IMF, the World Bank, and other lenders for emergency and standby credit (El-Sakka 2005).

### **5.2.2. Public enterprises in Jordan**

Since Jordan became independent in 1946, Jordan's public enterprises grew. "The origins of the state economic enterprises in Jordan can be traced back to the early years of independence" (El-Said 2001 p. 148). During the 1950s and 1960s, Jordan created new firms to supply essential services and to direct industrialization. Among the public enterprises established were the cement factory in 1951, the phosphate factory in 1956, the Jordanian oil refinery 1956, and the irrigation schemes in the Jordan Valley in 1962, with the state "investing in these large and capital-intensive project in which the private sector could or would not invest" (El-Said 2001 p. 149-150). The state's intervention in the economy remained limited and was aimed at supporting and facilitating private sector activities and investment. Hence, in the absence of a national private sector capable and willing to provide the levels of capital, risk taking and technical expertise deemed necessary by government authorities to achieve the desired level of industrialization, the government invested heavily in large, capital intensive industries (El-Said 2001). However, "... there have been no doors closed in the faces of private sector in Jordan. The state does not hesitate to be a partner and a risk taker in large ventures where enough private capital is not available or where profit [is] seen to be at risk" (Al-Quaryoty 1989, p. 166).

Although the private sector started to play a significant role on the economy since the 1970s, the public enterprises that were established during the 1950s and 1960s continued to play a vital role in the Jordanian economy (El-Said 2001). El-Said (2001) provides many facts about the increasing role and numbers of public enterprises. These facts clearly

revealed the significance of public sector enterprises in the Jordanian economy: in 1986, their contribution in gross national product reached 40%, in capital formation mounted 50% and in Jordan's total export, which was responsible for more than 50%. In 1989, in terms of the spending, the public sector spent 47.3% of gross domestic product, in the employment around 50% of the work force, and caused a deficit of 46% of gross domestic product. The World Bank (1993) asserted that the share of the public sector in the economy rose from 25% in the early 1970s to more than 45% in the late 1980s, and that the number of public sector enterprises rose from the few enterprises established during the 1950s and 1960s to reach 31 in the late 1980s.

According to the International Monetary Fund (1987), in addition to the public sector institutions, there were 19 non-financial State Owned Enterprises (SOEs) in 1987 (table 5.1), some of which were privatised by 2005.

*Table(5.1) Non-financial state owned enterprises in Jordan*

Please see print copy for Table 5.1
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*Source: IMF (1987, p. 67)*

There are three kinds of SOEs in Jordan. Abu-Shair (1997) categorised them, pure State sector departments, autonomous State institutions and mixed enterprises.

### **Pure State Sector Departments**

There were several Jordanian government departments involved in commercial activities. Their budgets were a part of the state public budget, and some of them still are, including the Civil Employees Consumption Corporation and the Free Zones Corporation.

### **Autonomous State Institutions**

The government owns these institutions, but they have legal, financial and administrative autonomy. Although independent, the central government exercises administrative and financial control, so the boards of these institutions are actually appointed by the Cabinet. Examples of these institutions include the Water Authority, the Jordan Electricity Authority, the Public Transportation Corporation, Jordan Broadcasting and television, the Post and Telecommunications, and the Royal Jordanian Airlines.

### **Mixed Enterprises**

Mixed enterprises are companies in which the government shares ownership with the private sector and with other external investors. The government owns shares in the company's capital, but there is no direct government control. Examples of the mixed enterprises include the Jordan Cement Company, the Jordan Phosphate Mines Company and the Jordan Hotels and Tourism Company.

The foregoing discussion has highlighted the Jordan economy and the purposes of emerging public enterprises. It is obvious that the Jordan economy faced many political and economic problems during the periods of development. In addition, the Jordan economy is totally based on international funds, Arab rich country aids and the remittances of

Jordanian people working abroad. Consequently, these circumstances made the Jordan economy more vulnerable to the international shocks and events. The inflows of substantial capital during the 70s were allocated for establishing large projects, particularly in the infrastructures of public benefits. The Jordanian governments had an ideology that it was efficient for the government to invest in such large projects for reasons mentioned earlier. This ideology has caused many fiscal problems, mainly more deficits in the public budget. Thus, several reasons have forced Jordanian governments to adopt reforming programs at the economic, political and social levels. The privatisation projects were considered socio-economic reforming programs (Awamleh 2002).

The next section provides some issues regarding the privatisation program in Jordan. There were reasons forced the government to adopt the privatisation program as the best solution for many economic problems, reforming the economy and developing the legal environment in order to build a friendly environment.

### **5.3. Privatisation in Jordan**

#### **5.3.1. Reasons for privatisation**

Jordan's economy faced several obstacles, including lack of natural resources and the Israeli occupation of Palestine in 1948 and 1967, which drove thousands of Palestinians out of their lands and into Jordan as refugees.

During the 1970s and early 1980s, Jordan's economy greatly depended on external sources of finance, including assistance and loans from more developed countries, some Arabian countries and from international institutions, particularly the IMF and World Bank, and

also from remittances from Jordanians working abroad (Al-Quaryoty 1989; Abu Shair 1997). “This makes the country’s foreign exchange pool very vulnerable to external shocks, particularly the tourism sector, remittance inflows, and official development assistance and aid from the Arabian oil-rich countries” (El-Sakka 2005 p. 2). However, since 1982, Jordan has been experiencing an economic recession (Al-Quaryoty 1989). Furthermore, since then, many problems have started to accumulate, leading to the economic collapse of 1988-89 (El-Sakka 2005). Al-Quaryoty (1989) points out the external problems, which confronted the Jordanian economy; these being: increase in foreign debt and its service; deficits in balance of payment; decrease in remittances from Jordanians working abroad, particularly in Gulf countries; decrease in foreign aid; and the existence of various managerial problems. Moreover, Abu-Shair (1997) pointed to an imitation factor, whereby there was a trend towards an imitation of western concepts like privatisation, particularly of the USA and the UK. The remittances rose from US\$365.4 million in 1973 to US\$2,244.3 million in 1986, with Jordan receiving some US\$20,747.9 million from the inflow of emigrant remittances during the period 1970-1986. But, starting from 1987, some US\$324.1 million, the remittances per capital declined, reaching their minimum in 1990, some US\$188.1 million, during the Gulf second war particularly when Iraq invaded Kuwait (El-Sakka 2005).

However, to articulate the managerial problems, the surpluses which became available through foreign aid and remittances in the late 70s and early 80s resulted in an economic boom period, with great public sector investment in heavy and capital–incentive industries, representing 40 percent of the total government expenditure of the five year plan of 1976-1980 (Al-Quaryoty 1989). Most of these industries, however, were not developed in a

timely manner, nor in as effective a manner as they might have been. Al-Quaryoty (1989) observed that delays in implementation were costly, and that many of the public agencies in charge of the preparation and implementation of development plans were enormously overstaffed. The negative effect of the losses incurred by these major industries was substantial. Instead of making profits or at least breaking even, these ventures became a drain on Jordan's scarce resources. The most obvious examples of such problems in major industries are in the Arab Potash Company, the south Cement Company, the Jordan Glass Industry, the Jordan Fertilizer Industries Company, and the Jordan Phosphate Mines Company.

The next section introduces privatisation as a basic solution for making accountability more efficient and transparent. Regulating the activities is one of the vital instruments exercised by adopting certain models for evaluating performance and controlling the quality and the prices of the public services.

### **5.3.2. Building the privatisation foundations**

From the early of 90s, the Jordan government embarked on a vigorous economic reform program aimed at transforming the economy of the country, implementing plans at the macro and microeconomic levels in order to achieve optimal economic growth and a high level of productivity and efficiency (Awadallah 1999; Hikmat 2005). This program was launched in collaboration with the World Bank, the International Monetary Fund (IMF) and the Paris Club for the governmental lenders (Awadallah 1999; El-Sakka 2005). Many governmental actions made a significant contribution to achieve these objectives. In 1997, Jordan signed association agreements with the UE and USA, joined WTO in 2000, signed



a Free Trade Market with the USA in 2001 and implemented the Greater Arab Free Trade Market Area (Wagner 2001; Al-Kodah 2002; Kandah 2003; Al-Hazaimeh 2004).

Furthermore, during the period 1995-2000, the government undertook several policies in order to enhance its structural economic program, lifting the price regulations, liberalising the trade and monetary policies, reforming financial and capital market and removing the foreign investment limitations (Wagner 2001; Al-Kodah 2002; Hikmat 2005).

Parallel to the economic restructuring reform program, pieces of legislation were executed in terms of modernising the existing laws and introducing new laws in order to enhance the restructuring economic reforms and to create a more friendly environment for foreign investment (Awadallah 1999; Al-Kodah 2002; Hikmat 2005). Table (5.1) and (5.2) summarise these laws.

*Table (5.2) Modernize Existing Laws:*

Please see print copy for Table 5.2
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*Source: (Executive Privatization Commission 2004 )*

*Table (5.3) Introducing New Laws:*

Please see print copy for Table 5.3
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*Source: (Executive Privatization Commission 2004 )*

Among the liberalised legislation introduced to create a suitable investment environment is the Investment Promotion Law no.16 of 1995 which allowed foreign parties to participate in the privatisation process equally with local investors (Awadallah 1999; Al-Kodah 2002; Hikmat 2005). According to Investment La, Non-Jordanians investors are allowed to acquire up to 100% in most sectors (Al-Kodah 2002; Hikmat 2005). Telecommunications Law no.13 of 1955 opened the sector for private sector participation and investments in telecommunication projects, whereby many companies were established to provide the telecommunications services, cellular phone, data transmission and internet services (El-khatib 2002; Hikmat 2005). In accordance with this law, the Telecommunication Regulatory Commission (TRC) was established as a governmental agency to control and regulate the telecommunication sector (El-khatib 2002).

In this context of expanding the private sector, participation investments and attracting international investments, the government adopted a National Privatisation Strategy (NPS), which aimed to achieve specific goals, including:

- (1) raising efficiency and productivity in a competitive manner;
- (2) increasing private investment in infrastructure;
- (3) developing domestic capital market and consolidating public finance;
- (4) attracting local and foreign investments,
- (5) transfer of technology and know-how (Al-Kodah 2002 p. 7).

The Privatisation Law no. 25 of (2000) provides a definition for the privatisation as follows:

The adoption of an economic methodology which enhances the role of the private sector in the economy to include public sector enterprises the nature of which requires that they be managed on commercial bases (Article. 3)”.

Furthermore, in order to implement and pursue the privatisation transactions, the Privatisation Law identified the institutional frameworks. So, according to this law, the Privatisation Council was formed as a governing body. It is chaired by the Prime Minister and consists of several ministers, the head of the Central Bank, the Chairman of the Privatisation Commission, and four experts in the area appointed by the Council of Ministers (Article 6). The responsibilities of the Privatisation Council are setting general policies, approving the public enterprises subject to be privatised, or restructured and recommending to the Council of Ministers to take a legal steps in order to establish the regulatory frameworks (Hikmat 2005). The Executive Privatisation commission (EPC) was formed according to this law (Article. 9). EPC is the government’s arm for managing and implementing the privatisation program (Al-Kodah 2002; Hikmat 2005). EPC functions are managing, directing, coordinating and implementing the structuring and privatisation enterprises (Al-Kodah 2002; Hikmat 2005).

The country's economic and legal environment have been adjusted, and continue to adjust, in order to create a more open market-oriented economy that is friendly to foreign investments and to activate the market forces. The next section highlights the privatisation transactions up to the end of 2005.

### **5.3.3. Privatisation Transactions**

#### **Completed privatisation transactions:**

1. Jordan Cement Factories Company (JCFC): In 2005, the Company was totally owned by the private sector. Lafarge, who joined in 1998, is a strategic partner with a share of 33% (Executive Privatisation Commission 2005). Privatisation of JCFC is the first successful privatisation project.
2. Jordan Telecommunications Company (JTC): On January 2000, the government sold 40% to the strategic partner JITCO (France Telecom / Arab Bank Consortium) for some US\$508 million (Executive Privatisation Commission 2005). Listing and trading on the Amman Stock Exchange (ASE) on November 2002 (Executive Privatisation Commission 2005). Currently, Jordan Telecom (JT) is the official name and is considered the largest privatisation project.
3. Public Transport Corporation (PTC): A ten year agreement with three local operators in 1998 to operate the bus lines in the Greater Amman area (Executive Privatisation Commission 2005).
4. Jordan Tourism and Spa Complex (Ma'in Spa Complex): In 2000, a 30 year leasing and investment agreement was signed with French Company ACCOR and the Jordanian Investor Group as a consortium (Executive Privatisation Commission 2005).
5. The Water Authority of Jordan (WAJ): In 1999, the government signed a management contract with France's Suez Lyonnaise des Eaux and Arabtech Jerdaneh as a joint venture called LEMA for operating the water provision in the Greater Amman Area (Executive Privatisation Commission 2005).

6. Airport Duty-Free Shops (ADFS): in August 2000, the government signed a sale and concession contract for 12 years with the Spanish Company (Executive Privatisation Commission 2005). All completed privatisation transactions are shown in table (5.4).

*Table (5.4) Completed Privatisation Transactions in Jordan*

	<b>Completed Projects</b>	<b>Year</b>
1.	Jordan Cement Factories Company (JCFC)	1998
2.	Jordan Telecommunications Company (JTC)	2000
3.	Public Transport Corporation (PTC)	1998
4.	Jordan Tourism and Spa Complex (Ma'in Spa Complex)	2000
5.	Water Authority of Jordan (WAJ)	1999
6.	Airport Duty-Free Shops (ADFS)	2000
7.	Royal Jordanian Air Academy (RJAA)	2002
8.	Jordan Aircraft Catering Center (JACC)	2001
9.	Jordan Investment Corporation (JIC)	2003
10.	Assamra Water Treatment Plant	2002
11.	Arab Potash Company (APC)	2003
12.	Container Terminal (CT)	2004
13.	Jordan Aircraft Maintenance Limited (JorAMCO)	2005
14.	Jordan National Shipping Company	2001
15.	Jordan Express Tourism Transport (JETT)	2004
16.	Jordan Company for Wood Processing and Production	2000

*Adapted from Executive Privatisation Commission (2005)*

### **Ongoing Privatisation Transactions**

Royal Jordanian (RJ)<sup>5</sup>: the restructuring and privatisation of the Royal Jordanian program commenced on October 1998. On 5 February 2001, Royal Jordanian Airline was registered to include the aviation activity. Royal Jordanian Investment Co. Ltd was also formed comprising the five investment business units: Training Center, Engine Overhauling Center, Aircraft Maintenance Center, Aviation Services (RJ Core Business) and Jordan Aircraft Catering Center; this was mentioned under completed transactions. It is expected to be the second largest privatisation project. From the complicated affairs related to this

<sup>5</sup> Currently, on November 2007, the government announced its intention to sell the company through a public offer.

enterprise it will be a rich area for future research (Executive Privatisation Commission 2005). All ongoing privatisation projects are shown in table (5.5).

*Table (5.5) Ongoing Privatisation Transactions in Jordan*

	Ongoing Privatisation Projects
1.	Royal Jordanian
2.	Electricity Sector
3.	Postal Services
4.	Jordan General Silos and Supply Company
5.	Civil Aviation Authority/ Restructuring Only Queen Noor Civil Aviation Technical College
6.	Vehicle Inspection Services (VIS)
7.	Agricultural Marketing and Processing Company (AMPCO)
8.	Jordan Phosphate Mines Co. (JPMC)
9.	Aqaba Railway Corporation (ARC)
10.	Shabsogh Complex
11.	Airport Hotel Company –Alia Hotel
12.	Jordan Real Estate Compounds Company / Tower Building
13.	Amman-Zarqa Light Railway Project

*Adapted from Executive Privatisation Commission (2005)*

### **Potential Future projects**

The Jordanian government has been planning to privatise three importance Airports, Queen Alia Airport, Marka Airport and Aqaba Airport (Hikmat 2005).

From the foregoing illustration of the privatisation transaction, it is obvious the enterprises subjected to the privatisation process were implemented in two vital sectors, the industrial and services sectors. According to the Investment Promotion Law no. 16 of 1995, the international investors are not allowed to acquire more than 50% of retail and commercial projects. The next section highlights the privatisation program in Jordan from different point of views.

#### **5.4. Privatisation in Jordanian literatures**

A number of studies by various researchers, Nahleh (2002) among them, evaluated the privatisation of Jordan Telecom. This study focused mainly on assessing the commercial aspects of the privatisation of Jordan Telecom, including the impact on investment in the communication sector, the financial position of the company, the financial returns to the government, and the impact on services in terms of price and quality. In addition, the study also looked into the social aspects of the change, in terms of the situation facing the company's employees and in customer satisfaction. Nahleh's study also investigated the effects privatisation had on the efficiency of the company.

Nahleh's findings indicated that the privatisation of Jordan Telecom did not add significantly to the company, as the performance of the company pre privatisation had already been positive, but privatisation did have some positive impacts on working conditions and social aspects for the employees. The study found that customer satisfaction was high despite some complaints about the price of services. Jordan Telecom was privatised in 2000, and with Nahleh's study being conducted in 2002, the short period on which post-privatisation data was available for quantitative analysis is insufficient to make concrete conclusions about changes in the company's performance, or in any other area.

Al-Hazaimeh (2004) also evaluated the impact of privatisation on the financial and operating performance of privatised companies in Jordan, using both descriptive and quantitative analyses. Al-Hazaimeh's study addressed the theoretical background of certain aspects of privatisation, reviewing various concepts, and looking into privatisation's objectives, methods, and impacts, as well as some countries' experiences of privatisation,

particularly developing countries. Moreover, the study concentrated on Jordan's privatisation experience. To evaluate the performance of Jordanian privatised companies, Al-Hazaimeh's study pursued the standard method of comparison, used in various theoretical and empirical studies in the literature, to compare pre and post privatisation financial and operating performance. The study used a sample of 10 fully or partially privatised companies in which the government had sold its shares before 2001. The study's conclusion was that the privatised Jordanian companies' financial performance was weak, and that there was very little change between pre and post privatisation operational performance.

At both the individual company level and in the aggregate, the performance indicators showed a significant but small decrease in profitability and net income efficiency, although there was also a significant decrease in service prices. Moreover, the results indicated that there was also a decrease in the operating activities of some companies, as well as in their capital expenditure and employment. On other hand, the study found that employee benefits, in terms of the salaries and work conditions, increased significantly. Al-Hazaimeh's argued that these negative results, both in financial and operating performance, are not necessarily a result of privatisation, pointing out that there has also been a negative trend in the performance of related sectors.

Obeidat (2000) describes the role of accounting in the privatising of Jordanian public enterprises, examining the way in which information and data provided by accounting systems can help in making optimal decisions during privatisation. Obeidat also stated that the accounting system gathers information and provides it to those who need it for making



decisions. Obeidat's study pointed out that the relationship between accounting and privatisation seems to be in its capacity to evaluate public enterprises, providing various performance measurements and all the basic financial reports that are required for full disclosure. This role requires a set of accounting procedures that can help in controlling and directing this transformation process, this being especially important given the relative importance of the enterprises being privatised and their profound impact on the economy and on society. In this study of the role of accounting in privatisation, Obeidat used quantitative analysis to test the hypothesis of the study and to investigate the results.

Discussing the more significant results of the study, Obeidat pointed out that some privatised enterprises have been evaluated on their market value, and that some of these enterprises have adopted international accounting standards. Moreover, the study examined the legislation on privatisation, observing a noticeable absence of any fundamental guide on the role of accounting in the privatisation of public enterprises.

Awamleh (2002) assessed privatisation in Jordan in an attempt to determine whether it was generally acceptable and applicable to Jordan's economy and society. The study proposed and utilised a measure for this assessment, based on political, economic, institutional and environmental criteria. In regards to the political dimension, successive Jordanian governments have declared privatisation to be a strategic and long-term policy. It was in 1992 that steps were finally taken to implement privatisation. The economic dimension of this measure examined the level of freedom and competition in the market. A free market provides opportunities for a higher level of activity and foreign investment, and higher share prices for privatised enterprises. The institutional dimension relates to the existence

of a financial market facilitating access to local and international investors and generating competition. In Jordan, the Amman Stock Exchange has started to play that role. The last dimension, general environment, was based on the proposal that successful privatisation requires public acceptance from various groups that might be affected by the privatisation programme, including employees and customers.

Al-Ghanam (2004) conducted a comparative analysis of Jordan Telecom's pre and post privatisation performance. In addition, the study investigated the impact of privatisation on Jordan Telecom's performance in terms of attracting external knowledge and in the quality and cost of services. It also identified the new attitudes exhibited by the employees towards the incentive system, the organisational structure, and the usefulness of the information technology in operating activities. Al-Ghanam's study used a quantitative approach, utilising a questionnaire as the basic data collection tool. Al-Ghanam's study ascertained that Jordan Telecom's ability to provide high quality services and satisfy customer needs has been improved by privatisation. The study also found that privatisation had a positive impact on employee attitudes.

As-sardi (2005) evaluated the process of organisational change in Jordan Telecom on measures based on criteria in various areas of organisational development, identifying to what extent these developments and improvement have been adopted in the company. In addition, As-sardi's study explained the relationship between the process of organisational change and the process of organisational development. As-sardi's study utilised a survey to evaluate the organisational change criteria selected for the study.

As-sardi's findings indicated that organisational change was acceptable in five areas: employee trends, adoption of information systems, personal characteristics, organisational culture, and simplification of processes and tasks. As-sardi's study found that the employees' reaction and attitudes regarding the process of organisational change in the company were positive. Moreover, it found a positive relationship between the information systems adopted and the level of rational interaction with organisation change by employees.

### **5.5. Discussion**

The foregoing revision of the Jordanian context articulated that there were political and economic aspects of change in the public sector. Reforming the public sector was basically a governmental mission. Also, introducing and renewing laws were necessitated to create a friendly investment environment in order to attract international investors. Thus the discussion about this role will be explained in the empirical chapters, where the public service principle is applicable to the establishment of Jordan Telecom (JT) as a nationalised and monopolised entity, where the emphasis was on provision of a public service to the citizens and the development consequences of these services under the privatisation project. The aims of these actions were focusing on the preparation of the industry for more commercial principles in order to prepare for privatisation. While, the telecom operator still provides monopoly services to the customers; subsequently, the priority became the creation of market values of the telecommunication industry to customers with free choice of providing several of its products.

The development of public enterprises and changing their cultures has been discussed by several authors. A reform has been undertaken to encourage the enterprise culture to get involved in the market free values and initiate a competitive environment. The reforms required reorganisation of the public enterprise in line with a commercial orientation.

## **5.6. Summing up**

The literature discussed in this chapter is aimed to highlight the distinct nature of Jordanian circumstances, which drove the country to adopt a rigid reforming program, affecting all of its societal, political, economic and social aspects. Several government policies adopted, at macroeconomic level, a firm structural economic program, lifting the price regulations, liberalising the trade and monetary policies, reforming financial and capital market and removing the foreign investment limitations; and furthermore, renewing and modernising regulations and laws. These policies aimed to associate the international movement toward activation of market forces.

The next chapter will present JT in a historical context. It highlights the development pace of the organisation. It will provide a base for the analysis of change by offering a historical perspective for the study in terms of the history of development of the telecommunication industry in Jordan.

## **Chapter 6: Jordan Telecom: A historical context**

### **6.1. Introduction**

This chapter will provide the pathway of development of Jordan Telecom since the formation of the Kingdom of Jordan to the end of 2005. During this time Jordan Telecom and the telecommunication industry became fully liberalised. Providing the historical context of the organisation enables the researcher to build the framework of the organisation's pathway to privatisation. Moreover, it highlights the development pace of the organisation. This chapter provides a base for the analysis of change by offering a historical perspective for the study in terms of the history of development of the telecommunication industry in Jordan. Telecommunications, along with other public utilities, is considered an important service for the standard of living of the people and for the development of the economy. Therefore, the telecommunication industry took a significant role and was subject to public control.

This study is undertaken in a telecommunication company. The company is referred to here as JT (Jordan Telecom). It is, and it has been for long time, in public sector ownership. According the Jordanian measurements, it was considered a large company by any standard and was employing approximately more than 5000 people (Pohl Consulting & Associates 2006). Currently, it is classified as one of the biggest companies listed in the Amman Securities Exchange (ASE), in terms of the market value (Global Investment House 2006).

The history of telecommunications in Jordan can be traced back to early 1921. After the foundation of the Kingdom of Jordan in 1946, the Ministry of Post, Telegraph and Telephony was established, which further developed the country's telecommunications services.

The next section provides the development periods of the organisation from 1971 to the end of 2005. This highlights a certain period of time where several changes have occurred.

## **6.2. The development periods**

There were three time frameworks the organisation passed through during its development phase: the pre-privatisation era from 1971 to 1993, the transformation era from 1994 to 1999, and post privatisation era from 2000 to the end of 2005. One of the managers interviewed, participant no. 16, identified these three development periods:

I can classify the life of the JT to three periods, pre privatisation, transformation project and after privatisation. In 1994, the transformation period was commenced by launching the National Telecommunications Projects (NTP) extended over a period of 5 years. In 2000, Franc Telecom joined Jordan Telecom as a strategic partner [participant no. 16].

Also, Kandeh (2003) identified four periods of development, which revolved around two main elements of organisational form, the ownership and the management of JT through pre privatisation and post privatisation periods. He (p. 23-24) summarised his results in table (6. 1).

Table (6.1) JT's periods of change (1971-2003)

Periods	Ownership	Management	Investment & development	Operation
1971-995	Public organisation	Government	Government	Government
1995-2000	Company 100%/ government	Government / independent board of director	JTC <sup>6</sup>	JTC
2000-2002	51% government , 40% JITCO, 8% Social Security	JITCO <sup>7</sup>	JITCO	JITCO
2002-up to date	40.5% government, 40% JITCO, 15% Social Security, 3.5% small investors, 1% employees	JITCO	JITCO	JITCO

Adapted from Kandah (2003, p. 23-24)

According to the foregoing discussion, the researcher sees that the periods of development are as follows:

### **Pre Privatisation Era: 1971-1993**

In 1971, a new government-controlled body, the Telecommunications Corporation (TCC) (*Muassast El Etessalat*) was established to take over the provision of the communications services such as telephone, telegraph and telex. The Telecommunications Law of 1971 retained TCC as the dominant player in the sector. The law allowed TCC not only to deliver services, but also to act as regulator.

The outcome of these efforts did not satisfy the subscribers (customers), who complained that none of the huge extensions in the telecommunication networks were being passed on

<sup>6</sup> JTC: Jordan Telecommunication Company.

<sup>7</sup> JITCO: Jordan Investment Telecommunications Company, Joint Investment Telecommunications Co. 88% owned by France Telecom and 12% owned by Arab Bank Ltd.

to them. The majority of the switch calling was manual. As well, the government's effort was focused on satisfying the city centres populations, neglecting the countryside.

From 1973 to 1985, Jordan Telecom's network underwent significant expansion as part of a government investment program. In 1993 the government was able to initiate a development program known as the National Telecommunications Program (NTP).

### **Transformation Era: 1994-1999**

Jordan's government realised that the telecommunication sector was desperate for some improvement; therefore, in 1994 the government made a holistic program aimed to improve and upgrade the telecommunication sector in order to associate the international development with this industry. Before 1995, the Telecommunications Corporation (TCC) was the regulatory body and the main operator and provider of the telecom sector. TCC used to provide all of the telecommunication services in Jordan.

In 1995, a new Telecom Act was issued aimed initially to introduce a new regulatory body. According to this Act, the Telecommunications Regulatory Commission (TRC) was created. It stated that the TRC should be financially and managerially independent to regulate the sector and to implement the government's general policy.

TCC became a registered company and was renamed Jordan Telecommunications Co. (JTC) on January 1, 1997. Consequently, the registration of JTC as a company was considered a significant step for the company in operating all its activities, managerially and financially in full independence. The company began changes and advances that were made to the local, national and international switching systems and the development of



ground stations for satellite communications, and local area and wide area communication networks, in addition to the introduction of new network technology and provision of novel telecommunication services (Abu-Ghazaleh & Co. Consulting 2005). In order to achieve its future vision of maintaining its leading position in telecommunication services, the company embarked on the largest development project in the country, with a philosophy of “customer satisfaction is Jordan Telecom number one priority” (Jordan Telecom 2002). The project started to computerise all of its activities and operations, which was noticed particularly in creation of the customer care and service centres (Jordan Telecom 2002).

### **Post Privatisation Era: 2000-2006**

Jordan Telecom is considered to be the largest operator and provider of telecom services as it owns the nationwide network that constitutes the base for the various communication services in Jordan (Abu-Ghazaleh & Co. Consulting 2005). An agreement was signed on January 23rd 2000, allowing the Jordan Telecommunications Corporation Investment Group, led by France Telecom, to buy into the company with 40% shareholding equity, while the Jordanian government retained a 60% stake (El-khatib 2002). JTC is owned partly by France Telecom 88% and partly by the Arab Bank Ltd. 12% (El-khatib 2002).

JTC started to draw its plans and strategies for developing and upgrading the telecommunications network owned by Jordan Telecom, and it has the main network and the fundamental base for the Telecom services (Abu-Ghazaleh & Co. Consulting 2005). However, the company gives its priority to fulfilling the requirements of the market and its customers (Jordan Telecom 2001).

### **6.3. Discussion**

The foregoing historical context of Jordan Telecom was presented to help understand JT in an organisational context. This is done by dividing the JT's life into three eras depending on the major motivation through it. The first era is a pre-privatisation era (Pre-PE). This period represents the JT's life from 1971 to 1994. The major role player during this time is the government, exercising its role for stimulating the organisational form to enable JT to provide public services. In the case of JT in this period, the government was one of the major stimuli, by appointing the board of directors who were governmental members, selecting the executive manager, exercising more pressure in filling the vacancies and exerting ministerial accountability for the organisation management through the Minister who was in charge.

The second era is called the transformation era (TE), which is divided into two periods. The first is 1995-1996, which represents the reorientation and restructuring period. The second is 1997-1999, which represents the initial physical transition of JT's life. During the transformation era there were many governmental endeavours to restructure the telecommunication industry in order to establish the new vision. In a step to privatise the telecommunications sector, Jordan's government corporatised Telecommunications Corporation (TCC), a government-owned entity, and created Jordan Telecommunications Company (JTC), a public shareholding company that has opened most activities to private operators. The corporatisation of state enterprises in Jordan is regulated by the Companies Law, which allows the transformation of these enterprises into public shareholding

companies fully owned by the government. During this era, the government issued and renewed several laws such as the Privatisation Law, Securities Law and Investment Law.

The third phase is the post privatisation era (Post-PE), which started from 2000 up to the liberalisation of the telecommunication sector at the end of 2005. The main distinguishing feature of this period was conducting an alliance with France Telecom (FT) in order to acquire a certain newly developed technology in the telecom sector of which JT itself was unable to obtain technological development. The Jordan government (1998) pointed to the importance of its interest and efforts in ensuring effective implementation of its privatization policies relating to the telecommunication sector taking into consideration all pros and cons for all involved. Therefore, the government determined certain conditions that should be available after choosing the strategic partner. Jordan's government revealed the desperate need of the organisation for certain sources not available in the local market such as new technology, precise technical and managerial experiences and finally development techniques. The second condition is the existence of these resources in the international market and the availability of a qualified international organisation to transfer these needs. The Jordan government (1998) asserted that JT was desperately in need of transferring the developed technology, which can be achieved by conducting an official relationship with a strategic partner as alliance. The study considers the official alliance between the JT and the FT, which is a basic motivation to organisational change for post-privatisation. Therefore, by the existence of the unique relationship between the JT and the FT, there were significant organisational changes to set up JT for the potential regional competition. Table (6.2) shows the brief history of JT through three eras.

*Table (6.2) A brief history of JT through three eras*

Period	1971-1993	1994-1999	2000-2005
Era	Pre-Privatisation Era	Transformation Era	Post-Privatisation Era
Ownership	Public sector	No change	Public and Private sectors
Controlling body	The organisation itself	Restructuring	Independent body

Moreover, it is obvious from the foregoing historical background that the name of the organisation has changed many times during these eras. The researcher uses the recent name, Jordan Telecom (JT), in all of the periods. Table (6.3) summaries the changes that have occurred in the name of the organisation during the development period of times.

*Table (6.3): JT's names during period of times*

Period	1971-1997	1997-2000	2000-up
The name	Jordan Telecommunications Corporation	Jordan Telecommunications Co.	Jordan Telecom
The abbreviation	JTCC	JTC	JT

## 6.4. Summing up

It seems from the foregoing brief history that JT's life stemmed from three periodic times. The first period is from 1971 to 1995, which formed the first telecommunication law until issuing new privatisation law in 1995. This study will call this period a Pre-Privatisation

Era (Pre-PE). The second period is from 1995 to 1999 (transformation era), which derived from the necessity to develop the telecommunication sector by considering the international transformation in this vital industry. Also, this period will be named as a Transformation Era (TE). The third period is from 2000 to 2005; this period “saw the beginning of” a unique relationship between Jordan Telecom and France Telecom until liberalisation of the whole industry by the end of 2005. As well, this period will be named a post-Privatisation Era (Post-PE).

These three eras will be the framework to present the JT’s life from its formation until the end of 2005. As well as this, they compose the bulk of the next three empirical chapters. Chapter 7 presents Jordan Telecom during the Pre-Privatisation Era. Chapter 8 presents JT during the Transformation Era. Chapter 9 presents JT during the Post-Privatisation Era.

The next chapter is the first empirical chapter, which will present several aspects of the organisation during the government management form, and the pre privatisation era. In addition, the chapter will, in depth, highlight the internal and external organisational environments. Focusing on the role of the Jordan State in stimulating the external environment presents the pressure, which was exerted.

## **Chapter 7: Jordan Telecom During Pre-Privatisation Era<sup>8</sup>**

### **7.1. Introduction**

This chapter is the first of three empirical chapters, which form a case study of Jordan Telecom (JT). The three chapters will offer empirical evidence which is applied to the model adapted in Chapter 4, in order to give insights into the processes of change in the external and internal environments of JT, which in turn lead to the appearance of a new ethos.

The chapter discusses the crucial role of the Jordanian State in stimulating an organisational environment, which ultimately led to the privatisation of JT. It provides an insight into the impacts of the government's political and economic policies in the formation of an organisational ethos. It will examine the nature of accountability of JT in its original context of the public sector. The examination of different changing organisational ethos will provide further insights into the structures drawn upon by actors in organisational communication. It will give a fuller understanding of external pressures to adopt a privatisation program in Jordan. Furthermore, an understanding of the communication problems, which existed in the Jordanian telecommunication industry will contextualise an understanding of how organisational change occurred during the privatisation of the telecommunications industry.

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<sup>8</sup> Most of the materials here have been extensively published in Shanikat, M. (2007). "Understanding organisational change in the privatised enterprise: Case study of Jordan Telecom." *EBS Review*. 22 (1): 42-58.

This chapter as a whole tries to provide an understanding of the public service from the point of view of a public organisation that provides for public utilities with a main emphasis on equality and justice regardless of the cost and profit. This view holds that the state is more qualified in controlling public goods that are essential for the well-being of the general public. This chapter will examine the role of the state in intervening in the economy in order to preserve this situation. In addition, it will explain the extent to which the changes in organisational structure (archetype designs) affected JT without affecting its organisational culture (interpretative schemes), as suggested by the theoretical framework discussed in Chapter 4.

## **7.2. External environment**

According to the theoretical frameworks built in chapter 4, during this pre-privatisation era, there was one major player, the Jordanian State, at the macro and micro levels, which impacted on the organisation form of JT.

### **7.2.1. The role of the Jordanian State**

States play political, social, and economic roles. The focus of this study is on highlighting its economic role particularly in terms of the state's intervention in the economy and the provision of public services. Economists have pointed out that there are two general roles of the state in terms of its intervention in the economy, normative and positive (Tanzi 1997). The normative role determines principles and guidelines to maximize welfare. The normative role implies "what the government should do to correct market imperfections and to complement the market in other ways to promote and maximise social welfare" (Tanzi 1997, p. 4), whereas, "the positive role describes and analyses what the government

actually does” (Tanzi 1997, p. 5). Also, Tanzi (1997) stated that the role of the state is a combination of direct investment particularly in the large infrastructures and heavy industries in the initial phase of development, and a set of policies which employs some incentives and control mechanisms to spread risk. Krueger (1990) argues that in the major activities such as infrastructure and provision of information, the state is in a good position to intervene successfully. Evidence shows the market cannot by itself create appropriate industries or strategic investment opportunities (Funnell and Cooper 1998; Tanzi 2000). Therefore, the need for reforming the government’s intervention becomes even more crucial theme.

In many developing countries, the state’s intervention in the economy has been mainly influenced by the external international actors (Tanzi 1997). In these countries, the nationalisation of public organisations was considered a significant decision at the time of independence aimed to help in the implementation of the government’s macro policies (Tanzi 1997). In the 1950s and 1960s, economists assumed that governments to some extent were the main actors especially influencing macro level decisions (Tanzi 2000). So it was the government who decided what was and was not in the interests of the people in terms of the goods and services provided to them (Tanzi 1997; World Bank 2004). The economists’ point of view was derived from the assumption that the government’s perspectives and knowledge of market mechanisms and specific needs of its nation were greater than that of the private sector (Krueger 1990; Tanzi 1997; World Bank 2004).

According to Abu Shair (1997), in the case of Jordan, the government ran public enterprises mainly for three reasons. Firstly, there were no private parties able to afford or willing to



carry out the risk of a venture that required substantial capital for capital-intensive projects. Secondly, it was desired by the government to exercise control over industries to achieve some development objectives, and thirdly, it was believed that the government had more capacity than the private sector to attract more private capital and technology and make negotiations with international associations in this context.

Abu Shair (1997 p. 138) also pointed out that the attributes of the state regulatory roles in Jordan are: “Centralisation of economic decision-making within small elite; special interest legislation; the non-existence of or very weak public accountability, and; the non-involvement of basic local institutions or smaller business group in the economic process”.

Since the beginning of the establishment of the Jordan State in 1921, there was an ideological belief of the state in the market-oriented policies as a pathway for development (Kanaan and Kardoosh 2002). Therefore, there was no nationalisation and the economy was largely centrally planned (Abu Shair 1997).

Although the government in Jordan pursues free market policies, the economy is a market based political economy (Reid 1994). The Jordanian State is “a mercantile state” (Abu Shair 1997 p. 137). In a mercantile state, there is no consideration for the consumer decision in terms of what should be produced; therefore, the government retains the right to undertake economic activities and make economic decisions on its own interests (Abu Shair 1997). In Jordan, the Ministry of Industry and Trade was exercising this right in deciding what will be supplied and consumed in the market (Abu Shair 1997).

Abu Shair (1997) pointed out that the Jordanian government ownership historically passed through three phases: The first was between 1921-1950, when the main priority to the state was the establishment of its authority and legitimacy by meeting the private sector demands through regulations and rules. The second was from the formation of the Kingdom in 1950 until 1972. During this phase, the private sector took its place as the leader, initiator, and stimulator of investment. The third phase started from 1973. The State of Jordan had become the owner of major projects. By this time, the Jordanian government had started targeting the increase in government's revenues, as well as, the need to build services, infrastructure and encourage industrial development.

The next section will articulate JT's situation, which led to the dominance of a technical ethos, the nature of ministerial accountability, and the public sector's point of view regarding the provision of public services.

### **7.2.3 Monopolisation**

The concept of nationalisation was not in existence in Jordan. The Jordan economy from the emergence of Jordan State in 1921 to the formation of the Kingdom in 1946, did not close the investment doors in the face of private sector investments (Al-Quaryoty 1989). However, in 1971, JT<sup>9</sup> was established as a nationalised industry to provide an equitable telecom service to the people (Abu-Ghazaleh & Co. Consulting 2005). In fact, this idea was enforced by the regional political and economic environment. Furthermore, Jordan's neighbours, Syria and Iraq, who had adopted socialism regimes, nationalised their public companies. The Jordan State had fears about the loyalty of Jordan's people in their

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<sup>9</sup> The initial name of the company was Jordan Telecommunications Corporation (JTCC).

admiring of these regimes, as mentioned by a Participant [no. 18]. Therefore, Jordan's government made extensive expansion in establishing a monopoly of public enterprises particularly those that were more important to the general public's social life, for instance, public utilities, infrastructure, energy, health, telecommunications and so forth. Thus, Jordan's government sought help from external sources, which led to more deficits in the public budget. Participant no. 18 expressed this fear:

As we know, Jordan is not an oil-based economy, and suffers from lack of natural resources. In addition to the existence of the socialist regimes, Iraq and Syria, surrounding the kingdom, the Jordan state feared that they might threaten the national sovereignty by changing the Jordanian people's loyalty through admiring these regimes. As a result of that, the state of Jordan sought more loans in order to develop the public utilities. [Participant 18]

With the prevalence of several social, political and economic circumstances, the Jordan State accepted social obligations to provide basic essential services and the Jordan citizens' right to receive such services. For these reasons, Jordan's State established Jordan Telecom Institution as a monopoly framework and offered it extensive privileges. During the Pre-Privatisation Era, JT enjoyed a monopoly in industry. It had significant privileges, which enabled it to provide telecommunication services and to regulate and control the industry [Participant 18]. Basically, it was one of the major revenue sources of the public budget [Participant 18].

JT benefited from the economic boom during the 1970s. Many expansion projects were created, increasing the capacity of the telecommunication network. Significant changes were made, particularly the changing of a large manual system to automated systems (Mustapha 2005). These noticeable developments, surprisingly, did not meet consumer satisfaction in terms of the quantity and quality of the services (Mustapha 2005).

The dominance of the engineering ethos during this era was evident in that all the development centred on engineering and spreading the telecommunication network. Accounting was incidental in this culture. In fact, accounting was necessary in the technical sense of the government's aim of ensuring that the revenues of its services were calculated and the subscribers paid the amount owed without delay. But accountability was not incorporated into the technical culture among the top management, which means the accounting system was not effectively included in the decision making process [Participant no. 7].

It seems that the major change mentioned above was certainly the result of the events of the 1967 war, which drove thousands of Palestinian people to Jordan creating political and economic obstacles in the state's economic development. Giddens (1984) asserts that the conflicts and crises play a crucial role in promoting changes in social system. He also stated that the actions of actors would be different depending on whether the conditions were normal or critical. Tanzi (1997) echoes Giddens (1984) in arguing that the lack of resources, the major wars, and the external threats were playing a major motivation for the extensive state intervention.

#### **7.2.4 Ministerial Accountability**

Ministerial intervention was in the form of articulating a formal policy to control or determine pricing and wages. The employment policy was influenced by the government's decision to create economic expansion or employment opportunities in areas of higher unemployment. Empirical data collected for the study suggest that there was government intervention in formulating employment policy, as participant no. 6 explained:

I can remember instances when unemployment was on its peak, when the government would employ people regardless of the JT's needs. Moreover, there were a lot of pressures from the government to secretly appoint some people despite their lack of enough qualification [Participant no. 6].

Moreover, the state's commitment towards its citizens with regard to the level of employment necessitated solid control by the government. This refers to coercive pressures, as advocated under institutional theory (DiMaggio and Powell 1983). These types of pressures are more relevant to understanding changes that are basically imposed by an authority of the state, which imposes its legitimate power to formulate and enforce laws, regulations and rules, in order to create a framework to manage the relationship among the industry fields (Scott 1994).

Accountability is considered to be a crucial element of the public service culture, given the importance of power of the government over the industry (Conrad 2005). Therefore, public accountability is very important for the evaluation and assessment of the industry in order to ascertain whether its operations and performance are in the public interest (Funnell and Cooper 1998).

The political accountability is in the form of a ministerial accountability of the relevant industry. The managerial accountability is about the reporting about the management of a particular industry to the Cabinet Council. In terms of political accountability, the Minister of Post and Telecommunications (*Wa zeer Albareed Wa Aletesalat*) was answerable to Parliament<sup>10</sup> (*Al barlaman*) for any actions he took. However, the Minister was still able to exercise informal pressures on the JT's management without being formally held

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<sup>10</sup> During 1967-1988, the Parliament was absent for several political reasons. National Consultation Council was created from 1978-1988. All its members were appointed by the King.

accountable for his actions. The informal role exerted by the Cabinet Council (*Majles Al wozara*) and the Minister of Post and Telecommunications was through their official power of appointment of members of the company's Board of Directors. This situation enabled the politicians to intervene informally in the decision-making processes within JT. It is obvious, that the politicians had more power in exercising a coercive role, and there was a logical justification for that intervention which was to keep the public interest. Formally, the management was accountable to the Minister, who, as per the constitution, was answerable to the Parliament for any directives he issued.

The auditing of JT's financial performance was the responsibility of the Audit Bureau (*Dewan Allmohasabah*), which is a government institution. The Audit Bureau is responsible for preparing the closing accounts (*Alhesab Alkhetami*), which involved a disclosure about the management of JT and whether the financial and operational targets are met or otherwise. This report used to be submitted to the Parliament. Thus the Parliament was able to hold the Minister accountable for any deviations from the standards. The audit report was not similar to that of a private company. The shortcomings in the final audit report stemmed from the nature of the Audit Bureau's objectives; the auditing is referred to as *verification* later in the chapter. These weak points in the Audit Bureau's report undermined the accountability mechanism.

The foregoing discussion threw some light on the significant changes in the external environment which were notably imposed by the state. Therefore, the state had exerted pressure to emphasise justice and equity in the provision of public utilities. As a result of this vision of the state, JT established and enjoyed a state of monopoly in the industry for a

long time. Furthermore, the state's intervention in the economy during this era was for political, economic and social reasons. Therefore, within such an environment, the public sector vision certainly impacted on the external environment of the industries which saw compliance with the public sector's vision of public service. Thus, the external environmental influences required a particular organisational form to better cope with these external pressures. The next section will explain the organisational form the archetype design, subsystems and interpretative schemes in Laughlin's (1991) terminology. The main focus is on the accounting system and accountability mechanisms.

### **7.3. Internal Environment**

This section explains the different forms of organisational set up during the Pre-Privatisation Era. The explanation revolves around the three layers of the organisation; design archetype, subsystem and interpretative schemes. The design archetype includes the structure of organisation, the ownership, the nature of the management style, the decision making process, the accountability mechanism and the communication system. It also involves the extent to which the accounting system is involved in the decision-making process and accountability mechanisms. The subsystem involves the organisation's people (staff), their qualifications and the mechanism of employing them, as well as the mechanism of operation of the accounting system. The interpretative schemes involve the organisational philosophy in respect of the subscribers (Customers), the dominant organisational culture, the nature of decision-making and the extent of employees' participation in decision-making. There are interdependences among these organisational layers and some may interact with others. Thus, it is impossible to study any one layer in isolation of the others.

### **7.3.1. Design Archetype**

#### **Organisational structure**

The organisational structure of the JT consisted of twelve regional telecommunication departments. The regional departments were headed and managed by the engineering staff without any tangible authority. Their duties were to operate and run the regional departments. JT's headquarters in Amman had four main departments, technical, financial, personnel affairs, and subscribers' service and billing.

In accordance with the Telecommunication Act, the board of directors usually consisted of governmental members, and the Minister of Post and Transportations<sup>11</sup> served as the chairperson. JT's executive and the senior managers were appointed by the Minister of Post and Transportation then confirmed by the Cabinet Council.

#### **Style of the management**

Considering the management structure and style, JT was managed by the government and its decision-making was based on the government policy regarding the pricing of the services and subscription fees. Thus, to ensure integration with the government policies, centralisation of decision-making was adopted by the management. The technical sector, which was the biggest of all, had more attention from the management [Participant no. 11]. The financial sector, on the other hand, had limited responsibilities and authorities, which mainly comprised of administrating and managing collected and uncollected revenues [Participant no. 9]. The responsibility of the personnel department was also restricted to

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<sup>11</sup> Nowadays, the name of the ministry is changed to the Ministry of Information and Communications Technology



particular tasks, such as preparing the payroll sheets and scheduling employees' absence and attendance [Participant no. 14]. It had no power or authority in terms of appointing new employees. The authority of the subscriptions and billing department was limited to distributing the bills and collecting the dues [Participant no. 7]. Moreover, the JT had no marketing department at all. In addition, the technical department was not involved in the decision making process. These facts about JT's organisational structure are confirmed by several interviewees particularly those who had been working with the company for a long time. Participant no. 9, who been working in JT more than 26 years, said about the limitation of the accounting system:

During the period when government was managing the JT, I can say that the accountants' responsibility was only producing annual financial accounts, revenues and expenditures reports, and present them to the general manager. Furthermore, the financial reports were produced just to let the Audit Bureau know about our performance, then communicate the same to the parliament [Participant no. 9].

Participant no. 11, a technical manager who had been working around 20 years with the company, made statements about the role of the technical department in decision making.

The technical sector was in the centre of attention because of the nature of JT's services. The main job of the engineers basically was to keep up the maintenance of the network and fix any problem that surfaced. But, unfortunately, it was not involved in the decision making. For example once a team of experts was appointed to give recommendations to improve the telecommunications network, but in the end the department made decisions in the opposite direction of the team's recommendations [Participant no. 11]

### **Decision Making Process**

A high level of centralisation of the decision-making process was introduced in JT due to the inappropriate intervention by the Ministers in managerial decision making, which they defended as being important in the larger public interest. Furthermore, no incentive

mechanisms were in place to encourage the managers to achieve the goals of the organisations. Participant no. 17 highlighted the impact of the absence of the incentive system and remarked:

There was no incentive system. It was a governmental mentality which was dominant in the company's management. The incentives basically depended on seniority, not on the employee's performance. This mentality actually affected the employees' performance and an overall thinking of whether one works hard or doesn't will get identical results deeply embedded the organisational culture [Participant no. 17]

Despite developments in the telecommunication industry during the 1970s and 1980s, the traditional investment criteria such as the discount rate (DR), real rate of return (RRR), and payback period, were not considered when investment decisions took place. JT was operating on the basis of a public interest ethos, wherein profitability considerations did not exist. Therefore, according to Participant no. 7, financial pressures were not strong and engineering considerations came up and became more significant.

Decisions were essentially technical, rather than financial in the first instance. Subscribers were paying for services, naturally nothing is for free, and they didn't know what they were paying for. Sometimes, their bill included some calls they didn't make and sometimes their bills missed a lot of their actual calls. They were paying less than the due amount. As well, sometime the bill might be written off when it became too stale [Participant no. 7].

### **7.3.2. Sub-systems**

The dominance of technical professions in these organisations before the reforms can be explained by the importance placed on technical skills in the initial development of different industries. Regarding the role of the accounting system during the pre privatisation era, Participant no. 7 said:

At the end of 1980s, Arthur Anderson, the auditor, was appointed by the Board of Directors, which in turn was appointed by the Ministerial cabinet, which was

reporting to the Board rather than to the Auditing bureau. Furthermore, a commercial accounting section was created, but unfortunately, the management was not considering the reports produced by both of them. I can say that the board created them only nominally without any effective powers to make and implement decisions [Participant no. 7].

This evidence articulates that the accounting system was incidental and largely ignored. It is obvious that during the pre privatisation era the technical sector was dominant. Therefore, the engineers were playing the major role and the entire regional department managers were engineers by profession.

### **Accounting system**

On the subject of published financial information, participant no. 9 provided a holistic summary of the accounting system content:

For a telecommunication industry, readers of financial performance reports, prepared by the Audit Bureau, were primarily parliamentarian. In the Pre-privatisation era, all that accountants had to do was to produce annual financial accounts, revenues and expenditures reports, and present them to the general manager. It was a relaxed timetable, because there was no demand from Financial Market to submit them within a stipulated time, or any pressures from shareholders. As, these financial accounts were not available for the general public, that meant they were not disclosed [Participant no. 9].

This evidence suggests that the existence of several stakeholders is necessary for ensuring a legitimate use of accounting information. This means that the verification of information and its validity and credibility by several interested parts is essential for making the information more reliable.

### **7.3.3. Interpretative schemes**

Cultural transformation paralleled change in the organisational structures of JT. During this era, JT was a technically oriented organisation managed with an engineering dominance for

building infrastructure (networks); not much emphasis was placed on providing customer services. Participant no. 16 commented on this situation:

.....the government every year allocated millions in the public budget to improve the telecommunication networks, but unfortunately I have never seen any real budget to improve subscribers (customers) services. Although, we provided them with many recommendations [Participant no. 16]

Related to the structure, an important element of the design archetypes, are important issues of the communication system, which basically were influenced by the type of organisational structure. Several interviewees that were working during the Pre-Privatisation Era, referred to the hierarchical and functional nature of the organisational structure, with many levels of bureaucracy and many committees. Participant no. 17 pointed out:

With the existence of several regional and headquarter departments, and a big number of staff, the organisation was totally bureaucratic, full of committees and sub-committees, so that any decision couldn't be made at the lower level. Decision making was very slow even in relation to minor issues. For example, applying for purchasing Stationery for day to day use was requiring many signatures for the approval of the amount [participant no. 17].

The above discussion provides evidence of the existence of many layers of management, and difficulty of making decisions at the individual department level. Interview participants also revealed that many of the ordinary employees had to work long hours and engineers were usually the elite people in the organisation and had more power.

The Telecommunication industry was structured as a monopoly association to provide public services, because the commercial restraints were totally absent. Thus, in this

situation, the accounting system was functioning as a servant system to the engineering sector. Participant no. 9 said in this context:

In the monopoly industry, the focus was on the ability of collecting bills. We didn't have to calculate the cost of services, because this information was not important to the policy makers. All subscribers were paying the same price. Therefore, there was not a lot of need of information about the market [participant no. 9].

The organisational structure of the telecommunication industry was hierarchical within different regions, with a further hierarchy at the main office in Amman. It is clear that the structure was based on bureaucratic mechanisms supported by the public service vision (Ezzamel and Willmott 1993).

The organisation was heavily lacking internal accountability because there was no internal audit system to work as a control mechanism and as an important component of the organisational structure. The Audit Bureau's office was fulfilling this responsibility. As discussed in section 7.2.4, the auditing and controlling functions of this office were called "late auditing", which meant it could not identify and control a problem on time. In addition to further weakness and financial accountability pressures, the public service philosophy of providing public utilities was influenced by the accounting system being practiced in the organisation. It was disclosed by a participant [no.7] that the management of the JT created a commercial accounting section for the preparation of financial accounts and reports as is done in the private sector, but intentionally it was excluded from the decision-making processes. The accounting system, a part of the organisation's interpretative schemes, was acceptable for communicating to the extent to which management had achieved its declared objectives, and helped to dominate engineering staff at all levels of the organisation.

Moreover, the absence of a costing system [Participant 9] to evaluate whether or not new assets purchased were necessary, or services provided by the organisation were profitable made investment decisions very difficult. Consequently, the investment decisions made by the dominant engineers were inefficient because of the apparent neglect of costing principles.

JT's culture during the Pre-Privatisation Era can be described as "Passive" (Lal *et al.* 2004 p. 103). This passive culture was dominated by an overstaffing of employees and a sense of job security among employees. It depicted the nature of the public utilities and the nature of the telecommunication sector as providing the services regardless of any cost considerations. Thus the culture did not require extensively qualified employees. The dominant technical ethos that prevailed in the organisation enforced this culture, which if left alone would have remained for an indefinite time period.

#### **7.4. Discussion**

From the foregoing sections it seems that the Jordan State was the main external factor, which played a significant role in triggering a change at macro and micro levels of JT. This crucial role-played was notable in the State's efforts in making JT a company with a particular privilege for controlling the telecommunication industry and establishing monopoly for providing the telecommunication services. This situation enabled JT to operate and control the telecommunication industry in Jordan.

Table (7.1) provides a framework, which the JT followed during the pre-privatisation era. This era extended from the beginning of the 1970s until the early of 1990s. JT was

established by the government as a nationalised monopolised industry to provide telecommunication services to people more equitably.

This chapter presented significant changes made during the Pre-Privatisation Era and provided justifications for the author to integrate Laughlin Organisational Change Model, particularly the rebuttal change part of it, with the change the JT went through during the period 1971 -1994. The changes during this period of time affected only the structure of JT. For example, there was the creation of a commercial accounting section in 1990, change of Board of Directors from time to time, and a change of name for JT.

*Table (7.1) JT's framework during the Pre-Privatisation Era.*

<b>Era</b>	<b>Pre- privatisation Era</b>
<b>Periods</b>	1971- 1994
<b>Coercive pressures</b>	The state
<b>Organisational form</b>	Governmental
<b>LOCM</b>	Rebuttal
<b>Interpretative Schemes</b>	Public service, Political constraints, Justice and prevention fraud, Engineering culture
<b>Design archetype</b>	Hierarchical authority, Centralised decision making, Functional, Bureaucratic and formal communication, Self control , Shortcomings in MIS and AIS
<b>sub-system/ Accounting System</b>	Incidental and neglected, Manual system, less qualified employee

## 7.5. Summing up

This chapter, the first of three empirical chapters, which form the case study of JT analysed the prevalence of the public service ethos that dominated the telecommunication industry, and identified the role of the state in promoting such a culture within the company. Regarding the accounting system, the foregoing discussion articulated clearly that the accounting system was neglected and its existence was incidental in the company's

operations. In addition, the overall efficacy of the industry, which was providing uncompetitive services, enhanced and the technical sector gained dominance.

The next chapter, the second empirical chapter, will discuss the organisational change in JT during the transformation era, which itself is divided into two periods of times, restructuring and transformation.



## **Chapter 8: Jordan Telecom During the Transformation Era (TE)<sup>12</sup>**

### **8.1. Introduction**

This chapter is the second of the three empirical chapters describing the case study of JT. It examines organisational changes in JT advised by some international consulting companies such as PricewaterhouseCoopers and Merrill Lynch to the company's management. It examines the external environment of the telecom industry by highlighting the role of Jordanian State during the Transformation Era (TE). It contributes to an analysis of the government's justifications for the initiation of the company's privatisation process as a way to change the external environment in terms of reforming the public sector, through developing the country's economic and legal environment. It explains the changes at both macro and micro levels, which the government imposed.

The chapter considers the extent to which restructuring and the creation of a new regulatory body of the telecom sector has underpinned the preparation of JT for privatisation. It continues with an explanation of the changes in organisational structure, and at the theoretical level analyses changes in interpretative schemes. In addition, it highlights the effectiveness of the new organisational form, including the registration of JT as a shareholding company operating on a commercial basis.

This chapter, as a whole effort, provides an understanding of the commercial business vision from the point of view that the change revolves around the level of interpretative

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<sup>12</sup> Most of the materials here have been extensively published in Shanikat, M. (2007). "Understanding organisational change in the privatised enterprise: Case study of Jordan Telecom." *EBS Review*. 22(1): 42-58.

schemes. Furthermore, it examines the extent to which organisational structure (archetype designs) and organisational culture (interpretative schemes) were perceived to have been changed by external factors, particularly from the stimuli imposed by the state in terms of the theoretical framework described in chapter 4, section (4.5).

According to the discussion provided in chapter 5, the transformation era (TE) had two distinct time periods. The first period extended from 1994 to 1996. During this period, the state had a major role in terms of stimulating the external environment by issuing laws, which were considered to have enhanced the efficiency of the state's policy of reforming the public sector, for example the Privatisation Law No. 25 of 1995 and the Telecommunication Law No. 13 of 1995. Moreover, the state played an active role by appointing an international consulting company to undertake an assessment of the telecom sector in order to introduce it to commercial concepts. Furthermore, the Telecommunication Law No. 13 of 1995 required that the Telecommunication Regulatory Commission (TRC) be established as the legal accountability body.

The second period extended from 1997 to 2000, during which the state kept exercising a major role by corporatising the JT and renaming it from Jordan Telecommunication Corporation (JTCC) to the Jordan Telecommunication Company (JTC). Keeping in view the aftermath of this change, this was a significant change. Commercialisation aspects started to appear on the organisational scene and be exercised at all the three levels of organisational form design archetype, sub systems, and interpretative schemes. During the transformation era (TE), the company remained totally owned and managed by the government.

The next section describes the environment external to the organisation, particularly focusing on the role of the state in stimulating the reform of the public sector, such as the legal environment and the telecommunication industry as a whole.

## **8.2. The external environment**

### **8.2.1. The role of the State at the macro level**

The State undertook several actions at the macro level in order to cope with the new international movement towards economics driven by market forces. These actions were aimed at reforming the political and economic sectors, liberalising the economy to meet the global requirements, which have been recommended by its arms such as per recommendations by the World Bank and the International Monetary Fund (IMF). Moreover, to reinforce these actions the legal environment was improved. Therefore, several pieces of legislation were introduced and renewed (Mansur 1998) that were deemed very necessary to meet the demands of the time. For example, the Telecommunication Law No. 13 of 1995, the Privatisation Law No. 25 of 1995 and the Investment Promotion Law No. 16 of 1996 were issued to regulate and exert more state influence on the sector. Further instances of these reforms included renewing the Companies Law No. 22 of 1997 and the securities Law No. 23 of 1997 (more details provided in chapter 5, section 5.3.2).

The role of the state is not usually expected to be rigid and it changes over time; it is not “a static role” (Tanzi 2000, p. 6). The role is influenced by changes or different social views and changing technologies, which influence what the state should do (Tanzi 2000).

Jordan's State role was noticeable in its actions at the macroeconomic level, liberalisation of the legal environment in order to stimulate microeconomic elements. The State of Jordan had adopted successful restructuring policies for the economy and the privatisations of public enterprises as methods to achieve sustainable social and economic development. Awadallah, who was the economic adviser to the Prime Minister (1999 p. 4) points out the role of the state's action at the macroeconomic level:

The restructuring effort has been largely successful in addressing itself to the productivity and efficiency of the various sectors. New laws have been enacted including a new Investment Law, Tax Law, Companies' Law, Customs Law, Securities Law, Competition and Anti Trust Law, Electricity Law, and Telecommunication Law. Regulatory Bodies and Commissions have been established for Securities and Telecommunication .....in the meantime, all the restrictions on Foreign exchange have been totally removed (Awadallah 1999 p. 4).

In this regard, policies of privatisation of State Owned Enterprises were adopted in Jordan to achieve political, economic and social objectives. Alnaboulsi (1999 pp. 14-15) points out that Jordan Privatisation has five major objectives:

1. To raise the efficiency, productivity and competitiveness of economic enterprises.
2. To facilitate the transference of the advanced technology and modern management techniques required for reinforcing Jordan's economy competitiveness.
3. To develop the local capital market while steering private savings towards long term investments.
4. To stimulate local private savings and attract local, regional and foreign private investments.
5. To stop public funds draining in the form of subsidies and loans granted to loss-making and unprofitable public enterprises.

Government actions presented the first external force to impact upon the organisational structure of various public sector enterprises. The main goal of the state's restructuring and corporatisation programme was to improve the allocative and productive efficiency through

the removal of competitive constraints at the macro-economic level, aided by increases in commercial efficiency at the micro-economic level (Boston et al. 1996). Furthermore, with the goal of enhancing the efficiency of large public enterprises and preparing them for sale to the private sector, the government initiated horizontal competition by allowing companies to establish several telecommunications services. For instance, Fastlink<sup>13</sup> Company was established in 1995 to provide mobile services in this connection. This approach was most notable in the restructuring of the Jordanian Telecommunication Sector when the Jordan government decided to open the door for establishing companies to provide new telecommunication services, such as data transmission. This approach enabled JT to achieve the desired development goals and thus completely changed the telecommunication structure.

The role of the state in the transformation era was mainly active at the macro level, reforming the public sector by renewing and issuing legislation in order to comply with new international directions of adapting toward market forces. These actions impacted on the structure of the Telecommunication Corporation and the context of its operation. Participant no. 17 who had been working in JT for more than 20 years, pointed to the role of the government in reforming the public sector in general and the telecommunication sector in particular.

In 1995, the government of Jordan embarked on a program to restructure the telecom sector. This program was divided into five distinct but independent components legal, sector policy and regulation. These components were providing a firm legal basis for the telecommunication sector, establishing a policy position within Ministry of Post and Communications and establishing a Regulatory Commission. Corporatisation aimed to transfer JT into an efficient

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<sup>13</sup> In September 2007, Fastlink launched its new brand “Zain”.

commercial enterprise. Privatisation options develop a strategy and action plan for the privatisation of the JT [Participant no. 17].

Before 1995, JT acted as the regulatory body and the main operator of the telecom sector in the country. It used to handle all of the telecommunication services in the kingdom under the supervision of the Post and Telecommunications Ministry. In 1995, a new Telecom Law was issued that introduced the Telecommunications Regulatory Commission (TRC). It stated that the TRC should be financially and managerially independent to regulate the sector and to implement government general policy about the sector. The main functions of TRC were described to include the following:

1. To regulate telecommunications and information technology services in the Kingdom in accordance with the established general policy so as to ensure the provision of high quality telecommunications and information technology services to users at just, reasonable and affordable prices; and, by so doing, to make possible the optimal performance of the telecommunications and information technology sectors.
2. To establish the basis for regulation of the telecommunications and information technology sectors, in accordance with the approved general policy, in such a way that services meet the comprehensive developmental needs of the Kingdom; in accordance with rules and instructions issued by the Board for this purpose.
3. To specify the minimum level of service quality which must be offered by licensees to meet the needs of users; this shall be done in consultation with licensees and shall be without the imposition of any specific technology.
4. To protect the interests of users and oversee the actions of persons and Licensees to ensure that the conditions of licenses are observed, including specified service standards, service quality, and prices; and to take the necessary steps in this regard to provide for the punishment of those who violate these conditions.
5. To stimulate competition in the telecommunications and information technology sectors, relying on market forces, and so regulating them as to ensure the effective provision of telecommunications and information

technology services and to ensure that its regulations is effective and efficient; to forbid anti-competitive behaviour or practices; to forbid actions by any person to abuse a dominant position in the sector, and to take all necessary actions in this regard.

6. To regulate access to telecommunications networks and conditions of interconnection therewith in accordance with instructions issued by the Commission for this purpose, and to approve the interconnection agreements mentioned in paragraph (e) of Article 29 of this Law; and to ensure that there are no infringement in these agreements, and to ensure that there are no infringement between these agreements and the above instructions, taking into consideration the terms and conditions of any License previously granted by the Commission or any agreement with the Government entered into prior to the effective date of this Law.

7. To establish technical rules and standards for the interconnection of wire line or wireless equipment, including Telecom Terminal Equipment, with the Public Telecommunications Network, and to set the regulation procedures for importing such equipment into the Kingdom with regard to principles prescribed in the effective Standards and Metrology Law.

8. To assess the need for the adjustment of the level of, regulation of any telecommunication service, or specific type or group thereof, with regard to competition or any other factor that may require such adjustment or forbearance, and to recommend the same to the Board for approval.  
(Global Investment House 2006 pp. 6-7).

It is obvious; the creation of TRC was an important step to privatise JT. It aimed to regulate the Jordanian telecommunication sector, to create a solid healthy competitive environment, to protect the Jordanian customer, and to prevent anti competitive behaviour (Global Investment House 2006)

### **8.2.2. Public Sector Reforming Program**

Jordan confronted many political and economic obstacles during the 80s and the beginning of 90s as discussed in Chapter 5. The severe economic debt crises in the late 1980s diverted the attention of the government to the goal of tackling the default on its foreign obligations and the dipping of its foreign exchange reserves to below 120 million dollars.

Consequently, an economic reform program was launched in cooperation with the World Bank and the International Monetary Fund (IMF), with the primary objectives of controlling fiscal deficits and rebuilding the foreign currency reserves while liberalising the exchange rate. The program also aimed at re-structuring the economy at both the macroeconomic and structural levels in order to enhance its growth, productivity and efficiency.

### **8.2.3. Reforming the legal environment**

There were several branches of legislation that were created or renewed during this Transformation Era in order to introduce many public organisations to the privatisation program. This section focuses on the Privatisation Law, Investment Law, Companies Law, and the Telecommunication Law. Modernising the existing laws and introducing new laws would allow the government to restructure and speed up the privatisation of the public organisations, sell its shares in public shareholding companies and build regulatory bodies (Al-Kodah 2002). The provision of these laws and regulation allowed foreign parties to participate in the privatisation process where foreign and local investors became equally treated according to these legislation in Jordan (Al-Kodah 2002). Currently, foreign investors can obtain up to 100% ownership of a company in most sectors (Al-Kodah 2002). In fact, the impact of these laws on organisational adaptation at the JT can significantly be explained in terms of the organisational forms and their adaptation in response to external disturbances conceptualised by Laughlin in his organisational change model of 1991.



#### **8.2.4. Reforming the telecommunication industry**

During the 1980s, global developments in the telecom industry had predicted that the situation of the telecommunication industry dominated by political decisions with no competition from rivals would face several problems in the future. Lal et al (2004) reveal that public organisations cannot survive when the market based on competition is absent and there is a dominance of political decisions (Lal et al. 2004).

Jordan's governments have seen that the pace of the telecommunication industry over years was not in the interests of its consumers. Thus, in 1995, the government announced its intention to privatise the telecommunication industry, which it did under the Telecommunication Law no. 13 of 1995. Jordan Telecom commenced its operations bearing this name on January 1st 1997, under the Telecommunications Law no. 13 of 1995. The registration of the Jordan Telecom as a corporation company in 1997 was meant to introduce commercial concepts in the organisation to make the provisions of telecommunication services more commercial and minimise the inefficiencies associated with services provided by government departments (Global Investment House 2006). In reality though, the performance of the corporation and its management was unsatisfactory because of the continuous losses made by the corporation year after year and its inability to provide adequate services to consumers (Global Investment House 2006). The low performance of the sector was partly attributed to a lack of adequate management capability and competence within the organisation (Mustapha 2005).

As a consequence of the government actions at the macro level, a new cultural ethos emerged. The previous orientation dominated by inefficiencies and lack of good services

was replaced by a new one guided by economic and accounting concerns. A new culture can be seen as a major source of organisational power, particularly if the organisation gains a highly competitive position in its industry. To achieve that position and ensure its survival, an organisation must alter its overall vision. Therefore these facts stimulated the industry to change, and thus allow telecommunication to be viewed and analysed from important conceptual and contextual perspectives by academics and industry experts.

In pursuance of the Telecommunication Law no. 13 of 1995 several diverse baskets of telecommunication services were established (Abu-Ghazaleh & Co. Consulting 2005). In 1995, the Fastlink Company was established, which was the first company to provide mobile phone services. Telecommunication law no. 13 1995 provided the basis for a radically different governance structure. The government remained the owner. As a shareholder, the government appointed apolitical and employees with commercial background to the company's board of directors. Board members were given the responsibility for giving the company a strategic direction and ensure to gear its operations toward commercialism with incentives based on commercial performance indicators.

The next section provides explanation of the changes in the internal environment of the organisation, which have occurred in response to the change stimulated by the external environment.

### **8.3. The Internal Environment**

In the previous section, several actions were discussed which were stimulated by the state during the restructuring period, 1995-1996. Consequently, from these actions a totally new

organisational form emerged. A new body for regulating the telecommunication sector was created and made responsible for governing the sector and ensuring more accountability on the part of its main players. The organisational changes that occurred during the restructuring period were at the level of the archetype designs, and somewhat at the level of sub-systems, particularly with respect to the financial sector development. There was not any change at the interpretative schemes level. In contrast, during the transformation period, 1997-1999, there were significant and tangible organisational changes that occurred at the three organisational levels; archetype designs, sub-systems, and interpretative schemes.

This section explains the different levels of organisational shape of JT during the Pre-PE. The design archetype implies the structure of the organisation, the ownership, the management style, the decision making process, the accountability mechanism and the communication system. The subsystems involved are pertaining to the organisation's people, their qualifications and the mechanism of employing them, as well the mechanisms of the accounting system operations. The interpretative schemes pertain to the organisational philosophy for focusing on satisfying customer needs, understanding the dominant organisational culture, the nature of decision-making, the extent of employees' participation in decision-making and their participation in the development of the incentive system. There are interdependences among these organisational layers, thus some interaction could occur and it is impossible to study every one in isolation of the others.

### **8.3.1. Design Archetype**

The discussion in the beginning of this chapter demonstrated that during the restructuring and transformation eras there were certainly big changes in the external environment. Most of participants interviewed, who worked for a long period with the JT, asserted that during the restructuring era there was little change in terms of the organisation's structure. This change manifested itself by establishment of the regulatory framework which separated regulating from the operating function. Moreover, more interest was shown in developing and restructuring the JT's financial sector, accounting system in particular.

On other hand, those participants asserted that tangible changes occurred in the form of registering JT as a corporatised company, completely owned by the government, and in changing its name from JTCC to JTC. Regarding the ownership structure, it was still a governmental organisation, although it had changed to a listed company.

As the government embraced international change particularly in the telecommunication industry, several actions were implemented. For example PriceWaterhouseCoopers and Merrill Lynch were appointed to restructure JT and improve its financial performance. Consequently, JT altered the accounting system from a manual to a computerised version by adapting the ROSS system, which was purchased for US\$ 850,000 [participant no. 7]. As a result, a marketing division was created in order to achieve the new vision of JT of being "customer oriented". It is worth mentioning that the new organisational structure involved seven main divisions, Financial, Marketing, Information Technology, Strategic, Technical and Human Resources.

In 1995, new managerial, professional and financial structures were incorporated as suggested by PriceWaterhouseCoopers. Their existence at the beginning of the transitional period made it possible for the JT to transform radically in response to the changed external environment. With significant pressures from the government, new professional board members with commercial background were appointed on the JT's Board of directors, and highly qualified managers were attracted from other commercial organisations that were able to understand the situation and introduced market-oriented strategies in the JT's structure. From the public service perspective of a governmental style of management and the dominance of technical aspects, JT went through significant changes in respect of the number and expertise of employees and transformed its management systems to become more customer-oriented.

Building a strong foundation for business values was the crucial change witnessed by the JT. New values of a commercial nature including an increased focus on customers and expansion of services introduced to JT had a significant impact on how it was operated after changes were introduced into its changed structure. An extensive change in structure of the JT in respect to its employees and improvement in their work conditions were encouraged by new organisational directions where investment decisions were based on commercial and financial grounds rather than on engineering superiority.

### **8.3.2. Sub-systems**

In terms of the change at the sub-systems level, two specifically notable changes occurred: implementation of a new accounting system and the introduction of highly skilled and qualified staff attracted from other organisations. ROSS, the new accounting system aimed

at providing meaningful measurements scale to the organisation's performance, highly facilitated optimal financial evaluation of JT.

### **8.3.3. Interpretative schemes**

Corporatisation, deregulation of the telecommunication industry and privatisation, however, brought a completely new cultural approach based on market principles and a drive to creating value for the shareholder. JT's Chief financial Officer (CFO) elaborated on new values in the following way:

One of the key drivers of incorporating the bonus scheme to improve the company's performance was to try and align the interests of the employees to work for the overall good of shareholder and to make them think about shareholders' value as opposed to just doing a job. A good job is not good enough if not done for improving the shareholders value [participant no. 19].

Within JT, strategies were developed to create a new corporate culture by changing management, decision-making processes, staff attitudes and performance measurement tools. The development of new systems and processes in different areas of operations attracted more attention. Participant no. 11 pointed out the significant change in interpretative schemes from a previously dominant technical ethos to a market oriented one dominated by marketing professionals and supported by the finance division:

Before the privatisation we had an abundance of highly qualified engineers and technicians. Now, it is almost the opposite. We (JT) have probably got something like several qualified accountants and financial analysts. They are highly professional in their jobs and they have now a power base in a way they had never before. But, right now I think there is no dominant sector with all sectors working in a parallel way to achieve the JT's new vision [Participant no. 11].

There was a little resistance, particularly from the technical staff when JTCC was registered as a company, because they realised that many changes would happen; that the new top

management's background was business, not engineering. A senior manager in JT participant no. 11 commented:

staff were unsatisfied and worried about the new management style at the company which had long been dominated by the technical sector employees. Also, they were afraid of the reshuffling existing employees [Participant no.11].

### **The Accounting System after the creation of TRC**

Through the introduction and vigorous implementation of financial concepts of profitability and cost consciousness, similar to those resorted to in the private sector, efforts were made to limit the dominance of the engineers who ran the JT over an extended period of time, and to reduce the dominance of technical considerations in decision-making. According to Macintosh and Scapens (1990) accounting systems to some extent can be seen as part of interpretative schemes, acting as a communication system between the controlling body and the operator. The major organisational change in TE was the restructuring of its financial system. Wherein, the new accounting system, ROSS, was introduced as a new accounting technique, which enabled improvements in the organisational change process on the part of external and internal stakeholders and, thus, gave a real value to the importance of financial aspects of the organisation.

## **8.4. Discussion**

From the foregoing discussion is evident that the Jordan state was the main external factor, which played a significant role at macro and micro levels, in the organisational change process at the JT. This crucial role materialised through the reformation of the public sector, which was done by improving the legal environment in terms of liberalisation of the old laws such as company law, securities law and telecommunication law. In addition,

creation of new laws such as the privatisation law aimed to establish an environment to enable the government to transfer its public organisations to the private sector also played a significant role. Telecommunication Law no. 13 of 1995 was created, and aimed to separate the operational and regulating aspects of the telecommunication transactions. Thus, according to the new Telecommunication law, the Telecommunication Regulatory Commission (TRC) was created as the main body of controlling the telecommunication sector in terms of granting the licenses for providing services and protecting customers.

These governmental actions stimulated significant organisational change at three levels of the organisation. As discussed in chapter 6, this era was divided into two periods. The first is 1995-1996, which is representative of the reorientation and restructuring period. The researcher sees the changes that occurred in the organisational form during this period as compatible with Laughlin's Organisational change model (LOCM), particularly the reorientational aspect of the model (see appendix C.2). During this period, the ownership remained unchanged and the main player at the macro and micro levels of the organisation was still the government. At the three organisational levels, there were not notable changes in the interpretative schemes which meant the values, vision, and morals of the organisation were still dominated by the public ethos with the ethos of the technical culture more dominant. But at the level of design archetype, there were significant endeavours of restructuring the organisation in order to prepare for the privatisation that initially was materialised through upgrading the financial sector to give some real meanings to the financial reports and enable organisational evaluation in terms of performance. ROSS, the new accounting system was adopted in this context. At the level of sub-system, there were little changes that occurred. The adoption of a new computerised accounting system had a



notable change in this regard (Table 8.1). This period represented the initial transition of JT's life, involving visible changes, towards privatisation. The researcher sees the changes that occurred in the organisational form in this period compatible with Laughlin's Organisational Change Model (LOCM), particularly the colonisation model part of it (see appendix C.3). During this period there were many governmental endeavours to restructure the telecommunication industry in order to promote the new vision. In a step to privatise the telecommunications sector, Jordan's government corporatised JT, a government-owned entity and public shareholding company that has opened most activities to private operators.

The corporatisation of state enterprises in Jordan was regulated by the Companies Law, which allowed the transformation of these enterprises into shareholding companies fully owned by the government. There were significant changes that occurred at the three levels of organisational form. Even though the organisation was still a government-owned entity, there were notable changes in its interpretative schemes; a market orientation became evident, strategic planning, and commercial aspects as well, were regarded as optimal and significant. Moreover, there were crucial changes at the level of design archetype in order to meet and bring the new vision to reality. Thus, a marketing sector was created with the JT in order to achieve this perspective. The appearance of business terminologies such as profit and cost centres, centred on performance measurements hinted in the same direction. At the level of sub-systems, particularly in terms of the significant role of human recourses to interpret and carry out these new visions, the management of the company intensively started to attract professional employees from other organisations. Furthermore, new members were appointed to the board of directors, mostly from the private sector and with

commercial backgrounds. Table (8.1) is a holistic framework of JT's changes during the TE. It presents the main significant changes made during the transformation period and provides justifications for integrating theory with actual change as described by Laughlin's Organisational Change model, particularly the reorientation model with respect to the change that occurred during the period 1994 -1997, and the colonisation model with respect to the period 1997-2000.

*Table (8.1) JT's framework during the Transformation Era.*

<b>Era</b>	<b>Transformation Era</b>	
<b>Periods</b>	1995-1996	1997-1999
<b>Coercive pressures</b>	The state	The state
<b>Organisational form</b>	Restructuring	Corportisation
<b>LOCM</b>	Reorientation	Colonisation
<b>Interpretative Schemes</b>	No Change	Market orientation
<b>Design archetype</b>	Restructuring the company structure and the accounting system	Decentralised, business based, Profit centres, Empowerment and autonomy, External control (TRC)
<b>sub-system/ Accounting System</b>	Adapting some developed computerised accounting systems	Attracting some qualified employees

## 8.5. Summing up

This chapter articulated the role of the state in stimulating the external environment of JT, tailoring its organisational structure to adopt the reforms of the government's political and economic programs. Also, there were marked efforts to improve the legal environment in order to cope with changes at the international level and to prepare the public organisation for privatisation. These external stimuli provoked the internal environment of the organisation, requiring it to respond to the changes in the external environment in order to

survive. The changes occurred at the three levels of the organisational form; first, interpretative schemes, secondly, design archetype and thirdly, sub-systems. The foregoing discussion provided evidence that the changes during the transformation era (TE) in the two periods of change are consistent with the two models, reorientation and colonisation, suggested by Laughlin (1991).

The next chapter is the final empirical chapter and will discuss the organisational change during the post privatisation era (Post-PE). This began with the acceptance of France Telecom (FT) as a strategic partner by the Jordan Telecom (JT). This chapter will give a deep understanding of the changes which were made not only by the state, but also as a result of the significant relationship between JT and FT. This chapter will also analyse the organisational changes until the end of 2005 when the telecommunication industry became fully liberalised in the country.

## **Chapter 9: Jordan Telecom during Post Privatisation Era<sup>14</sup>**

### **9.1. Introduction**

This chapter is the third of three empirical chapters describing the case study of JT. It will examine the pressures which were exerted by the state in order to accelerate JT's privatisation program. It will examine the creation of a new strategic partnership with the France Telecom, which had significant expertise, particularly in management and the technological aspects in the telecommunications industry. Thus, this study will examine the creation of an alliance between JT and FT which became crucial stimuli for significant changes within the JT. The chapter will explain the organisational changes which were inspired by this relationship. It also makes a contribution towards answering the research questions proposed, by providing an analysis of the government's justifications for the introduction of changes in the external environment in the form of reforming the public sector by developing the economic and legal environments. It will also pay particular attention to the extent to which problems of managerial accountability was resolved by the JT's privatisation. It will continue with an explanation of the changes in organisational structure and change in interpretative schemes which resulted from the privatisation program.

This chapter as a whole provides an understanding of the business vision from the point of view of the change that revolves around the level of interpretative schemes. Therefore, this chapter will examine the role of the state in stimulating the external environment, articulating the numerous justifications for proposing to privatise JT and

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<sup>14</sup> Most of the materials here have been extensively published in Shanikat, M. (2007). "Understanding organisational change in the privatised enterprise: Case study of Jordan Telecom." *EBS Review*. 22(1): 42-58.

choosing the FT as the strategic partner as a significant solution. In addition, it will examine the extent to which organisational structure (archetype designs) and organisational culture (interpretative schemes) were perceived to have been changed by the external factors, particularly from the stimuli imposed by the state in terms of the framework suggested in Chapter 4, section 4.5.

In this chapter, the study discusses the most important findings of the research. Several key conditions of organisational change are identified, as enumerated below:

1. Jordan government's privatisation policies led to rapid enhancement toward a new organisational form and managerial actions;
2. Realisation of rapid technological innovation made JT highly dependent on France Telecom, the strategic partner, for resources of technological innovations and knowledge in particular;
3. External institutions' role in increasing the environmental disturbance particularly the role of State of Jordan.
4. The mechanism of response and interpretation of JT for the external pressures.

## **9.2. External Environment**

### **9.2.1. Role of the state in the Post-Privatisation Era**

Middle Eastern countries are mostly just moving towards less state involvement and greater competition in their telecommunications industries, in many cases encouraged by WTO membership policy (Global Information Inc 2006). Among them, Jordan is the most advanced in the process (Global Information Inc 2006).

The role of the State of Jordan in this period materialised in the declaration of the National Strategy Privatisation (NSP). It was a part of the democratic approach of the government in order to build the concept of the transparency among all parties. The government introduced this program to the Parliament in 1999. The strategy provided the government's point of view regarding the privatisation program in terms of achieving specific objectives including raising efficiency and productivity, increasing private sector infrastructure, developing a national capital market and attracting local and foreign investment in order to transfer technology and know-how (Al-Kodah 2002).

The processes of privatisation must be reviewed and made sure that processes are in the public interest. This will require the chalking out of more appropriate business plans and the publications of those plans in print media for open debate. The governments would review privatisation programs that are contrary to the public interest. So, for enhancing this to reach the optimal situation in terms of privatisation of the potential candidate companies, the government presented its privatisation strategy to the parliament and sought for its efficient participation and consensus. Al-Kodah (2002), who was the chairman of Executive Privatisation Commission (EPC), pointed out the salient features of the privatisation program in Jordan and claimed that it was aimed to achieve its objective through consensus and transparency.

Initial public reaction was doubtful about the privatisation program, with a feeling that privatisation would displace many employees in overstaffed companies, prices would rise, and that foreign ownership was not good (Wagner 2001). The government responded to these doubts by ensuring that the rights of employees were preserved through their relocation to other organisations, or otherwise they were generous early retirement schemes (El-khatib 2002). The public also argued the case for the need for

new technology, financing and management which could be brought by foreign owners (Wagner 2001). This idea was prevalent in the case of larger companies (Wagner 2001).

The next section will discuss the role of the government in the preferential selection of a strategic partner in privatising the Jordan telecom sector.

### **9.2.2. Involvement of a strategic partner**

The foregoing discussion elaborated on the fact that the privatisation of JT was imposed by the government and that it was necessary for the future development of the telecom and for the growth and development of the international telecommunication sector itself (El-khatib 2002).

However, the role of the Jordanian State in involving a strategic partner in its privatisation approach was a controversial issue particularly for the members of parliament. The government provided a lot of justifications for its decision for choosing the strategic partner as the best approach to privatise the JT and thus neglected the other privatisation approaches.

Mansur (1998, p. 3) pointed to JT's financial and managerial needs to obtain the development technology and the government's solution to these problems in the following words:

JTC needs over JD300 million in investments for the period 1998-2002 to modernise and upgrade its technology and facilities. In order to secure these funds without increasing public debt while coincidentally tapping into state-of-the art managerial and technology skills at reasonable costs, 40% of the shares of the company will be sold to a strategic investor, a global leader in the area of telecommunications with a well established reputation for excellence.

Alsuiti (1998) pointed out that there were technical and operational considerations for preferring to involve an external strategic partner. The technical considerations were regarding the need for transferring technical “know-how” in order for JT to achieve the new vision. The operational considerations were related to the marketing and managerial capacity of the strategic partner. A shareholding agreement was signed in 2000, allowing France Telecom to enter the company and specify the rights and responsibilities of all partners (El-khatib 2002).

Shabib Ammari, the Chairman of the JT’s Board of Directors, praised the government for its role in closing the digital gap in the telecommunication and information technology sector between Jordan and advanced industrial countries, and its justification for choosing France Telecom as a strategic partner. In his annual letter he said:

After privatisation, the digital gap in the telecommunication and Information Technology (IT) sector between the developed industrialised countries and Jordan has been closing. In the new world economic order, the role of telecom and IT is becoming increasingly. Bridging the gap is hard to achieve when human and capital resources are so limited while the advanced countries are employing massive investments in the field. The less expensive and more efficient approach to bridging the gap is to join hands with a world-class firm, a leader among few in the telecom and IT business and a major participant in the technological advancements in the world today. The government of Jordan decided to choose this approach and joined hands with France Telecom, one of three leading telecom companies worldwide, as France Telecom satisfies all criteria for bridging the digital cap (Jordan Telecom 2001, p. 3).

The preceding discussion demonstrated the justification of preferring a strategic partner having managerial and technological expertise in the telecom industry as the best approach to privatise JT. Therefore, it is worthy to highlight the managerial and technological development after France Telecom joined as a strategic partner and provide more evidence of this significant alliance between JT and FT, which benefited



both of them. Regarding JT, it obtained the development technology and new managerial expertise from France Telecom, which were very important for its survival in the industry. Regarding FT, it was a great opportunity to enter a new market and explore the possibility to succeed in a totally different environment of the Middle East region [Participant no. 10].

The next section presents the new image of JT after forming the alliance with FT in terms of coming into being of a new structure of the company and the new services that were innovated for the customers.

### **9.2.3. The recent history of JT**

Jordan Telecom is the first and largest telecommunication service provider in Jordan due to its ownership and administration of the basic telecommunications infrastructure in the Kingdom, which forms the base of telecommunication services. Since the 23<sup>rd</sup> of January 2000, upon privatising Jordan Telecom, Government shares amount to 60%, while Jordan Investment Telecommunications Company (JITCO), which is a holding company owned by France Telecom (88%) and the Arab Bank (12%), owns 40% of its shares (Jordan Telecom 2001).

Jordan Telecom's strategic partner, France Telecom, incorporated into this partnership its extensive expertise in leading and administering international telecommunication projects. France Telecom's alliance with Jordan Telecom is the largest in the Middle East region (Jordan Telecom 2001). This has successfully placed Jordan Telecom as a major telecommunications entity in the region due to its several new service offerings (Jordan Telecom 2005). JT aspires in its operation to become a Net company (Jordan Telecom 2005). At the same time, it commits itself to participate in the social, economic

and technological development of the country (Jordan Telecom 2001; 2002; 2003; 2004; 2005).

#### **9.2.3.1. Jordan Telecom Group<sup>15</sup>**

Jordan Telecom Group now comprises four companies. These companies, Jordan Telecom, MobileCom, E-dimension and Wanadoo, are playing a vital role in the infrastructure composition of e-commerce in Jordan, and the four companies are:

**Jordan Telecom.** Since January 1997, with the transformation of JT into a company, Jordan Telecom had to face major challenges and pressing tasks in keeping up with the technological changes, and progress and advancement in the world of telecommunications. Jordan Telecom is considered to be the largest operator and provider of telecom services, as it owns the nationwide network that constitutes the base for various communication services in Jordan.

El-khatib (2002) described the JT's ownership structure after France Telecom joined JT in 2002: JT's ownership comprised of the government of Jordan<sup>16</sup> retained 51% of the company's total shares, Jordan Investment Telecommunications company (JITCO) 40% of the company shares (250 million shares), the Social Security Corporation 8% and 1% of the JT shares were allocated to its employees.

JT started to chalk out plans and develop various strategies for developing and upgrading the telecommunications network owned by it, which served as the main network and the fundamental base for the telecom services in the country (Jordan

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<sup>15</sup>Jordan Telecom group decided in 2007 to integrate its fixed, mobile, internet and content businesses and its wholesale offering under the Jordan Telecom Group to create an integrated operator in Jordan. In 2006, Orange became the key brand of France Telecom. In 2007, the Jordan Telecom Group adopted the Orange brand for all its services as part of strategic plan aimed at providing Jordan with world class services.

<sup>16</sup> In 2007, the government of Jordan was thinking of selling off its remaining shares.

Telecom 2001). However, the company gives priority to fulfilling the requirements of the market and customers (Jordan Telecom 2001). There was a drastic extension in the range of the services provided in order to cover customers' needs with advanced solutions (Executive Privatisation Commission 2004). In addition, staff development persistently received priority in terms of improvement in work conditions (Executive Privatisation Commission 2004). Furthermore, the company is working at improving all of its already existing telecom and introducing more value added services in order to be in line with market requirements and thus respond to future challenges (Jordan Telecom 2002).

Specifically, the company aims to provide its services according to the following priorities: Developing and improving the voice telephone network, building the data transmission network, becoming an Internet Service Provider (ISP), lowering tariffs and creating an international and local centre for communications in Jordan (Jordan Telecom 2001; 2002; 2003; 2004; 2005). Many services are being offered by JT after the change (See appendix F). Some of the more prominent services are discussed below:

**MobileCom.** MobileCom is a Jordanian public mobile telephone network operator that operates under the mobile communications license granted to Jordan Telecom by Telecommunications Regulatory Commission (Telecommunications Regulatory Commission 2004). The company combines local Jordanian expertise with the operational experience of France Telecom (Jordan Telecom 2001). Its commitment is to introduce new levels of customer service, satisfaction and quality, enabling Jordanians to benefit from the advantages of mobile communication technology (Jordan Telecom 2001).

**E-dimension:** E-dimension is the third corporate subsidiary operating under Jordan Telecom Group (JTG), offering advanced computing solutions through high-tech secure networking (Jordan Telecom 2003). E-dimension partners with corporations through assisting both companies and individuals in acquiring proficiency levels necessary to lead their businesses throughout the Internet era. E-dimension strategic alliances are designed to help deliver a customer-centric, total solutions approach to solving problems, exploiting business opportunity, and creating sustainable competitive advantage for customers (Jordan Telecom 2003).

**Wanadoo:** Its old name was 'Global One'. Wanadoo is fully owned by Jordan Telecom. Operations of the subsidiary were started in March 1996 as the first and largest data Communications Company in Jordan to serve businesses and consumers by providing Internet and X.25 data communications services and solutions (Global Investment House 2006). Currently, Wanadoo provides the business and consumer markets in Jordan with the most advanced data communications consultation and services (Jordan Telecom 2005). These services include Global Internet, Global X.25, dial-up, leased line, corporate mail services, solutions and Global Frame Relay (Global Investment House 2006) .

Consequently, by providing developed services that have been created basically after choosing France Telecom as a strategic partner, the foregoing section was not merely a justification for privatising JT, but it firmly provided strong evidence that the customer needs to become the core attention in JT's interpretative schemes after the change process was instigated at the company. The provision of the developed set package of telecommunication services proved that the privatisation perspective itself can be considered as a significant stimulus to entice the organisational change at the JT. It

changed the organisation from one template to another, that is, from a passive culture to a dynamic one.

The significant insights of organisational change within the case of JT can be derived from the extent and nature of change in the telecommunication industry as a whole, the nature of the public organisation's structure and style of management, and efficiency considerations in provision of the telecommunication services. Separating the controlling issues from operating activities and restructuring the telecommunication industry from the governmental bureaucratic practices to one with an enhanced commercial ethos, associated with the need for technology and knowledge as important resources, has contributed and stimulated organisational change within JT.

Government policies and procedures at the macro level, discussed in chapter 5, were the major external stimuli with a massive organisational impact. The main goal of the state's corporatisation and privatisation process was the improvement productive efficiency through reforming the telecommunications industry and removing all of the competitive constraints in order to enhance opportunities for international investment (Executive Privatisation Commission 2001). These activities at the macroeconomic level associated with an increases in commercial efficiency at the microeconomic level (Executive Privatisation Commission 2001). Furthermore, with the goal of enhancing the efficiency of Jordanian public enterprises and preparing them for sale, the government separated controlling and operating functions. This approach adopted in a restructuring of JT, creating the Telecommunication Regulatory Commission (TRC) as a body of controlling the industry, and JT became a sole operator (El-khatib 2002).

The government's privatisation objectives had a significant influence on organisational change. Jordan had two main objectives of reforming the country's economy: lifting the burden of public debts and improving economic efficiency (Mansur 1998; Al-Kodah 2002). Although full privatisation was preferred in to partial privatisation, because of potential problems that might have occurred, particularly with the minority of the shareholders; but in the case of privatisation of JT, Jordan's government preferred to choose a partial approach because it had fears of failure (El-khatib 2002). In spite of fears accompanying the partial privatisation, the Jordanian government preferred a partial privatisation for two reasons, first it needed revenue and second it diluted any potential future risk. Participant no. 18 pointed to two reasons in this connection:

In case of privatisation of JT, in fact the Jordan government had two reasons for preferring partial privation rather than full privatisation. The first one was the government's needs for the revenues which were obtained from the company's operations. The second is the government's willingness to retain some shares in the company for safeguarding against any potential future risk [participant no. 18].

JT retained and enjoyed its monopoly position until the end of 2005, some five years after striking the alliance with the strategic partner France Telecom. Although the monopolistic position was legally withdrawn in 2005, JT still operated without any serious competition from any rivals.

By JT maintaining a dominant monopolistic position, many of the themes that related to competition in its annual reports had no significant importance. The dominant monopolistic position of JT enabled it to raise revenues and profits not only through an economy of scale, but also through maintenance of relatively high prices. Telecommunication Regulatory Commission was exercising its role by specifying the minimum level of service quality which must be offered by licensees to meet the needs and protect the interests of users, to ensure that the conditions of licenses are observed,

including the standards, quality and price of services, and to take the necessary steps in this regard and to provide for the punishment of those who violate these conditions (Telecommunications Regulatory Commission 2004). A JT senior manager of Costing Department, participant no. 9 recalled:

Regarding the cap price TRC needs more details about the model we (JT) use. They are asking us much information every month and how we calculate the cost of the services by articulating the components of cost services according to models dictated by the TRC [participant no. 9].

#### **9.2.4. Changing the technological innovation**

The case emphasises the mutual influence of global technological innovation and industry expansion on provoking organisational change. In the case of JT, the content analysis of JT's annual reports provided the holistic attitude towards the importance of the issues of technological innovations. In 2000, the year of France Telecom joining JT, JT assigned more than 50% of its annual report to issues related to technological change at the operational level, including technology related strategies as well (Jordan Telecom 2001; 2002; 2003; 2004; 2005). Between the 2000-2005 period, the investment in technological issues increased by 48.9% (Pohl Consulting & associates 2006). More evidence that supports the importance given to technological change can be found in the level of capital expenditure of JT after privatisation, specifically after FT joined JT. In the five years from 1997 to the sale in 2000, JT invested approximately US\$200 million in technology, primarily in network development (Al-Hazaimeh 2004). In 2000, the strategic partner, France Telecom, apart from spending US\$710 million on the purchase of the 41.5% of the government share, also invested an additional US\$200 million in technology (El-khatib 2002; Hikmat 2005; Pohl Consulting & associates 2006). The significant investments, particularly in information technology of more than US\$1.50 million, occurred in 2005, the year the company's modernisation of information

technology programme was completed (Pohl Consulting & Associates 2006). The manager of the department of development and integration management [participant no. 12] said:

We are developing the information technology, particular developing the data warehouse project; we planned to finish this project in Feb 2006. This project cost JT around one million JD. Actually the significant investments in information technology started after the privatisation [participant no. 12].

Accessing modern technological innovations, acquiring and better using financial resources and improving the capacity of JT's staff to implement the new vision for JT needs experts in this field. Many participants commented that these significant resources were largely sourced from FT, the strategic partner, which provided millions of dollars to finance modernisation in addition to providing systems and technological expertise. This knowledge was obtained in the form of new chief executive officers and officers from overseas and local markets, who were given the responsibility of transforming the company, as well as adopting strategy to find new solutions or implement successful strategies. In addition, new qualified people were hired who were given a significant opportunity to practice their skills and knowledge to reach the desired change level.

Regarding JT's drastic development, internal restructuring and reorganisation presented inevitable issues in this period such as enhancing the role of the marketing sector, developing a novel information technology, decentralisation of the decision making, and following customer satisfaction as the organisation's strategic goal. The attention given to these issues was exposed in the 1997-1999 period, but they essentially took place during the period 2000-2005. The encouragement of relationships among internal business units and dynamic structures were the primary features of new organisational



design archetypes. This novel structural form sought to improve the efficiency of JT's operations in order to prepare it for the potential environmental disturbance. Reduction of duplication of the departmental responsibilities and authorities, cost consciousness and profitability concepts became major considerations.

The changes in strategy and organisational structure were encouraged and supported by the two main owners, Jordan government and FT. It is important to point out that in privatised JT the strategic partner was from the same industry. In addition, the privatisation of JT took place within a deregulated environment, but without any active competition because it had acquired a monopolistic position in its industry.

As result of these issues, JT became an attractive target for international investors for several reasons. The telecommunication industry in Jordan was undergoing of liberalisation and a huge potential for innovations. Jordan, in the late 1990s, was implementing rapid procedures in reforming the country's economy. Jordan had solid institutional frameworks capable of handling the innovations, such as financial structure and market and skilled workforces. Jordan's geographical position enabled foreign investors to use it as a window to access larger markets in the Middle East region. One of JT's managers, participant no. 19, commented on the acquirers' motives in the following way:

For France Telecom joining JT was a strategic investment. It was part of FT future strategy which is to use Jordan to get into the whole Middle East region [participant no. 19].

For FT, the investment in JT was a part of the company's international expansion strategy. The alliance conducted with JT in 2000 was the best way to achieve the expansion strategy. This investment in JT also gave the FT the opportunity to apply its

successful expertise and its innovated knowledge in the telecommunication field in a new environment. According to the Telecommunication Law no. 13 of 1995, the organisations subject to privatising do not depend on the government in terms of funding technological investments and should operate as a profitable organisation.

Changes in the public organisation ownership is required for implementing a drastic change within an organisation. Organisational change in the context of transformation, corporatisation and privatisation are associated with government policies at the macro level. In the case of JT, ownership structure changes are necessary and have the most important impact on organisation transition as a result of the privatisation process.

### **9.3. The internal environment**

In the previous section, several actions have been discussed which were stimulated by the state during the privatisation period, particularly since JT joined the significant alliance with FT in 2000. Consequently, these actions totally introduced a new organisational form compatible with the new vision of the company to enhance its existence in the telecom market and meet its customers' needs. A new body of telecom regulatory has been created to be responsible for regulating the telecom sector and exerting the accountability role. But the organisational changes that occurred during the restructuring period were at the level of the archetype designs and to a little extent at the level of sub-systems, particularly in financial sector development. There was not any change at the interpretative schemes level. In contrast, during the transformation period, 1997-1999, there were significant and tangible organisational changes that occurred at the three organisational levels, archetype designs, sub-systems and interpretative schemes. But changing the name of TCC to JTC and registering it as a company operating on a commercial base was not a significant change as participant no. 18 said:

...but the transformation processes itself wasn't sufficient to set up JT to be a pioneer company in the region [participant no. 18].

To elaborate this point of view participant no. 18 pointed out several obstacles:

JT had the same customers (subscribers), same owner, same regulator, limited services and same employees for a long time. Actually, there was nothing going on to get a targeted change [Participant no. 18].

Section number 9.3 explained the different levels of organisational shape during the Post-PE. The explanation revolves around the three layers of the organisation; design archetype, subsystem and interpretative schemes. The design archetype includes the structure of an organisation, the ownership, the management style, the decision making process, the accountability mechanism and the communication system. Additionally, it considers the extent to which the accounting system is used in decision-making processes and accountability mechanisms as well. The subsystems involve the organisation's people, their qualifications and the mechanism of employing them, as well the mechanism of the accounting system's operation. The interpretative schemes apply to the organisational philosophy of focusing on satisfying customer needs, revealing the dominant organisational culture, the nature of decision making, the extent of employees' participation in decision making and their participation in developing the incentive system.

On other hand, there are interdependences among these organisational layers, thus some interaction could occur and it is impossible to study every one in isolation from the others.

### **9.3.1. Design Archetype**

The new organisational structure involves seven main sectors, Financial, Marketing, Information Technology, Strategic, Technical and Human Resources.

New managerial and professional structures that arose at the very beginning of transformation period made possible and facilitated JT's drastic transformations. With significant support from their board of directors, the government, and new owners, senior managers were able to develop and implement market oriented strategy. From the public service mentality of government departments and dominance of technical experts, JT went through significant changes in the number and composition of employees, and with the existence of the FT, change in the management style towards customer oriented vision, teamwork practices and shareholder value policies.

### **Ownership Structure**

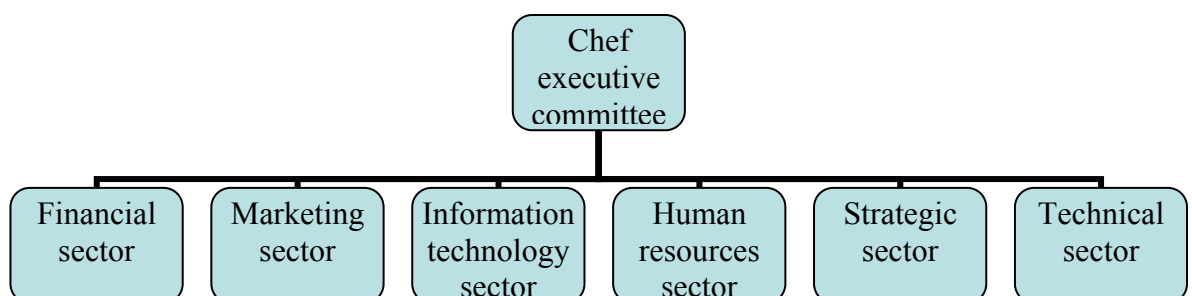
New technologies, market conditions, and finally managerial and professional structures required innovative strategies. The threats and opportunities of a competitive environment were recognised and built into the diversification strategies immediately after corporatisation in 1997. Therefore, JT decided to enter this business. In 2000, the Jordan government signed three agreements, a Share Transfer Agreement (STA), a Shareholders Agreement (SA) and a Management Agreement (MA) with the Joint Investment Telecommunication Company (JITCO) (Kandah 2003). Share Transfer agreement was about conducting through initial public offering (IPO) and compromising the sale of 40% (250 Million shares) of the Telecommunication Corporation JITCO at US\$508 million (Jordan Telecom 2002). Meanwhile, the "shareholding agreement", which was specifying the rights and responsibilities of all partners was signed (Kandah 2003). Regarding the management responsibility, the new

Board of Directors signed a management agreement, whereby the FT will manage the JT for five years (El-khatib 2002). In 2005, the management agreement was renewed to 2008 (Pohl Consulting & associates 2006). The deregulation of the telecommunication industry was believed to be an essential and inevitable strategic step. As a result of this new strategic orientation, JT joined an alliance with FT that established Jordan's first alternative telecommunication company [participant no. 18].

Since FT joined JT, the mainstream of the organisation structure became fewer layers of management, less bureaucracy, decentralisation with fewer committee meetings and more emphasis on individual managers making decisions (figure. 9.1). Although the numbers of sectors (departments) had increased, JT reduced its number of hierarchical levels. JT used to have a sophisticated organisational architecture built on multiple layers. Through the post privatisation period, JT's structure<sup>17</sup> was flattened dramatically, composing of only three to four levels in operational areas.

There was a notable investment in information technology and new information systems to support these changes. Also, there was more emphasis in using financial measurements in controlling and evaluating the performance.

*Figure (9.1) the new organisational chart for JT (For more details see appendix C).*



<sup>17</sup> The researcher could not obtain the old structure in order to conduct a deep comparison.

One manager, commenting on development of FT, since joined JT.

It's known that during the governmental management the management was centralised and heavily procedure orientated. Currently, the situation has totally changed, JT moved much more into business planning way of running its operations with less emphasise on long procedures. Also, currently the accountability of employee performance became clearer than before. It's depending on the employee performance through using the performance evaluation system or through ascertaining as to what extent he achieved his objectives or tasks [participant no. 16].

Another manager emphasised the degree of change that had occurred:

Before JT got privatised, its management was centralised in decision making and we were a very bureaucratic organisation, so if you wanted to introduce some idea to improve the performance you had to go through long process and procedures to get the acceptance. Often, the top management did not allow such behaviour. Nowadays, unless it's something that is going to affect the company's profitability or could cause a loss, you can get on with it and do it [participant no. 3].

Since FT joined JT as a strategic partner and signed the management agreement, whereby FT would manage JT for five years, the professional staff attracted from other organisations exercised much pressure to adopt and understand the new style of management in order to achieve the organisation's goals and carry out the new organisation's vision. The motivation was significant and there were better rewards for doing so. In addition, more severe consequences were announced for those who did not have relevant qualifications and could not understand the new situation. This was evident in the specification of personal performance objectives for managers and in certain tasks for the staff, performance evaluation, and the incentive system related to performance.

Many participants have commented that the marketing sector became significant in the fix of attention of the new management in terms of investment, Participant no. 15, Mass Market Director, stated:

In my opinion, so many people agree with me, the sector that got the significant benefit of the privatisation is the marketing sector. Everybody is concerned with marketing, the way to market, how to market, when to market. In percentage, the investment in the marketing sector was one of the most significant ones [participant no. 15].

Another manager emphasised the importance of the marketing sector. Currently, JT is led by the marketing sector and managed by the financial sector, participant no. 17 said,

I think right now, JT is being led by the marketing sector and managed by the financial sector while other sectors are playing a supportive role [participant no. 17].

### **New style of management**

The effects of the new style of management on the performance of the managers and the employees are reflected in the comments of the HRS manager.

I think with adopting the management by objectives as a new style of management, we are much responsible from a day to day point of view. Each manager is responsible for his own budget and objectives. So he is responsible for monitoring those responsible for monthly variance reporting and performance [participant no. 14].

In some instances, managers can see that there is a new role of an accounting system, which was materialised by making details of performance so easily available.

### **Accounting Information system as a communication system**

Under the regulation of granting JT's operating licence, JT had to provide more information necessary to the TRC. Participant no. 9 identifies the accounting information needs of TRC, as follows:

- To provide sufficient information to assess whether the price cap conditions have been observed;
- To provide information on the rate of return on capital employed for use in future regulatory review;
- To enable yardstick comparisons to be made in multi company industries;
- To provide information to new entrants;

To monitor telecom investment;  
To enable TRC review a price cap. [Participant no. 9]

It is clear that satisfying these requirements needed qualified employees and transparent policy. These crucial requirements will be discussed in the next section.

The adaptation of the management by objectives (MBO) as a new management style and a new active accounting system enabled the managers to devolve responsibility for operation and implementation further down the managerial chain. Thus, all JT's staff could now be made much more accountable for what they were doing. The mainstream of the data outflow facilitated an extensive self-monitoring and monitoring by the top management. The manger responsible for budgeting, participant no. 5 said:

We have to account for any variance on a month basis, so any manager right now can sit in front of his/her computer screen looking at his/her spending and explain the positive or the negative variance. Also, there are quarterly review report and presentations to shareholders and potential investors [participant no. 5].

Carrying out to the vision of "customer oriented", the customer service project and new billing system were created in 2001 and focused on building a comprehensive database that included customers' details and insured the precision of information and services rendered to all JT's customers (El-khatib 2002). Participant no. 12 revealed general changes, in the process and procedure of the work, in the way of overall organisational thinking, and in the customer's point of view that had occurred since JT's privatisation.

As a result of the privatisation there were so many changes that took place over the passage of time. First, all of the procedures have been changed. The way of working has been changed. The way of communication with each other and the customer have been drastically have been changed. Regarding the providing the required information, other departments consider an internal customer to the Information Technology department, the external customer as well. Also, the communication with both customers have been changed and improved dramatically. The process has been exhilarated, I mean the process in my department, and the process of delivering the



services to the outside customer has been changed. Eventually, the customers have been full satisfied. They have started to feel the change [participant no. 12].

The manager of Customer Care and Billing System (CCBS) pointed out to the CCBS as a communication system playing a crucial role in emphasising the new vision of the organisation which is market oriented. He said,

Before the privatisation process, the segmentation was just residential, business and government without customer categorization because we hadn't software. Currently, we have 85 customer categorizations. Regarding the segmentation we have, strategic customer, account customer, small medium enterprises (SME), professions customer, diplomatic mission customer and residential customer which is divided into three categorizations in terms of the revenues, high, medium and low. The importance of the segmentation and categorization is coming from making smoothly data for the decision maker. Thus, with the existence of these processes, we (JT) got able to make an efficient customer analysis. For example, we have 12 banks in Jordan, for each bank we have specific category, thus if you would like to ask how much the revenue for instance from The Arab Bank, if you would like to ask the credit control how much the revenue from that bank, how much the paid bills, how much the unpaid bills and how much the outstanding bills, the system right now able to answer these questions immediately in figures by one user [Participant no. 16].

Regarding the department that got a lot of importance and led the JT at the moment, the participant no. 17 said,

I think right now, JT is led by the marketing sector and managed by the financial sector while the other sectors are supporting [participant no. 17].

The foregoing discussion provided more evidence that the financial and marketing sectors became the important sectors in order to implement the new vision of JT.

### **9.3.2. Sub-systems**

Regarding the reorganisation of the demographics of JT, it significantly reduced its employees. Through the period 2000-2005, JT lost 45% of its employees. JT was

classified as overstaffed in terms of the number of employee. After privatisation, there was a remarkable reduction in the number of employees from 4850 in year 1999 to 2693 in year 2005 (Pohl Consulting & associates 2006).

At the level of the subsystems, the effect of this change in the design archetypes was to generate more information for consideration. For every decision, JT's managers in different sectors and levels now had to consider accounting information on business profit as well operating information based on adherence to achieving the timetable that they had previously used. The quantity of accounting information to be manipulated increased the coherence of the structure.

This change in the subsystem could not have occurred without the help of qualified employees. Therefore, during the "colonisation period" of change the management extensively attracted some professional staff from other organisations, particularly in the financial, marketing and information technology sectors. During the "meta colonisation" period, JT's management had become more aware of the role of qualified employees to carry out and lead JT to the future. In addition, without the accurate and adequate information, the JT's new strategic decision making could not have been achieved. Thus, the majority of JT's managers are well qualified after the change. For instance, the financial sector managers have a specific professional certification such as CPA, CMA, CIA and CFA. In this regard, the Recruitment Section Chief Manpower Affairs Department, participant no. 14, pointed to the new management philosophy in terms of the training programs and the JT's policy in choosing new staff.

Right now, the first degree, the undergraduate, is not enough to get job in JT. So, candidates holding a professional certificate have more chance. Moreover, JT created a specialised department to run training programs not only technical but also financial, marketing and social programs. It is worth

noticing that, we have certain training program to enhance the employees' morality and loyalty [Participant no 14].

From the point of view of the power of professional groups, there was a massive change that went beyond restructuring as power was transferred from engineers to other professional groups. The dominance of technical professions in JT can be explained by technical skills important for the early development of telecommunication industry. Meanwhile, from the transition era, engineers had lost their influence and other professions became a vital resource for organisational survival. The CCBS Support & Reporting Manager recalls:

Regarding the dominant of the technical sector during the government management, we had an abundance of highly qualified engineers and technicians. The information system during the pre privatisation period was very poor and depended on 23 databases, so the problem was that the management of JT was able to pay more than JD100 millions for developing of the telecom network but wasn't able to pay 1JD million for creating advanced information system. The reason was that, the management believed that the development of the Telecom network was more tangible to the people than developing the other supporting systems such as billing information system [participant no. 16].

Moreover Recruitment Section Chief Manpower Affairs Department, participant no. 14, pointed out that a new situation had emerged.

After the privatisation, there was a huge change from the point of view that the significant of the technical in running the operations to the importance of the role of the other sectors in leading the company to be a pioneer in its filed. Before the privatisation we (JT) had a plenty of qualified and trained engineers and technicians and a few accountants and other business professional were powerless. Now the situation is totally the opposite. We (JT) have several professional employees in the different sector. Moreover, for the importance of implementing the new JT's vision, the company attracted many experts, professional accountants, auditors, financial analyst, information technology experts and many professionals with business background from the other organisation in order to handle the new emergence of operational excellence [participant no. 14].

In addition, the manager of the department of development and integration, participant no. 12, enforced this opinion, revealing that,

Regarding the information technology IT sector employee have professional degrees. Only few have undergraduate degree. In addition we (JT) have seven employees holding master degree in the information technology field. They have good experience in business as well [participant no. 12].

Extensive changes in professional structure and enhancement of work environment relations were encouraged under the new managerial policies where investment decisions had to be based on commercial and financial measures. Moreover, regarding the upgrading of work environment and stemming from the belief that its people are invaluable to the success of its business, JT has and keeps improving the work environment for all its employee, whether in their offices or on the field work.

Jordan telecom renewed and upgraded the health care plan to include more benefits and coverage for employees and their beneficiaries. In addition, a new end-of-service incentive system has been introduced, which includes the “choice is Yours,” a program created in response to the wishes of the employees who anticipate their retirement (Jordan Telecom 2002, p. 18; 2002, p. 18).

With the belief that people are its main assets, JT invests in its employees through training programs, incentive programs and communication systems in order to build loyalty and pride for better business performance and improved customer care. Consequently and for the necessities of these themes in the new era of JT’s life, the JT’s annual reports 2001-2005 focused on these issues.

As part of its incentive program, JT established the annual performance appraisal system and improved the salary scale and reward system. The JT commitment to improving employee performance has driven it to regularly organise training courses. It also adopted a new system to identify potential leaders and provide opportunities for the employees to compete for available leadership and supervisory positions within JT. In all human resources policies, dignity and standard of living are of utmost importance. The JT has taken a wise step in moving its headquarters to the new City Centre Building in Jabal Amman. The new corporate building houses modern offices, comprehensive communication system, and state-of-art facilities, promoting a healthy work environment that plays a vital role in influencing

the employee moral and dedication for work (Jordan Telecom 2001 p. 6; 2001).

From the foregoing discussion, it is obvious that the JT's employees became important assets in achieving the organisational goals.

### **9.3.3. Interpretative schemes**

Privatisation brought new ways of achieving individual and organisational goals into the organisational structure of the JT. The organisational models in JT were further developed to create a healthy atmosphere at the horizontal and vertical levels. The new cultural model was for people to take responsibility for themselves and depend on their vision and the vision of their company. This is how one of the human resource managers, participant no. 14, described attempts to change JT's organisational culture:

We are trying hard to drive into JT a strong sense of individual accountability for results. It is employee's accountability and he/she makes the decision and he/she wears it, good or bad. Behind that is the notion of power. Accountability for outcomes or the result, we think is very empowering and creates an environment for innovation and for people to take some risks and people to make some choices about where their own jobs are heading [participant no. 14].

Changing organisational culture was paralleled to the organisational structures of JT. Prior to 2000, the JT was a technically oriented organisation organised for engineering in building infrastructure rather than providing customer services. Corporatisation, liberalisation of the legislation of the telecommunication market and privatisation, however, brought a completely new cultural approach based on market values and the creating value for the shareholder. The remarkable post privatisation achievement in the form of strengthening of mission, vision and values of the company was met once JTICO became a shareholder and FT began managing a company (El-khatib 2002).

These three elements of the interpretative schemes, mission, vision and values, served as one of the official documentations of the JT for its initial public offer (IPO).

Mission: to provide communication solution to the business and residential customers everywhere in the kingdom (Jordan) with appropriate technologies at affordable prices, anticipating and satisfying their specific needs at world-class service level.

Vision: to be customer-oriented and market-driven, providing state-of-the-art technology and world-class services concentrating on both customers and technology.

Values: Commitment to the Kingdom, the customers and the employees of JT; translated mainly in terms of public service achievement, credibility in promises to clients, and internal human resources development. Market Orientation: changing JT to a customer-oriented and market-driven company. Permanence: commitment to an on-going, improved future of telecommunications solutions for Jordan (Executive Privatisation Commission 2004 p. 14)

Participant no. 1 pointed out that the new incentive system encourages the employee to achieve JT's objective in an optimal way.

One of the key drivers for putting in the bonus scheme, as well as to improve the company's performance, was to try and align the interests of the employees to the shareholder and try to get people thinking about shareholder value, as opposed to just doing a good job. A good job is not good enough [participant no. 1]

Regarding the change in the organisational culture within JT, strategies were developed to create a new corporate culture by changing management style, decision-making processes, staff attitudes and performance measurement. Development of new systems and processes in different areas of operations and adopting many training programs supported the emergence of cultural change.

Regarding the care of customer, many participants have commented that all the internal organisational development created to enhance the customer oriented vision which is 'the customer comes first'. Participant no. 12 said in this connection,

Regarding the customers, they are definitely getting more benefits in terms of the quality, diversity and prices of the products. The products are cheaper and faster, also there are more options for the external customer to choose. In my opinion, the biggest winner is the customer. Although, we still need so many things to do in order to satisfy the customer more but without doubt the customer is the biggest winner from the privatisation [participant no. 12].

For enhancing the new philosophy to JT, which is customer oriented, the organisational changes that took place were in the interest of the customer. This idea also was revealed by the IT manager:

I think the philosophy of the organisation after the privatisation was that everybody taught about that we are not waiting the customer; we are going to the customer. This is the philosophy of the organisation, then to apply it, there were three different organisational structures and finally the structure we are working now is synergy. Of course, there is quite obviously a lot of synergy between all the JT's sectors. In addition, there are synergy with Mobilcom and Wandoo which ISE provider. In addition, there is synergy with e-dimension which is software house. These changes took place in a way to serve the customer. So, the importance of the marketing sector is more than the IT sector because the organisation was getting customer oriented. Not only the JT structure changed but also the JT's culture, the ethic of the people also changed and affected the employee mentality that they were going to satisfy their customers' needs [participant no. 12].

By modernising and liberalising the legislation, Jordan signed many commercial treaties, like the Free Trade Area Agreement (FTAA) with the USA in 2000; The Jordanian Euro-Mediterranean Association Agreement (JEMAA) in 2002 replaced the Association agreement signed in 1997; and the World Trade Organisation (WTO) in 2000 (Hikmat 2005). Consequently, JT became an attractive target for foreign investors for several reasons mentioned early in this chapter, section 9.2.4. Participant no. 18, who was the manager of the JT Privatisation project, commented on the acquirers' motives in the following way:

Due to these facts, Jordan government insists to attract a technical and managerial expert as a strategic partner; France Telecom was that . . . this was an investment for FT [participant no. 18].

Moreover, one of the managers, participant no. 10, declared the significance of the Jordan's geographical situation for France Telecom.

There were many reasons for France telecom to enter Jordan's Telecommunication market. The first one is the existence of qualified employees. The second one, basically significant, is that FT has strategic planning to enter the larger market in the Middle East, so I can see JT will be as a stepping stone for FT to access the Middle East market [participant no. 10].

With this aim, the new owners preferred to retain market dominance as long as possible and to draw out profits needed for the realisation of a long-term strategy.

#### **9.4. Discussion**

From the foregoing sections, it seems that the Jordan state remained the main external factor, which had played a significant role at the macro and micro levels. This crucial role exerted was materialised through imposing the privatisation program. The government justified the adoption of the privatisation process as a ministerial strategy to achieve several goals. Furthermore, the government role was notable in imposing the strategic partner as a best approach to privatise Jordan Telecom. Regardless, in the deep discussions the parliament members conducted, the majority of the Jordanian parliamentarians agreed that the telecommunication sector needed to improve to match international development, and noted that privatisation could be the best solution [Parliament Minutes 1998].

These governmental actions made a significant stimulus for organisational change at all three levels of the organisation design archetype, subsystems and interpretative schemes. The era of organisation development can be seen as the era of building the underpinning of the organisational impetus in order to prepare it for the future strategy, which exported the telecommunications services to the Middle East region.



It seems also that changing management style and philosophy has been a priority concern. This has been illustrated by adopting the management by objective (MBO) style as the strategic administration to achieve the required performance level.

The researcher's point of view of the study considered the official alliance between JT and FT as a basic motivation to organisational change in the post-privatisation era. The researcher agrees that the Laughlin Organisational Change Model, particularly the "Colonisation Model", to a certain extent, can explain the change that occurred during this era. But by the existence of the unique relationship between JT and FT, a significant organisational change occurred to set up JT to the potential regional competition, so the researcher called this era "Meta Colonisation Model". Furthermore, Laughlin's colonisation model of change suggests that an organisation is forced to accept a change from the external stimuli, which meant the Jordan government imposed on JT to accept the strategic partnership. This is a special case for JT because the FT, the strategic partner, was imposed by the government and became an important ally for JT, for its survival. Moreover, it was necessary for the JT to acquire a strategic partner, so it could obtain the technology and knowledge required for success. The strategic partner by virtue of signing the administration agreement with the Jordan government became the main source of influence on JT's internal organisational elements. It perceived that the strategic partner was imposed by the government as an external environmental stimulus. Subsequently, the strategic partner became one of the organisational crucial internal parts and effective in the decision-making processes. For the existence of this complicated relationship, the Laughlin colonisation model itself does not fully cover this aspect of organisational change, neither does it gives a better understanding of the organisational respondent. Thus, the researcher named this period of change "Meta Colonisation".

During this period, although the government to some extent remained a main player at the macro level, the ownership ultimately changed. At the three organisational levels, there was a significant change at the interpretative schemes, which means the values, vision, and morals of the organisation had enormous transformation from the technical culture to the business culture. This change was noticeable basically in enforcing the vision of 'satisfying the customer needs', which became a crucial strategy. At the level of design archetype, there were substantial changes in terms of the organisation chart, the adoption of a new management style focusing on the performance rather than the seniority, the enforcement of the information systems which was materialised by creating the information technology sector, and the new role of the accounting information systems, which are considered as part of interpretative schemes by providing real meanings to the organisation's operations in all sectors.

At the level of the sub-system, there were huge changes that occurred particularly at the human resources level and in the form of coming into being of the accounting information system. Table 9.1 presents the significant changes introduced during the post privatisation era and provides a justification of integration between Laughlin Organisational Change, particularly the modified colonisation model with the change made during the period 2000-2005.

The case of JT illustrates the dynamics of organisational change in the field of the telecommunication industry and resource dependence. In rapid technological change in the telecommunication industry, JT is required to act quickly and adapt to technological changes. This is why its organisational structure, processes and values are continuously modified, and its transition was through a set of transformations. Access to technology, new skills and knowledge, are critical resources. However, the transformation stage

could not resolve obtaining the required technological resources in such situations. Hence, the government' solution was attracting an external expert organisation to resolve its resource dependence in various ways, such as by restructuring the telecommunication sector to prepare it to privatise, by developing intensive external relationships to capture new developments, and by attracting an external expert in the industry field. In the case of JT, choosing FT as a strategic partner was seen as a specific solution to organisational dependence on critical resources, primarily because the Jordan telecommunications industry required a powerful international player who would be able to continue high investments in development and provide access to technological innovations. Table 9.1 provides a significant framework to JT during the post-privatisation era. It shows the significant changes during the post privatisation era.

*Table (9.1) JT's framework during the Post Privatisation Era.*

<b>Era</b>	<b>Post-privatisation Era</b>
<b>Periods</b>	2000-2005
<b>Coercive pressures</b>	The state / strategic partner
<b>Organisational form</b>	Business
<b>LOCM</b>	Meta Colonisation
<b>Interpretative Schemes</b>	Business culture, customer oriented.
<b>Design archetype</b>	Dynamic organisational structure, Management by objectives, integration between the organisational sectors, power of information systems.
<b>sub-system/ Accounting System</b>	Hiring Qualified employee, Multi training programs, reduction in unqualified staff.

In interpreting the findings, the researcher employed the theoretical arguments of institutional theory, resource dependence theory and Laughlin's organisational change model. The organisational change is understood as a mutual effort of institutionalizing processes in an organisational field (DiMaggio and Powell 1983), organisational actions in manipulating organisational dependence and survival (Oliver 1991) and responding

by changing organisation components to the environmental disturbance (Laughlin 1991). Within this explanatory framework, the researcher pointed out several features important to understanding organisational transformation.

In the case of JT, the government of Jordan's coercive efforts result in liberalising the telecommunication sector and imposing FT as a privatisation approach in order to develop the telecommunication industry. Before and during the transitional period, JT had traditional government departments. The scope and quality of its operations were seen as essential for the development of the national economy. JT is large, centralised and an inflexible organisation. Severe reductions in staffing (by 60%), radical shifts in organisational demography from depending mainly on technical professionals to marketing and finance experts, change of managerial structures, with managers bringing in their experience from other industries and contexts, and the introduction of new governance structures, all represented evident changes in the JT's organisational elements in response to the external disturbances.

### **9.5. Summing up**

This chapter has been articulating the role of the state in stimulating the external environment of the telecommunications industry in Jordan. That was noticeable in the government's plan of imposing the strategic partner and was seen as the best solution for JT's survival. Also, there were marked efforts in liberalising the legal environment in order to cope with the international change and to facilitate changes in the local telecom sector. These external stimuli provoked the internal environment of JT, which meant the organisational internal environment had to respond to the change in the external environment in order to survive. Thus, the strategic partner, imposed by the

government, became the main internal stimulus in provoking the desired change, as discussed.

The next chapter is the conclusion chapter and presents the main findings that have been explored and explained through this study. It will present the story of the case study of JT that was subjected to radical changes. It will present the significance of the methodology and the theoretical frameworks that were resorted to in providing a better understanding of organisational change within the JT. It will point to the difficulties and the limitations that accompanied preparing and conducting this study. It will also discuss the contributions made by the study to existing literature. Finally, it will present some recommendations for potential future research in the area in general, and within the case of JT in particular.

## **Chapter 10: Conclusions**

### **10.1. Introduction**

This thesis investigated the organisational change influenced by the privatisation process, in general, and the role of the accounting information system in the privatisation of JT, in particular. The State of Jordan played an important role at the macro level in order to lead change at the micro level. The privatisation project in developing countries like Jordan could not be applied successfully without actions taken by the government. Therefore, institutional theory has been chosen to investigate this role. A qualitative approach was used to collect empirical data conducting semi structured interviews. The significant relationship between JT and FT has been analysed in order to obtain the necessary resources in terms of the knowledge and technology in the field of the telecommunication industry and to investigate the importance of this relationship, the Resource Dependency Theory (RDT) was chosen. The JT's internal environment responded to the change that occurred in its external environment, which was caused by the Jordan State and JT's relationship with FT. Therefore, Laughlin's Organisational Change Model (1991) LOCM was used to provide a better understanding of the mechanism of organisational response. In addition, for better understanding of organisational change in JT, the three theoretical frameworks were integrated.

In this chapter the motivation of the study presented in (section 10.2) and the aims and findings of the study are presented (section 10.3) followed by a discussion on its contribution in developing a model to be implemented to study the organisational change in both public and private sectors (section 10.4). This is followed by a discussion on the limitations of the research findings (section 10.5), and finally, potential future research prospects (section 10.6) are explained.

### **10.2. The motivation of the study**

The motivation of this study stemmed from change in the telecommunication industry the subject of the study. Telecommunications in Jordan, along with other public utilities, is considered an important service for the standard living of the people and for the development of the economy. Therefore, the telecommunication industry took a significant role and was subject to public control. In terms of the organisation that has been chosen as a case study, JT has been for a long time in public sector ownership. According to the Jordanian measurements, it was considered a large company by any standard and was employing a significant number of employees. Currently, it is classified as one of the biggest companies listed in the Amman Securities Exchange (ASE), in terms of the market value. Also, privatisation of JT considered as the first successful program in Jordan. Another motivation is an understanding of joining of FT as a strategic partner which is considered to be the main stimulus for the organisational changes.

### **10.3. The study's findings**

The study addressed some of the ways in which the accounting information system has been instrumental in the process of organisational change in the telecommunication

industry in Jordan. The study findings can be categorised into two levels: role of government and integration of theoretical framework.

### **10.3.1. Role of government**

Role of government and JT's alliance with external party, FT, for resources reflect the unique intersection and external stimuli to JT. Although, this alliance is unique and essential for a developing country to overcome economic deficiencies and of great significance for the public sector, it is not uncommon in the private sector. Taking an external organisation as a business party reflects an entrepreneurial sophistication on the part of government and the Kingdom's willingness for bringing in substantial and profound change in the sector.

This study uses LOCM to help understand JT in an organisational context. This is done by dividing JT's life into three eras defined by the major motivation within them (see table 10.1). The first era is a Pre-Privatisation Era. This period represents JT's existence from 1971 to 1994 (see table 10.1). The major role is played during this time by the government, exercising its role in stimulating the organisational form to enable JT to provide public services. In the JT of this period, the government was one of the major stimuli, appointing board members who were members of the government, selecting the executive manager, exercising more pressure in filling the vacancies and exerting ministerial accountability for the organisation management through the Minister in charge.



The second era is called the Transformation Era, which is divided into two periods. The first is 1995-1996, which is compatible with the reorientation model suggested by Laughlin (1991). The second is 1997-1999, which fits with the colonisation model (see Table 10.1). During the Transformation Era, there were many governmental efforts to restructure the telecommunications industry in order to establish the new vision. As a step towards privatisation of the telecommunications sector, Jordan's government corporatised Telecommunications Corporation (TC), a government-owned entity, and created Jordan Telecommunications Company (JTC), a public shareholding company that opened most of its activities to private operators. The corporatisation of state enterprises in Jordan is regulated by the Companies Law, which allows the transformation of these enterprises into public shareholding companies fully owned by the government. During this era, the government issued and renewed several laws such as the privatisation law, securities law and investment law.

The third phase is the Post-Privatisation Era, which ran from 2000 up to the liberalisation of the telecommunications sector at the end of 2005 (see table 10.1). The main distinguishing feature of this period was an alliance with France Telecom (FT) in order to acquire newly developed technology in the telecoms sector in which JT itself was unable to create technological development. The Jordanian government (1998) highlights the importance of protecting its interests and putting some aspects of industry into the privatisation process, particularly the telecommunications sector. Therefore, the government determined certain conditions that should be implemented after the strategic partner had been chosen. The Jordanian government refers to the desperate need of the organisation for certain inputs not available in the local market such as new technology,

precise technical and managerial experience, and development techniques. The second requirement is the existence of these resources in the international market and the availability of a qualified international organisation to transfer these needs to the JT. The Jordanian government (1998) asserts that JT desperately needed to transfer developed technology, which can be achieved by conducting an official relationship with a strategic partner in an alliance. Thus, the two factors of RDT are obtained. To build a theoretical complementary relationship between LOCM and RDT, the study considered the official alliance between JT and FT, which is a basic motivation for organisational change post-privatisation. Therefore, the existence of the unique relationship between JT and FT led to significant organisational changes in order to set up JT for potential regional competition. To allow integration between LOCM and RDT, this study named this period 'meta colonisation'. Table (10.1) shows the organisational changes in JT through the three eras.

### **10.3.2. Integration of theoretical framework**

Use of theory to understand events in their social context such as privatisation phenomenon and changes at the three levels of organisation, provides an optimal approach for explaining the impacts of privatisation. In this study, the integration of different theoretical frameworks helped the researcher to analyse and understand the process of the change in JT. Institutional theory facilitated a researcher focus on the role of the Jordanian state in the form of intervention in the economy. It has been argued that the role of the Jordanian state was basically to stimulate the organisational environment through political and economic decisions, and by developing the legislative environment and creating the regulatory framework. It is argued that the changes in the role of the

government provide a significant and unique opportunity to examine the organisational transformation from public to private sector. Furthermore, the combination of three theoretical frameworks has assisted the researcher in understanding the pathway of organisational change through JT's life. The researcher used the institutional theory to articulate the coercive role exerted by the Jordanian government.

Resource Dependency Theory gave a deeper understanding of the alliance between JT and FT and is considered an important factor in radical organisational change; and the Laughlin Organisational Change Model gave a deep understanding of the inter-relationships between changes in design archetypes, subsystems and interpretative schemes.

The study presented evidence for integrated changes both between the elements of interpretative schemes and other components of organisational form, design archetypes and subsystems. Studying the pathways of radical change in JT seemed to be an acceptable model for studying other cases where the nature of interpretative schemes is critical to organisational survival. In addition, the research found in the case of JT that the ownership structure change does necessarily have the most important impact on organisation transitional path as expected by the proponents of the privatisation approach.

*Table (10.1) the framework of organisational change in JT.*

<b>Era</b>	<b>Pre- privatisation Era</b>	<b>Transformation Era</b>		<b>Post-privatisation Era</b>
<b>Periods</b>	up to 1994	1995-1996	1997-1999	2000-2005
<b>Coercive pressures</b>	The state	The state	The state	The state / strategic partner
<b>Organisational form</b>	Governmental	Restructuring	Corportisation	Business
<b>LOCM</b>	Rebuttal	Reorientation	Colonisation	Meta Colonisation
<b>Interpretative Schemes</b>	Public service, Political constrained, Justice and fraud prevention, Engineering culture	No Change	Market orientation	Business culture, customer oriented.
<b>Design archetype</b>	Hierarchical authority, Centralised, Functional, Bureaucratic and formal communication, Self control , Shortcoming in MIS and AIS	Restructuring the company structure and the accounting system	Decentralised, business based, Profit centres, Empowerment and autonomy, External control (TRC)	Movable organisational structure, Management by objectives , integration between the sectors, power of information systems
<b>sub-system/ Accounting System</b>	Incidental and neglected, manual system, unqualified employee	Adapting some developed computerize accounting system	Attracting some qualified employee,	Hiring qualified employee, Multi training programs, reduction unqualified staff,

#### **10.4. Contributions to knowledge**

The study contributed to the literature on organisational change in a public organisation by highlighting the significance of privatisation in improving the quality of services. It contributed to the literature on organisational communication system and accounting system by providing a contextual explanation of the organisation through the changing organisational environment. There is a unique contribution of this study in that it was able to interact with some interviewees who had worked in JT for many years and therefore could provide valuable insight into the industry during the three eras.

Moreover, the study contribution can be seen from different perspectives, the integration between the three theoretical frameworks, and the mechanism of using these theoretical in introducing an empirical approach to understanding organisational change. This research provided theoretical contributions in the form of adapting to the LOCM to be suitable with the periods of development, the pre privatisation period, the transformation period and the post privations period. The pre privatisation era is adapted with the Rebuttal model, the transformation era is adapted with both the reorientation and colonisation models, and the post privatisation era is adapted with the adjusted colonisation model, which has been called “meta colonisation”. This considers another unique contribution of this study.

The framework developed here can be practically applied in another study investigating organisational change. The process described in the study can inform policy and procedural decisions in other privatisation projects. Multi layers of analysis can help inform policy such as mission level, resource level, organisation’s structure, design and role of accounting information system, the flexibility to change, the use of new technology and the use of high level of training.

### **10.5. Limitations of the research**

The limitations of this research are related to choosing a sole case study and the particular data collection methods used. While, the required data were collected through conducting semi-structured interviews with members of JT and the manager of the privatisation project in order to access a broad opinion on organisational change in the JT, the main focuses of this study has been change from the point view of the JT management.

Thirdly, because some interviews had to be translated from Arabic into English in the process of translation some concepts may not have been conveyed correctly because of the linguistic differences. It is important to emphasise that the objective of the study is not to provide generalization of the study's findings, but rather to provide in depth explanations of the impact of particular phenomenon in a particular social context. It is also understood that the researcher's perceptions and capacity inevitably affect the interpretation of the interview data, and the possibilities for independent handling is limited. But, to deal with this limitation, there were several sources of information in addition to the interview, including organisational annual reports, TRC reports, and media articles.

### **10.6. Potential future research**

The challenge for future research is to identify and analyse the new organisational environment for JT, particularly after the liberalisation of the whole telecom industry at the end of 2005, and to develop a theoretical framework for the extensive understanding of organisational changes in such privatised companies. Further research into the privatisation of public sector enterprises in Jordan's context needs to be viewed from a different perspective that will address the role of the unique relationship between JT and FT.

Before the liberalisation of the telecommunication sector mainly the field of providing the fixed line services, JT was in a dominant position and relative stability in the market explained why themes related to competition and deregulation in their annual reports had

no significant importance in the first period of organisational transformation. Therefore, after the liberalisation, it is a rich area of research to focus on these competition themes.

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## **Appendixes:**

### **Appendix A: Semi structured interview questions**

#### **Preliminary questions**

1. How long have been worked in JTC?
2. What positions have you held during that time?
3. What do you do now?

#### **Organisational Philosophy**

4. What did you understand to be the main objectives of privatisation at the time it was introduced? Has your understanding changed over the years?
5. What do you consider have been the main consequences of privatisation for JTC?
6. Do you think the privatisation of JTC accessed new technology and qualifications?
7. In terms of JTC's stakeholders, who do you think have been the winners and losers over the year since privatisation?
8. Which department has greatest significant since privatisation?

#### **Organisational structure and culture:**

9. Who do you report to? Who do you work with?
10. JTC has been under reorganisation since privatisation, what are the main reasons?  
Do you think the reorganisation have been effective in helping JTC to meet new philosophy?

11. What have been the main effects of changes in organisational structure on your career with JTC?
12. Which department or division has greatest influence as result of reorganisation?
13. What is limiting your authority? Do you have autonomy for some decision-making?
14. Do you believe JTC had a distinctive culture since privatisation? Can you describe it?
15. Do you believe the new Management after privatisation allows employees to share knowledge and values?

**Accounting system and its information**

16. Do you believe the accounting system provide adequate information for the decision-making?
17. What are the major changes in accounting information system?
18. Do you think the new accounting system able to adapt with organisational change?
19. Do you think the new accounting system contributes into efficiency and quality of services?
20. Do you think the output is presented in a useful format?
21. Are you satisfied with the accuracy of the system?
22. Is the information clear?
23. Is the system accurate?

24. Does the system provide sufficient information?
25. Does the system provide up-to-date information?
26. Do you get the information you need in time?
27. Does the system provide the precise information you need?
28. Does the information content meet your needs?
29. Does the system provide reports that seem to be just about exactly what you need?
30. Is the system user friendly?
31. Is the system easy to use?
32. To move towards new organisational structure and culture, do you believe the investment in information technology and information system supported these changes?
33. To enhancing the effectiveness of system in focusing on accountability, do you have opportunity to check the accuracy of the data entered into the system?
34. Are the control reports provided frequently on a regular basis, daily, weekly?
35. Are there databases?
36. To what the extent of required information sharing among the JTC's departments for the execution of organisational tasks? Is there Electronic Data Interchange (EDI) among the departments?

## Appendix B: List of Interviewees

### B.1. interviewees' positions and sectors

Number	Name	Position	Sector
1	Salem Abu Manneh	Financial Planning & Control Manager	Financial sector
2	Hani Diab	Financial Accounting Dept. Manager	Financial sector
3	Kifah El-Khawaldeh	Purchasing Department Manager	Financial sector
4	Qhassan Abu-Gharbieh	Revenue Assurance & Fraud Manager	Financial sector
5	Mohannad Lamber	Treasury Dep. Manager	Financial sector
6	Dr. Ziyad Fraihat	Group Internal Audit Manager	Financial sector
7	Amjad Qteishat	Billing & Collection Director	Marketing sector
8	Baseem Sabra	Ross/ERP Solutions Consultant	Ross Consultant
9	Khaled Alabadi	Costing Department Director	Financial sector
10	Nicolas Ibos	Financial Controller	Financial sector
11	Dr. Ibrahim Harb	Regulatory Affairs & Wholesale Director	Technical sector
12	Lutfi Khawaja	Development & Integration Department Manager	Information Technology sector
13	Issam Barghuthi	International Business Development Director	Strategic sector
14	Mamoun Sammour	Recruitment Section Chief Manpower Affairs Dept.	Human Resources sector
15	Mu'tasem Shehadeh	Mass Market Director	Marketing sector
16	Barakat Al-Azzam	CCBS Support & Reporting Manager Billing & Collection Directorate	Billing System
17	Mohamed Karmash	Strategy & Development Director	Strategy sector
18	Abd Alfetah Alkateib		Board director
19	Raslan Deiranieh	Chief Financial Officer	Financial sector

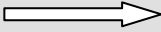


**B.2. Time duration and interview's language:**

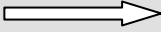
Number	Name	Time Duration	Language
1	Salem Abu Manneh	38 minutes	English
2	Hani Diab	1 hour	English
3	Kifah El-Khawaldeh	1.2 hour	Arabic
4	Qhassan Abu-Gharbieh	30 minutes	English
5	Mohannad Lamber	35 minutes	Arabic
6	Dr. Ziyad Fraihat	40 minutes	Arabic
7	Amjad Qteishat	1.3 hour	Arabic
8	Baseem Sabra	38 minutes	Arabic
9	Khaled Alabadi	1 hour	Arabic
10	Nicolas Ibos	30 minutes	English
11	Dr. Ibrahim Harb	29 minutes	Arabic
12	Lutfi Khawaja	48 minutes	English
13	Issam Barghuthi	1.2 Hours	English
14	Mamoun Sammour	35 minutes	Arabic
15	Mu'tasem Shehadeh	38 minutes	English
16	Barakat Al-Azzam	1 hour	Arabic
17	Mohamed Karmash	45 minutes	Arabic
18	Abd Alfetah Alkateib	2 hours	Arabic
19	Raslan Deiranieh	40 minutes	Arabic

## Appendix C: Laughlin Organisational change Models

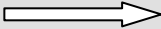
### C.1. First order change (Rebuttal Model):

	Organisational Form		
<b>Disturbance/Jolt/ Kick</b> 	<b>Design Archetype</b>	<b>Sub-systems</b>	<b>Interpretative Schemes</b>
	<b>Some Change</b>	<b>No Change</b>	<b>No Change</b>

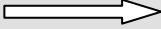
### C.2. First order change (Reorientation Model):

	Organisational Form		
<b>Disturbance / Jolt / Kick</b> 	<b>Design Archetype</b>	<b>Sub-systems</b>	<b>Interpretative Schemes</b>
	<b>Remarkable Change</b>	<b>Some change</b>	<b>No Change (Unaffected)</b>

**C.3. Second order change (Colonization Model):**

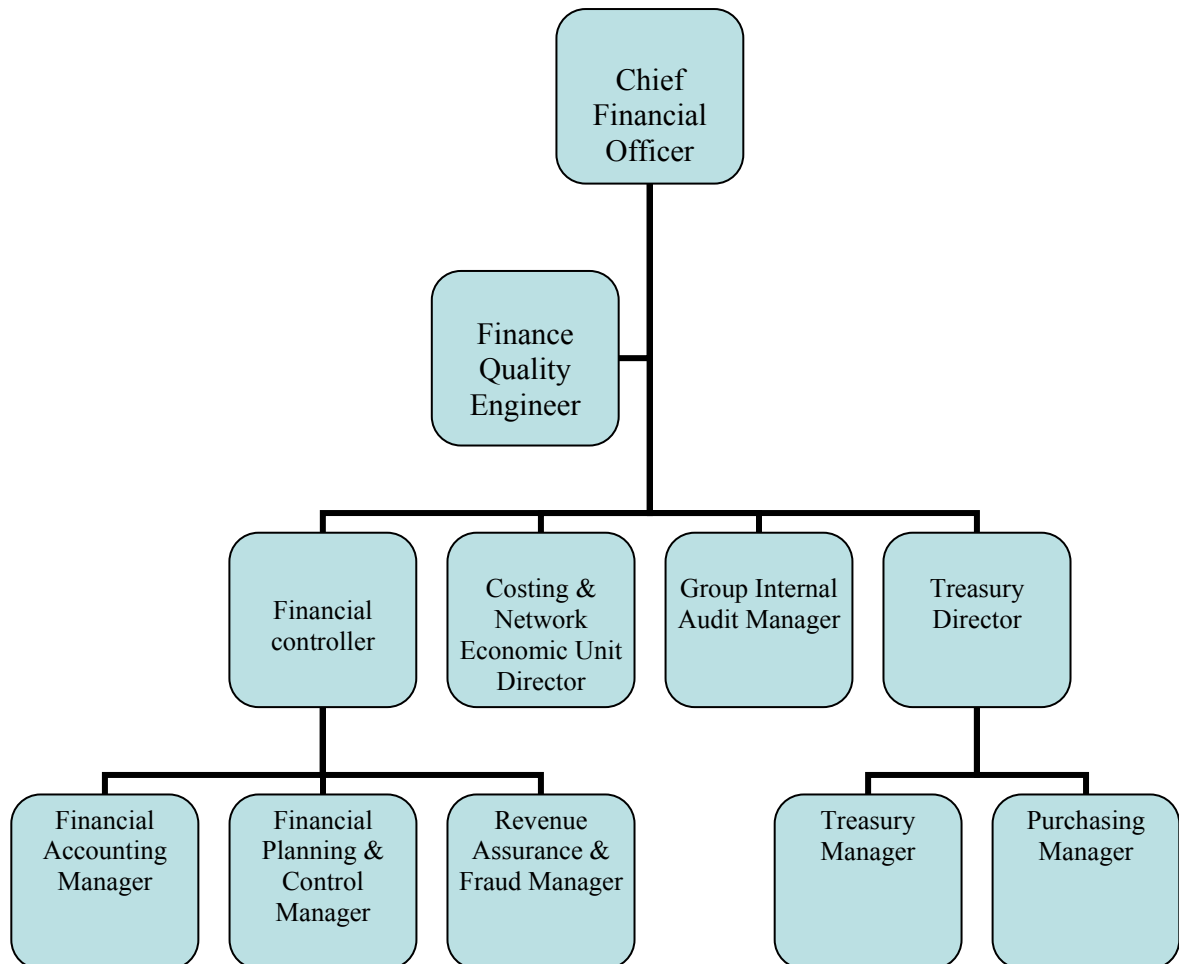
	<b>Organisational Form</b>		
<b>Disturbance / Jolt / Kick</b> 	<b>Design Archetype</b>	<b>Sub-systems</b>	<b>Interpretative Schemes</b>
	<b>Substantial Shifts and Change</b>	<b>Change</b>	<b>Major shifts and Change/ Forced upon the organisation</b>

**C.4. Second order change (Revolution Model):**

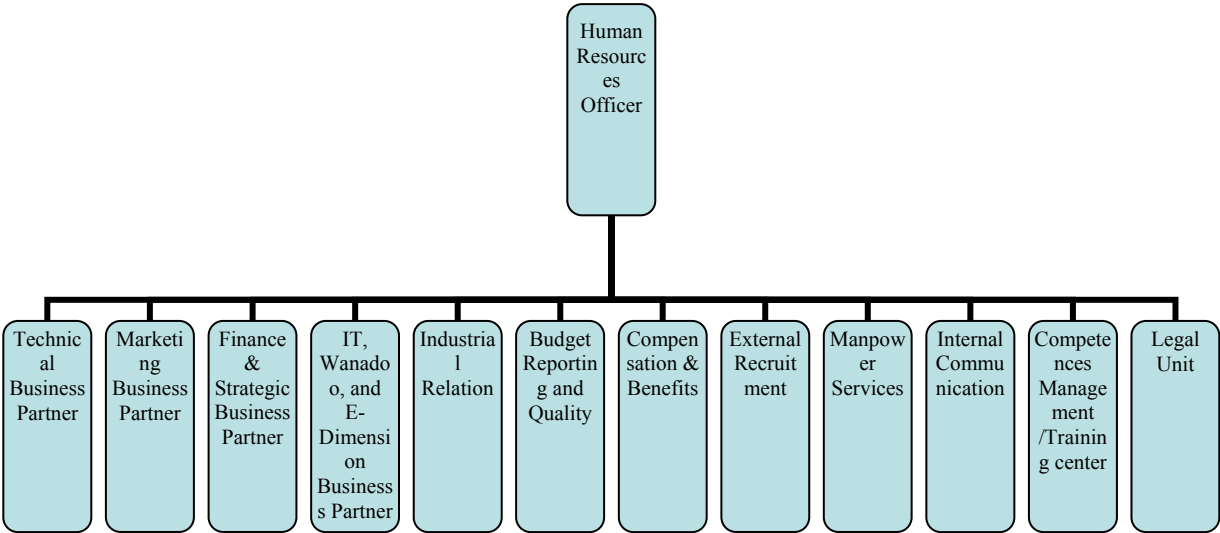
	<b>Organisational Form</b>		
<b>Disturbance / Jolt / Kick</b> 	<b>Design Archetype</b>	<b>Sub-systems</b>	<b>Interpretative Schemes</b>
	<b>Substantial Shifts and Change</b>	<b>Change</b>	<b>Major shifts/ accepted by organisational participants without coercion</b>

## Appendix D. the new organisational chart

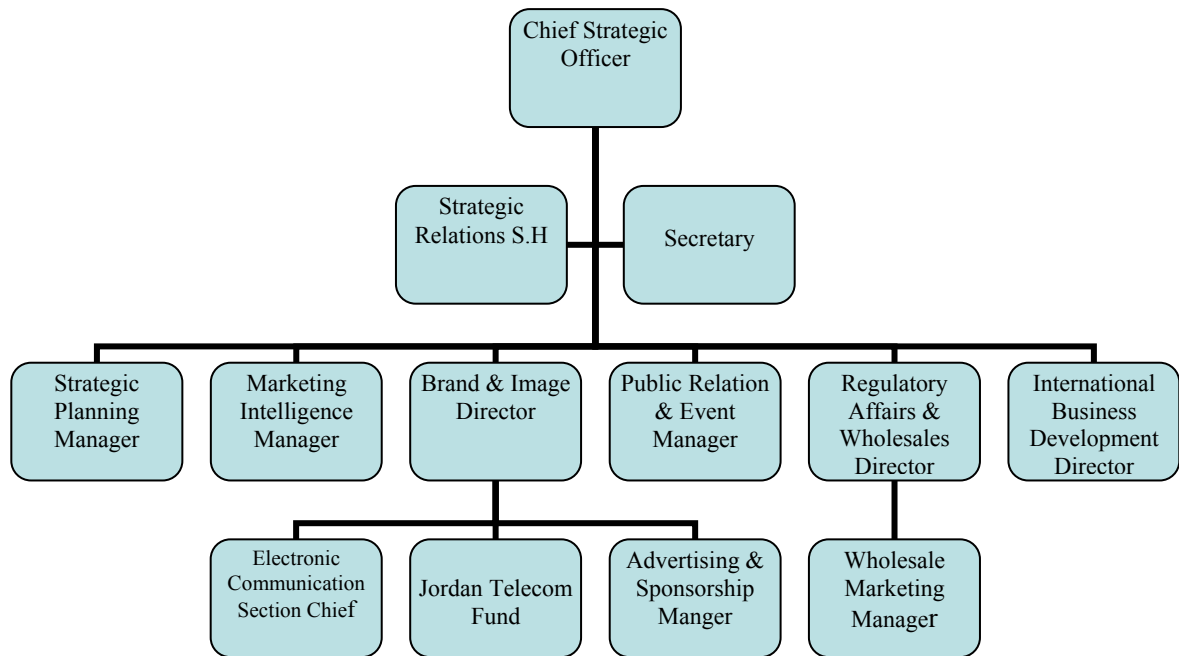
### D.1. Finance Sector Organisational Chart



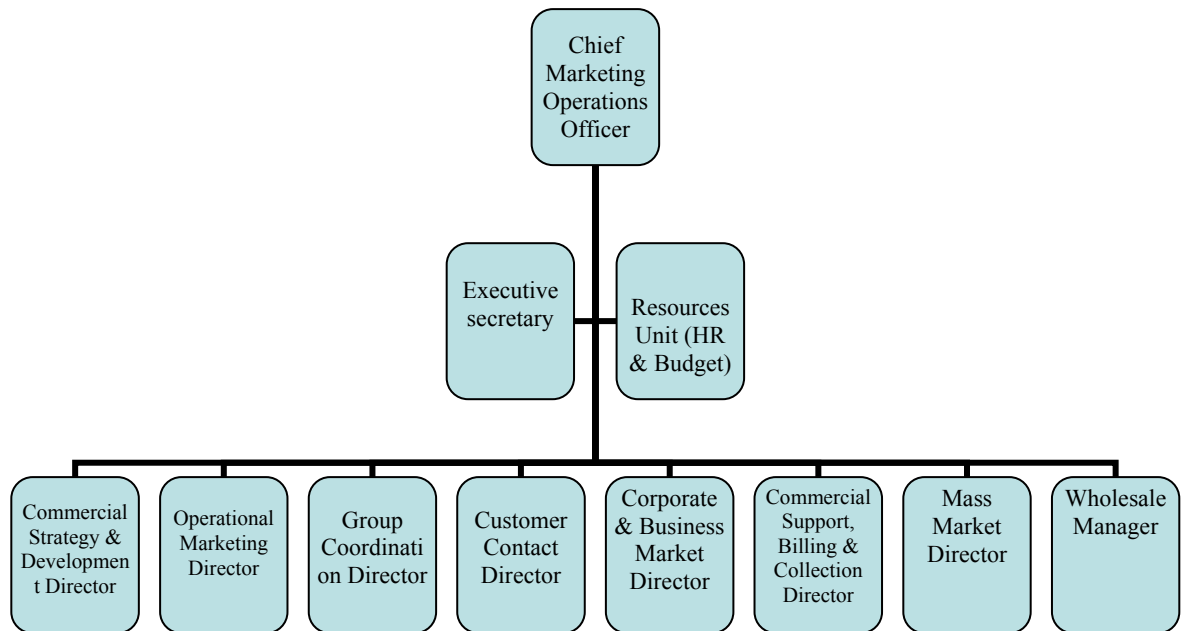
D.2. Human Resources Sector Organisational Chart



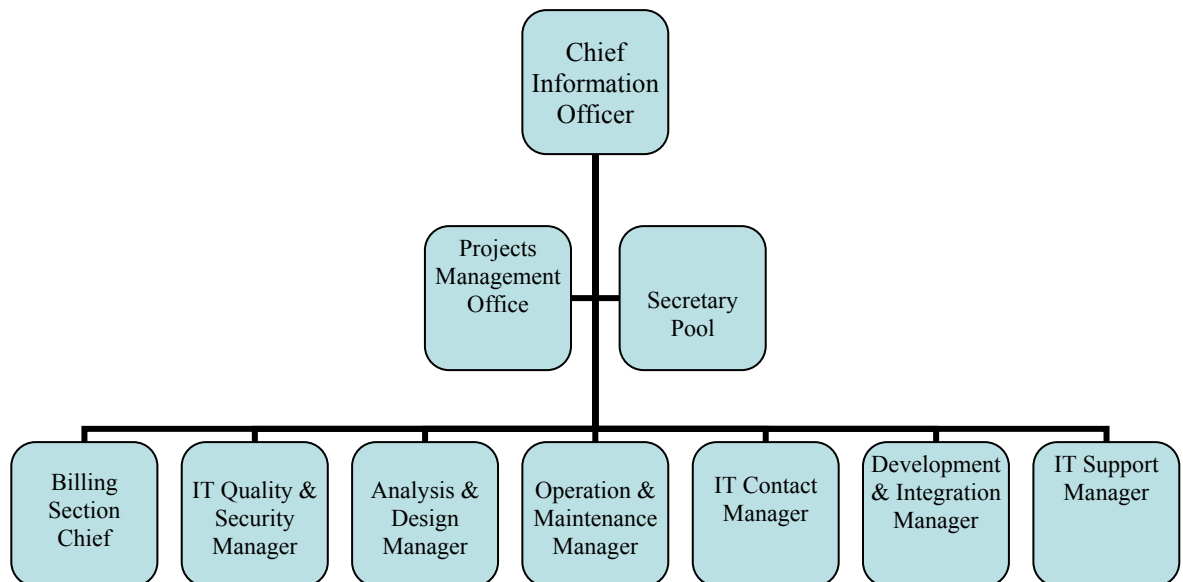
### D.3. Strategy Sector Organisational Chart



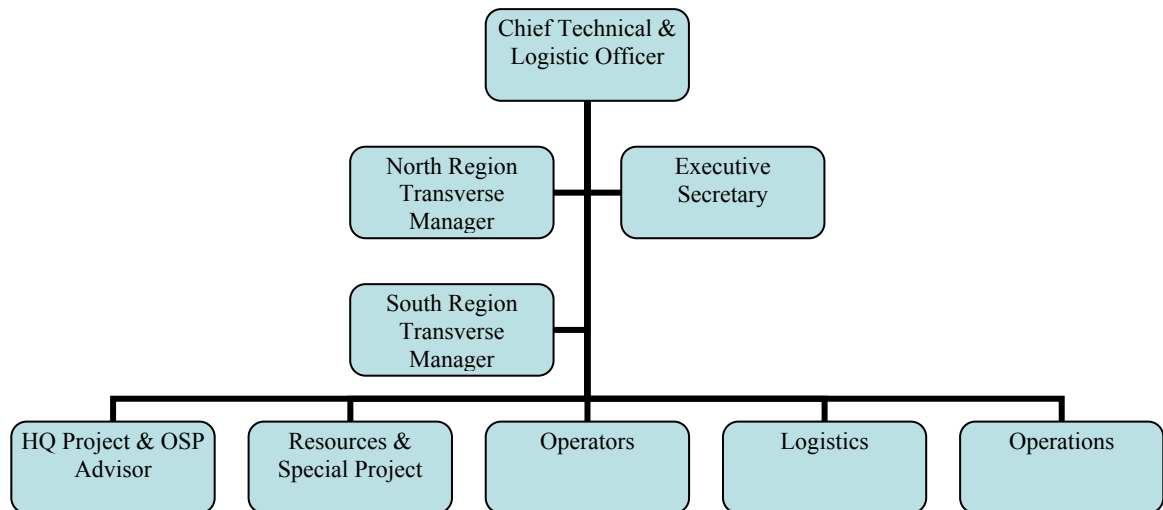
#### D.4. Marketing Sector Organisational Chart



#### D.5. Information Technology Sector Organisational Chart



### D.6. Technical Sector Organisational Chart





## **Appendix E: the main services provide by Jordan Telecom**

1. Call Free: call free is a service designed for companies who wish to provide their customers with information and services via a reserved telephone line.
2. Meet anywhere in the world: videoconferencing provides digital and visual communication between organisations that are separated by distance.
3. Co-location: co-location appeals largely to companies that have already established a web presence and are more comfortable retaining control of the site's architecture.
4. Integrated Service Digital Network (ISDN): ISDN is the ideal communication medium providing service for home and office.
5. Leased Line: leased line is a permanent connection for the customer's sole usage.
6. Asymmetric Digital Subscriber Line (ADSL): it is a modern technology that converts the existing twisted pair telephone lines into high-speed digital lines.