

# Chapter 3

## Electronic Commerce and Management Accountants in Egypt: New Opportunities and Threats

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### EXECUTIVE SUMMARY

*This research reports on a longitudinal case study in an Egyptian organization (TexCo<sup>1</sup>) that implemented Business-to-Business (B-to-B) electronic commerce. The objective is to explore the process of change in the role of management accountants associated with the implementation of B-to-B e-commerce. TexCo was subject to a change in leadership; subsequently, their traditional means of operation was put into question. This process resulted in realizing issues related to planning and internal control within the company. The B-to-B system was chosen to introduce new control-based rules. Resistance to change was detected in the case. It is posited that various power strategies were used to ameliorate covert and overt resistance. Over time, the role of management accountants in TexCo changed towards greater decision support and control. B-to-B electronic commerce poses management accountants with new challenges in TexCo. As such, it represents both an opportunity and a threat.*

### ORGANIZATION BACKGROUND

TexCo is a company wholly owned by an Egyptian family. Established in 1950, by the grandfather

of the current CEO, TexCo soon became one of the four leading companies operating in textile manufacture<sup>2</sup> in Egypt. It is primarily engaged in dyeing, printing and finishing textiles. According

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to a report (Textile Sector Report, 1999) prepared by SEAM, a project implemented by the Egyptian Environmental Affairs Agency and Entec UK Limited, the textile sector in Egypt consists of over 3,000, both public and private sector, companies. Seventy-seven of these are engaged in dyeing, printing and finishing textiles. TexCo's products are characterised by both high quality and high price. Consequently, most of its customers are from the upper class of the Egyptian society.

The CEO at TexCo is at the pinnacle of the organizational structure, which is divided into seven departments. A manager responsible directly to the CEO heads each department. The latter includes the outlets' department, the production department, the stores department, the projects' department, the export department, the general accounting department and the purchasing department.

The company sells its products through its own outlets as well as the outlets of its distributors in Egypt and abroad. The sales of the company are channeled through three departments; the outlets' department, the projects' department and the export department. The outlets' department deals with distributors besides TexCo's own outlets. The projects' department liaises with hotels, hospitals and other businesses throughout Egypt. The export department deals with the distributors and TexCo's outlets abroad.

After the death of the organization's founder in 1978, TexCo was passed on to his son, the previous CEO. In that period, TexCo had a 'production

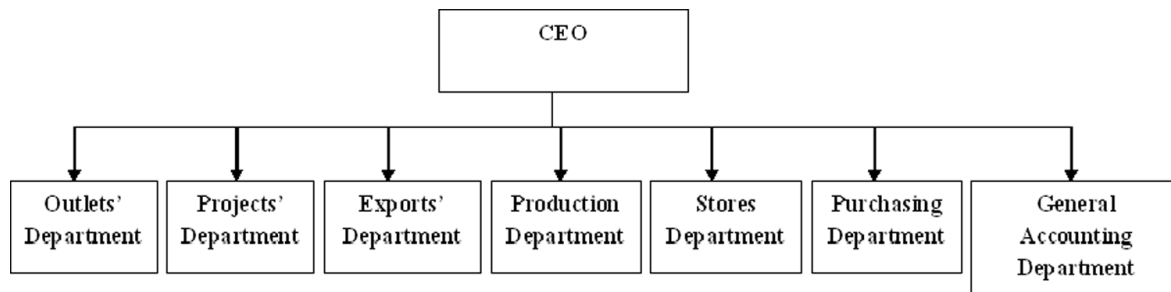
oriented' culture. There were shared assumptions, within the company, about the importance and priority of production quality. Although TexCo was profitable, this was mainly due to its excellent products and production systems rather than to its management and accounting controls. The role of accounting in TexCo during this period could best be described as 'ceremonial'. The previous CEO used to determine the production quantities depending on his personal experience, accounting was not an integral part of the management process, and cost accounting was only used for pricing decisions and financial statements' preparation.

## SETTING THE STAGE

Previously, TexCo sold its products on consignment basis, where a large stock of its textile collection remained in the distributors' outlets. Based on the previous CEO's expectations, the production orders were sent to the production department. After production, the products were transferred to the stores department and then sent from there, on order, to TexCo's own outlets in addition to those of its distributors.

At the end of each week the outlets sent the invoices to the outlets' department in TexCo, where four accountants entered the invoices on a simple, locally produced accounting information system. At the end of each month, the accountants compared their records with those of the outlets from

*Figure 1. Partial organizational chart of TexCo*



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