Arnings Management on the Verge of Privatization: The Case of Air Botswana

Author(s)

Ernest G Kitindi

Abstract

Privatization is often associated with a change in the management of the company, which means existing management might consider such news adversely. Available literature suggests that the management may respond by indulging in earnings management. This study seeks to establish whether this is applicable to the case of Air Botswana. Using data from Air Botswana, the first parastatal that was put in the privatization process, the study tests for evidence of earnings management in the period surrounding the announcement of privatization. The equality of performance and expenditure in the period prior to and after the privatization announcement was tested. The results largely suggest the absence of any significant difference in performance and expenditure between the two periods. Where differences are suggested, the change is for the betterment of the company. The study finds little evidence to suggest that management indulged in earnings management. However, the government action to restructure the company before inviting prospective investors is considered to be consistent with earnings management. It is opined that the findings of this study are indicative of what could be the situation surrounding privatization, and suggests a similar study at a later stage including more parastatals that are being privatized.