

A historical institutionalist perspective on the persistence of state controls during financial sector reforms: the insightful case of Myanmar

WIN, Sandar <<http://orcid.org/0000-0003-3155-9950>> and KOFINAS, Alexander

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Citation:

WIN, Sandar and KOFINAS, Alexander (2021). A historical institutionalist perspective on the persistence of state controls during financial sector reforms: the insightful case of Myanmar. *Journal of Accounting in Emerging Economies*, 11 (1), 94-121. [Article]

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Journal:	<i>Journal of Accounting in Emerging Economies</i>
Manuscript ID	JAEE-02-2019-0052.R3
Manuscript Type:	Research Paper
Keywords:	historical institutionalism, public sector, market reforms, state controls, accounting control, privatisation

A Historical Institutional Perspective on the Persistence of State Controls during Financial Sector Reforms: The Insightful Case of Myanmar

Structured Abstract

Purpose (Limit 100 Words)

Many transition economies are former socialist planned economies and have undergone market reforms of their financial sector to signal their transition towards democracy. However, governments in these countries have been reluctant to relinquish the pre-existing controls on economy and have adopted nuanced and sophisticated approaches to retain control. In such context, scholars may find it challenging to investigate the role played by the state in the success or failure of attempted market reforms. This work investigates the different forms of state-induced accounting controls that may preserve the status quo within the economy during transition, using Myanmar as an example.

Design/Methodology/Approach (Limit 100 Words)

We adopted a longitudinal qualitative research method aiming to reveal the very processes and mechanisms used by the banks and their evolution over time. This method is in accordance with the historical institutionalist perspective that we have applied within this research.

Findings (Limit 100 Words)

We found that the Myanmar government embarked on the privatisation of their financial sector from 1990 to 2016 as a major public sector reform initiative. Under the guise of market reforms, it used both state-led and market-led controls to emulate and retain the socialist banking model where banks are used to fund the immediate government's budget deficits. This created a series of intended and unintended consequences, resulting in the ultimate failure of the government's market reforms.

Research Implications (Limit 100 Words)

Previously, research on public sector management accounting in emerging economies was not relying consistently on using theory. The relative limited theorisation led to gaps when attempting to understand and explain the opaque forms of state control mechanisms in transition economies. By applying historical institutionalist theory, and a more theory-driven, reflective approach to the interpretation of the data collected, we have provided a deeper insight and understanding on how different forms of state controls can emerge, adapt and persist in transition economies such as Myanmar.

Practical Implications (Limit 100 Words)

We demonstrated that though the state may have implemented market reforms to signal regimes change, this does not necessarily mean that the government has relinquished their control on the economy. The state could take a more sophisticated, covert approach towards state controls leading to both intended and unintended consequences. Thus, even if the state's preferences change, the decisions cannot be easily reversed, as path-dependent state controls may have become pervasive affecting any further institutional and policy developments. Thus, we suggest that governments in both transition and developed economies should be cautious when enacting regulations on corporate control.

Originality/Value (Limit 100 Words)

In this paper, we have applied a historical institutional perspective in our analysis instead of the more widely used sociological, institutionalist approach. This allowed us to harness rich longitudinal data indicating that market reforms and their success or failure should be examined as an ongoing process

rather than a completed action. This is especially important in transition economies where the state may be unwilling to renounce the existing controls on the industry and may resort to more opaque forms of state control, eventually obstructing the intended reforms.

Keywords: financial reforms, state controls, market reforms, historical institutionalism, privatisation, public sector

1. Introduction

‘State Capitalism’ can be loosely defined as a capitalist system in which the state plays a dominant role in creating and maintaining the private sector through ownership (either majority or minority equity positions in companies) and/or directly controlling the companies’ critical decisions as well as capital supply (Lin, 2011; Musacchio et al., 2015). Historically, state capitalism has been associated with the planned economic systems implemented by the socialist and communist states, in which the governments implemented their policies by establishing and managing state-owned enterprises (SOEs). Due to the rhetoric of anti-communism and anti-socialism in the 80s and 90s, the concepts of state control and SOEs have acquired negative connotations among scholars and politicians alike (Aharoni, 1986; Trebat and Knight, 1983; Hopper et al., 2017). Hence, to signal regime change, governments in many of these countries privatised their SOEs and implemented a series of financial market reforms (Newberry, 2015; Uddin and Tsamenyi, 2005).

However, not all state capitalist economies are homogenous and they are diverse and continuously evolving (Grosman et al., 2016) resulting in different organizational and governance structures, and different levels of state control (Gu et al., 2016; Fligstein and Zhang, 2011; Shatkin, 2014). Previous studies on state capitalism have focused on China, Russia and other transition economies in Eastern Europe (Nee et al., 2007; Fligstein and Zhang, 2011; Chernykh, 2008; Frydman et al., 1999). As financial market reform is one of the earliest types of reforms implemented by governments in transition from socialist planning to a market economy, the banking industry would be an appropriate benchmark to explore different forms of state controls. The banking industry is the lifeline of any modern economy, even more so of a transition economy due to the relatively underdeveloped capital market systems (Le et al., 2006; Wu et al., 2016). In planned economies, banks are used by the state to implement national economic policies, to provide financial assistance and to create new forms of SOEs in other industries. Hence, the interdependency of the state and the banks is complicated and nebulous during and after the countries’ transitions towards market economies. In this paper, we use Myanmar as an example to identify state controls that might be different from the ones evident in current literature.

Myanmar has remained abstruse to researchers for many decades due to its military governance system officially implemented from 1962 to 2010 (Turnell, 2011). To be more precise, from 1962 to 1988, Myanmar was under a socialist government controlled by the military. During this period, its economy was directed by the state through an economic treatise, ‘the Myanmar Way to Socialism’. This was a blueprint for economic development, aiming to reduce foreign influence in Myanmar and to increase the role of the military (Holmes, 1967). In 1990 political reforms took place, following the pro-democracy movement in 1988. In 2010, another political reform was introduced alongside a supposedly democratic election. Soon after, a financial sector liberalisation took place, aiming to promote economic development based on neo-liberal ideological assumptions, guided by the World Bank and International Monetary Fund (IMF) (Tsamenyi et al., 2010; Uddin and Tsamenyi, 2005). Yet, Myanmar’s economy has remained underdeveloped. The country has received interest from international communities in recent years mostly due to the recurrent humanitarian crises, violence and conflict that persist, despite its transition towards democracy (Christensen et al., 2019; Cheesman, 2017). Myanmar’s financial sector reforms and privatisations take place in a politically fragile environment where the role of the state and other political institutions is paramount in the country’s economic development.

Privatisations do not necessarily break the political involvement with commercial organisations (Wickramasinghe and Hopper, 2005), creating challenges in distinguishing the private from the public sector. A simplistic state-private dichotomy would not reflect accurately the relationship between the financial institutions and the government. In such cases, theories can be used to make otherwise opaque

generative mechanisms or inferences more visible to us (Bhaskar, 1978). Yet, van Helden and Uddin (2016) have argued that almost half of the research on public sector management accounting in emerging economies is not using theory. Theorisation is even more important in the Myanmar context because the state and the military are embedded in every aspect of the society since 1962; thereby obscuring the state controls put in place to control the financial markets. Thus, theorising on the state controls in Myanmar's unique context would powerfully demonstrate how pre-existing institutions, state but also other political institutions, may enable or prevent a democratic transition alongside the economic development. Historical institutionalist theory enables us to provide deeper explanations of the phenomenon under study, i.e. how different forms of state controls emerge, transform and persist in transition economies such as Myanmar. Our work is guided by the following two objectives:

- 1) To assess the evolution of state control on financial institutions alongside political reforms in Myanmar
- 2) To evaluate how different forms of state-induced accounting controls for financial institutions and businesses in Myanmar, have emerged, and are sustained

In Section 2, we highlight the need to explore the different forms of state control, and the benefits of doing so utilising a historical institutionalist perspective. In Section 3, we provide a detailed account of our data collection process to demonstrate the reliability and credibility of our research, as well as demonstrate how the state controls extend beyond ownership and were already evident from the data collection stage. In Section 4, we discuss how different forms of state controls have emerged, and how the relationships between state, banks and business can be entrenched, reinforcing certain forms of state control on the banking industry in Myanmar. In section 5, we summarise our findings and suggest that Myanmar may be experiencing a new form of state capitalism.

2. State Capitalism from a Historical Institutional Perspective

A capitalist economy is viewed as a system of economic activity dominated by private firms and private capital. These firms compete in the markets for goods, services, and capital with the objective of profit maximisation (Meyer, 2011). In contrast, most of the transition economies are emerging economies and tend to be former socialist countries where the state controls almost all aspects of the economy. Industrialisation through state central planning, public ownership of major enterprises, and economic protection through tariffs and currency controls is promoted (Hopper et al., 2017). These economies are mostly located in the regions previously controlled by the Soviet Union, mainly Central Europe, and some parts of Asia (Steier, 2008). One of the key characteristics of these transition economies is their transformation from being centrally-planned to market economic systems (Smallbone and Welter, 2001). Neoliberal capitalism legitimises abolishing the political and economic base of the old ruling elites and forming private enterprises (Lane, 2008). Therefore, state capitalism is seen as economically inefficient and the residual of planned economies, creating barriers for economic growth. During the move toward a market economy, divergent forms of state capitalism have emerged in these transition economies, in some cases enjoying phenomenal economic growth, for example in China (Milhaupt and Zheng, 2015; Meyer, 2011; Lane, 2008). This has led many scholars from different disciplines such as management, international business, finance and accounting to re-focus on studying SOEs to understand state capitalism in transition economies (Arnoldi et al., 2018; Peng et al., 2016; Gu et al., 2016; Okhmatovskiy, 2010).

Accounting scholars who explore market reforms tend to focus on the effectiveness of privatisations and the changes in public sector management accounting practices once a country transitions from state-led to market-led economy. Under the state-led economy, the state implements the management

accounting frameworks, based on the assumption that central state planning acts as a rational bureaucracy and that centralised resource-allocation decisions enable equitable resource allocation to achieve appropriate development priorities (Jaysasinghe and Uddin, 2010; Hopper et al., 2009). Thus, centralised budgeting is used to allocate and control resources while financial reporting to the state is used as a tool for accountability and regulation compliance. In a market-led economy the emphasis is on results-oriented budgeting, market-based resource allocations, elimination of price controls, reorganising and the lessening of public ownership of domestic banks and the promotion of private banks and domestic capital markets, which entails the privatisation or closure of SOEs. Moreover, it promotes auditing and accountability via external reporting to shareholders instead of reporting to the state (van Helden and Uddin, 2016; Hopper et al., 2009).

However, one of the findings in the relevant literature is that the private sector changes and economic reforms in a transition economy often play a perfunctory and ceremonial role, primarily as means to gain political legitimacy from the public or from external funders, eventually, leading to the failure of the privatisation process (Hopper et al., 2017; Tsamenyi et al., 2010; Alam et al., 2004). The work in the field also has raised concerns on how accounting principles have been neglected in market-based reforms as the widely accepted perception among the reformers is that the implementation of international accounting standards would provide the information, transparency and accountability necessary for financial markets to invest optimally (van Helden and Uddin, 2016; Hopper et al., 2009). The majority of the literature has attributed privatisation failures to cultural differences and the contextual complexities of emerging economies (van Helden and Uddin, 2016; Hopper et al., 2017).

For instance, Wickramasinghe and Hopper (2005) examined the SOEs in Sri Lanka after privatisation. They found that the performance of these enterprises improved immediately after privatisation due to the adoption of commercially oriented budgeting practices, however, later failed due to problems of cultural asymmetry. Previously, Uddin and Hopper (2003) explored the claims made by the World Bank regarding the success of privatisation in Bangladesh. Their evidence suggests that privatisation reforms have not improved economic returns to society and thus they question the reliability and usefulness of the profitability criterion as a measure of success. Likewise, Tsamenyi et al. (2010) analysed the performance of two large, privatized companies, paraded by the Ghanaian authorities and the international financial community as success stories of privatization. They accepted the success claims made by the Ghanaian government and the supranational organisations; however, they stressed the importance of going beyond an analysis of the performance of privatised firms based on short-term macro-level and financial analysis which are widely adopted by national and international development organisations. Similar research findings and arguments have been made by scholars conducting performance evaluation of privatisations in emerging economies such as Nigeria (Bakre and Lauwo, 2016), Brazil (Wanderley et al., 2011) and China (Xu and Uddin, 2008).

These studies have made significant contributions to our understanding of the effectiveness of privatisation and other economic reforms in emerging economies through the lens of different public sector management accounting models (Jaysasinghe and Uddin, 2010). Yet, they indicate a number of limitations. First of all, the various scholars tended to define and treat privatisation as a firm-level transfer of ownership from the public to the private sector rather than a much wider phenomenon (Tsamenyi et al., 2010; Uddin and Hopper, 2003; Wanderley et al., 2011). Consequently, the researchers often make the implicit argument that by focusing solely on the implementation of accounting controls in privatised SOEs we will be able to understand the wider challenges faced by emerging economies in their privatisation and market reform journeys. However, the concept of privatisation is more than merely the transfer of ownership of a firm. As argued by Cook and Kirkpatrick (2000), privatisation in a broader sense, refers to all policy initiatives and measures designed to alter the balance between the

public and private sectors in favour of the latter. Similarly, Killick and Commander (1988) have defined privatisation as the reduction or elimination of the public sector's role in economic activity. Thus, if privatisation is seen as the changing of ownership from the public to the private sector, scholars may have unintentionally overplayed or underplayed the role of state in the privatisation process, conflating the state as part of a nexus of cultural and contextual complexities, which are then attributed to the success and/or failure of SOEs or an industry in post-privatisation period (Hopper et al., 2017; Alam et al., 2004).

Secondly, as van Helden and Uddin (2016) previously argued, the interconnectedness between macro (e.g. state, cultural and political institutions), meso (e.g. firms and organisations) and micro (e.g. individuals) levels of the societies in a transition economy are underappreciated in the privatisation literature. This is often the case with finance and economics literature that examines the impact of privatisation and structural adjustment in transition economies. Nevertheless, accounting scholars have been more active in advocating the need for exploring the impact of privatisation on broader developmental goals. For instance, Xu and Uddin (2008) examined the effectiveness of the Chinese government's privatisation and public sector reforms. They found that the aim of the reform policies in China, including better control, increased profitability and an improved working life for their citizens, have not materialised. Likewise, Jayasinghe and Uddin (2019) questioned the political and economic effectiveness and nature of interventions carried out by external agencies in Sri Lanka. They further argued that the World Bank's neoliberal policies succeeded only in widening domestic and international inequality, rather than alleviating global poverty, hence those reforms were often seemed detached from the daily lives of populations in distant places in Sri Lanka.

Finally, not all forms of state controls are visible when using conventional approaches such as the levels of state equity ownership of a firm (Musacchio et al., 2015) or the state implementation of centralised accounting controls (Wickramasinghe and Hopper, 2005). During market reforms, SOEs may have been privatised and new private companies may have been given license to enter into the markets, previously controlled by the state. However, states may have initiated a privatisation process as a means to achieve political legitimacy (Uddin and Hopper, 2001; Wickramasinghe and Hopper, 2005; Hopper et al., 2009) and yet they may have retained nuanced and high imperceptible levers of control on the industry or on the firms that they privatised. Hence, by identifying privatisation as a process, we now can explore how state controls may have evolved and have become more sophisticated, and how these cultural and contextual complexities have emerged which may be intentional or unintentional, thereby, enabling and creating barriers to successful privatisation.

2.1. Historical Institutional Approach to Understanding State Capitalism

Theorisation can be perceived as disciplined imagination (Mills and Gitlin, 2000). Theories can provide a vocabulary for researchers to express, interpret and create boundaries for their imagination (Alvesson et al., 2007); thus allowing researchers to develop and increase the academic body of knowledge (van Helden and Uddin, 2016). To explore how different forms of state controls have emerged, we embarked on reviewing theories from accounting, finance, international business and political economy which are used to discuss privatisation and public sector reforms. Like van Helden and Uddin (2016). We soon realised that there is an implicit norm among scholars in the field not to use theorising to explain the phenomenon of public sector reforms in emerging economies. This was a challenge, which was exacerbated when it comes to examining state capitalism in Myanmar, as the country is isolated from the international research communities and there is limited data available on the financial sector (Win and Kofinas, 2019). From the limited literature available, it is apparent that Myanmar's economic system is associated with the crony capitalist model, a concept inherently based on regulatory-capture

theory (Ford et al., 2016; Jones, 2014). Similar to the models that have been previously developed for varieties of capitalism in Asian and Western contexts (Coates, 2015; Orru, 1997), associating a country's economic system with a general capitalist model does not allow researchers to understand the underlying mechanisms by which a specific state control system has emerged, transformed and been sustained.

Before we elaborate on this point, we need to explain what we mean by 'institutions'. Mohr and White (2008) described institutions as fundamental, pervasive, and varied features of social existence. White (2008) alternatively described institutions as control regimes. Sociological institutionalists perceive institutions as static entities and taken-for-granted behavioural routines located in decision-making, social interactions and cognitive scripts. The concept of institutions is used in this context by people to reduce uncertainty in a complex world (North, 1990; Modigliani and Jones, 2014). For example, sociological institutionalism explains how conformity occurs, which could be ascribed to the actors following rules, either consciously by imitation and/or coercion or unconsciously by tacit agreement (Fligstein and McAdam, 2012). A limitation of sociological institutionalism is that it treats any empirical evidence as the result of influence by higher order institutions such as state and culture. By doing so it becomes quite prescriptive thus not allowing for the possibility of other mechanisms through which institutions can affect the world around them (Farrell, 2018). These consequences if not defined and managed, they can become difficult to reverse. Thus, sociological institutionalism is not useful when answering our research aim, i.e. how state controls emerge, are transformed and can persist at first place.

Historical institutionalism, on the other hand, emphasises the lengthy, large-scale but often very slow-moving process of change (rather than coping with change), thereby seeking to unfold both the causal processes and important political outcomes of the observed change over an extended period of time (Pierson and Skocpol, 2002). To be precise, social processes are very incremental, based on existing knowledge and experience. Thus, the cost of reversing such processes increases once a country or a region has chosen a particular path of development, as the historical path chosen would cause an entrenchment of certain institutional arrangements that would obstruct any reversal. Martin and Sunley (2006) clarify that the economy could be seen of as such an irreversible historical process in which future outcomes are contingent upon past events and outcomes. Hence, historical institutionalism is different from sociological institutionalism, as it perceives the institutional organisation of the economy as the principal factor structuring collective behaviour and generating distinctive outcomes. Historical institutionalism emphasises the asymmetries of power associated with the operation and development of institutions (Hall and Taylor, 1996), and assumes that institutions give some interest groups disproportionate access to the decision-making process.

Historical institutionalism rejects the assertion that the same results can be achieved everywhere when following the same process because the outcomes of any political and economic transition will be mediated by the contextual features of a given situation and its historical evolution (Farrell, 2018). Historical institutionalism is concerned with tracing the long-term emergence of different kinds of institutional arrangements that may promote or distort the developments in a region (Thelen, 1999; Rueschemeyer and Stephens, 1997). Previously, the historical institutionalist approach has been applied in political science (Thelen, 1999; Capoccia, 2016). However, it has not been applied extensively in the accounting disciplines and in particular onto the privatisation and market reforms literature. The historical institutionalist perspective would suggest that during the transition process, the transition economies experience different forms of state capitalism. This is because the levels of state control change slowly. Different transition economies may experience different forms of state control due to the pre-existing institutional arrangements, pre-existing knowledge and experience. In some cases, they

become entrenched by limiting institutional reforms advocated by policy or regulatory actions (Carney and Gedajlovic, 2003), effectively creating barriers for the success of privatisation in transition economies (Uddin and Tsamenyi, 2005; Alam et al., 2004).

As a result, not all countries experience the same economic, social and political outcomes nor do they follow the same path towards democracy. Many of the transition economies, for example, China and Russia, retain high levels of state control. Within the countries which have been widely studied, the state controls might not be as evident as they were in the past. The need for incorporating historical and cultural approaches to identify how local attributes develop into distinctive forms of accounting and accountability in public sector management accounting has been underscored over the years (Hopper et al., 2009; van Helden and Uddin, 2016). This is because the governments have adopted a more sophisticated approach towards controlling the economy. The situation is even more ambiguous in transition economies such as Myanmar, which has not received much attention from academic research communities before its political transition in 2010. In this paper, we would like to emphasise that each transition economy has its own set of unique pre-existing conditions, impacting on the process of transition from a socialist planned economy to a market-oriented capitalist economy. Thus, to understand why transition economies experience different economic outcomes and the extent to which the state controls imposed by the past regime still persist, the historical institutionalist perspective will be applied.

2.2. Co-Evolution of Political Systems and Financial Systems in Transition Economies

In both socialist planned and market-oriented capitalist economies, banks are financial intermediaries which play a dominant role in controlling financial resources (King and Levine, 1993; Arun and Turner, 2004). Under the market-oriented capitalist economy, banks are like other firms, relying on market demand and the supply of financial resources. Banks lend to businesses and individuals at a cost which is known as the interest rate. The credit provided to businesses may create new businesses with a higher level of productivity and profitability which can enable these companies to pay back the interest to the bank. Through this process, banks make a profit and economic growth is promoted in a country. In socialist economies, the banks are fully owned SOEs, acting as bookkeepers for the state's planned allocation of resources and providing monetary accounts for resource flows. Their activities are not much different from those of the central bank: channelling the financial resources to priority areas as identified by the government and lending as instructed by the central bank through interest-rate caps, collateral requirements and capital controls. McKinnon (1973) attributed these regulatory controls as a regime of financial repression (see **Figure 1**) in which there is no role for credit evaluation and risk management in lending decisions (Bonin et al., 2015). Banks also create SOEs through state equity ownership in different industries by providing financial assistance. Hence, unlike those in the capitalist economies, banks are seen in the socialist planned economy as a fully integrated state-level institution.

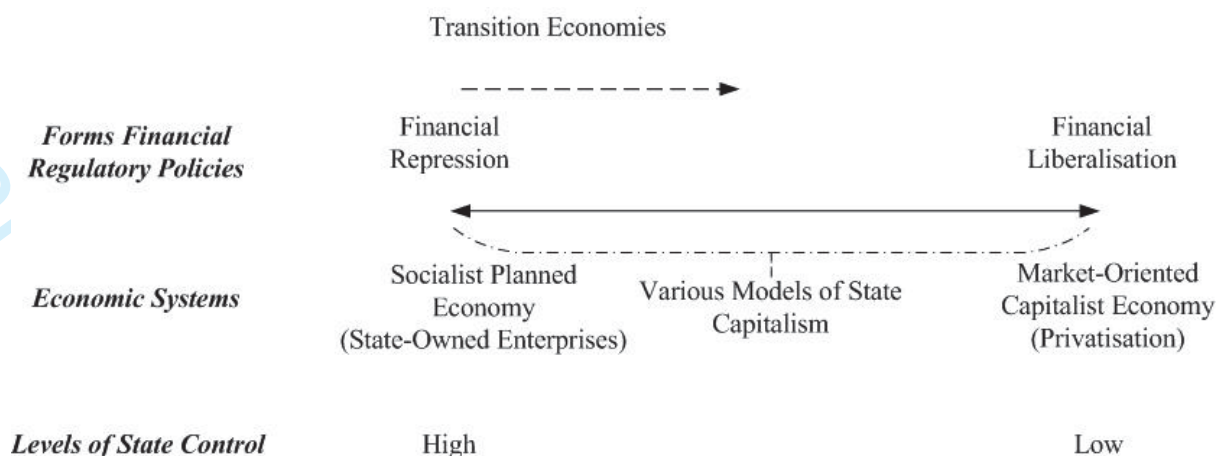


Figure 1: Roles of the State and Financial Regulations in Economic Systems

As socialist planned economies commence their transitions into capitalist market economies, the state would liberalise its national financial markets and create market institutions such as banks (Schiffman, 1993; Lane, 2008). The process is associated with the Washington Consensus on banking transitions (Bakir and Öniş, 2010). This includes separating the commercial banks from the central bank, removing restrictions on the internal convertibility of money, liberalising interest rates, restructuring and privatising state banks and their enterprise borrowers, and granting licenses for new private banks. This process is also identified as financial liberalisation (see **Figure 1**). Once these countries embark on the neoliberal restructuring process, they follow the same broad paradigm for banking sector transformation (Fries and Taci, 2002; Hermes and Lensink, 2000). Unlike the pre-transition period, the state now takes on the role of providing effective prudential regulations and the supervision of banks in order to achieve successful market-oriented reforms. Most countries have followed the Washington consensus broadly, but the pace and sequencing of the reforms have differed substantially, especially after the 1997 Asian Financial Crisis (Fries and Taci, 2005; Schiffman, 1993; Bakir and Öniş, 2010). Hence, financial liberalisation has always been accompanied by political reforms to provide legitimacy for the governments in their transition toward democracy.

One of the conditions of financial liberalisation is that the state banks are privatised and that the central bank becomes independent. In this paper, we apply historical institutionalist theory to explore how state control on banks evolved on a path-dependent manner. These state control mechanisms may be observable or unobservable, intentional or unintentional. Thus, by exploring the evolution of the banks' role during a country's transition to a capitalist market-oriented economy, we can appreciate the extent to which the socialist values and different forms of state control persist. In the next section, we will present the methodology that we applied in order to investigate how state control emerged and evolved, as well as assessing its impact on the economy using Myanmar as an example.

3. Experiencing the Unobservable State Control in the Banking Industry through Reflecting on the Research Experience

Prior studies often assume that state control can be measured through the state's equity ownership (Pargendler et al., 2013; Musacchio, 2014) and corporate board composition, i.e. the number of shareholders, managers and directors that originated from the governing political party or other government affiliations to understand the control of the state on firms (Amsden, 1992; Pack, 2006). However, transition economies are characterised as having a lower level of institutional transparency, ineffective regulations for protecting minority shareholders and a poor competitive environment

(Johnson et al., 2000; Laffont, 1998; Singh, 2003). They often do not impose disclosure requirements for private firms, even publicly listed firms; corporate data can easily be manipulated to demonstrate compliance with the regulations in their annual reports rather than reporting on their actual figures and information (Lin, 2017; Chew, 2015). Thus, ownership information and the publicly available data do not always provide a complete picture on the degree of autonomy or the level of state control that a firm experiences (Milhaupt and Zheng, 2015). Consequently, studies on state controls are often biased and may omit private enterprises whose ownership structure and levels of state control may not be easily determined by scholars.

As we applied historical institutionalism to theorise our findings, we tried to understand the historical context of Myanmar's political and economic system before we collect our data to ensure that we operationalise the theory appropriately. During our data analyses, we constantly referred back to the relevant historical and contextual events to understand their influences on the country's financial sector reforms. Furthermore, through reflection and an account of our data collection process (Tipton, 2009), the reader could understand both the observable and unobservable forms of state control on banks and gain an insight of the reliability and credibility of our qualitative research.

3.1. Data Collection Process

We adopted a longitudinal qualitative research design because it can reveal the very processes and mechanisms through which banks evolve and persist (Van de Ven and Huber, 1990) and it is a design that aligns well with the historical institutionalist perspective that we applied as the theoretical underpinning of this research. Academic research on Myanmar's economic and financial sector has mainly been confined to dissertations and seminar papers that have rarely been published (Than, 2014). From our experience, this could be attributed to two reasons; 1) a lack of reliable data, and 2) the centralisation of authority in organisations. Other scholars have also highlighted these issues (Than, 2014; Pick and Thein, 2010; Wu et al., 2016; Win, 2018) and we encountered these challenges when we collected our data from 2010 to 2016.

The descriptive data on the changes in Myanmar's banking industry, along with changes in its political system since the independence from the British government in 1948, were based on secondary data collected from a variety of sources. Due to Myanmar's lack of transparency, we could not collect much descriptive data from the World Bank and International Monetary Fund (IMF) databases before 2016. Similarly, we were not able to collect relevant data from Myanmar's Central Bank or other banks, especially with regards to loan allocation to different industries, board compositions and the equity ownership, because this information is considered to be confidential especially by non-publicly traded banks. In 2015, the Myanmar government launched a website named the Myanmar Information System to provide statistical data and metadata to the public. Yet, the information provided is not comprehensive enough to analyse the economic conditions and financial sector developments within the country. Previously, Turnell (2009) confirmed that system-wide data was most problematic, especially with regard to Myanmar's financial system.

Due to the limited data availability and the high political sensitivity of the institutional context, we used multiple sources of data. To ensure that the data we gathered from secondary sources was trustworthy and reliable, we carefully analysed the sources of evidence using the criteria developed by Gottschalk (1950), such as a time-lapse between events and reporting, openness to corrections, the range of knowledge and the expertise of the person reporting the events, and corroborations from multiple sources. Although we faced challenges gathering the information, we were fortunate enough to gain access to documentary and archival evidence which were not available in the public domain and we gained interview access to a range of experts. However, one of the limitations of this study is that

considering the constraints detailed above we were not able to gather the same, consistent set of data over the years. However, the archival data has included official documentation from the Central Bank, which even though incomplete, has become a most valuable point of reference. We also attended the annual general meetings organised by some of the publicly traded banks over the period of 2010 and 2016. This allowed us to understand the industry-wide challenges faced by the banks.

3.2. Interviewees' Profiles

In 2010, we first contacted the loan officers of both state-owned and private banks in Myanmar to understand their credit allocation process and the impact the government's financial regulations had on their lending. We were not able to receive any answers because the loan officers informed us that lending decisions were made by their board of directors or by senior management. We found that even though private banks had been established since Myanmar's first financial liberalisation in 1990, there were many similarities in terms of loan decision-making in both state-owned and private banks. Their decision-making power and hierarchy were highly centralised, similar to the banks during the socialist era, when banks did not have any role in credit evaluation and risk management in the context of lending decisions (Bonin et al., 2015). Instead, we ended up conducting interviews with the senior management of various banks over the period of 2010 to 2016.

A summary of the respondents is detailed in **Table 1**. Each interview lasted from 60 to 90 minutes. All of our interviews took place at the banks' main offices in Yangon, which is Myanmar's commercial centre. Loan assessment and risk management occurs only in these offices as loan officers from different branches across the country present their assessment of loan applications to the credit committees at the main office for approval. This again reinforced our understanding that authority is highly centralised in Myanmar's banks. To ensure that the interviewees were comfortable with sharing the sensitive information, we promised anonymity to the interviewees. Thus, in Table 2, we cannot provide the interviewees' affiliated banks but only information on the job levels and roles. Nevertheless, it is important to highlight that all of the respondents have previously worked for the Central Bank of Myanmar (CBM) and state-owned banks for a minimum of 20 years. In Myanmar, most of the employees from state-owned banks and the central bank, especially senior officers, go on to work for non-state banks upon retirement. They were therefore accustomed to the banking industry. Some of the interviewees were involved in developing the banking regulations while working with state banks under the socialist government. In their new roles, they now take on the role of providing strategic leadership in the newly established non-state-owned banks and assist with managing the regulatory frameworks imposed by the government.

Table 1: Interview Participants from 2010 to 2016 in the Study

Number of Banks	13 (10 private banks and 3 government banks over the course of eight years from 2008 to 2016)
Number of Interviews	25
Interviewees' Job Levels	3 Loan Officers 1 Manager 7 General Manager 1 Senior General Manager 2 Directors 2 Managing Directors 2 Deputy Chairmen
Job Roles	9 Strategy/Directing lending policies and activities 8 Management of lending activities 1 Assist lending activities
Years of Experience	+20 years (only one person was working in the banking industry for eight years)

One of the challenges in conducting longitudinal research was ensuring that the same individual was interviewed across time. For example, one of the interviewees that we first contacted in 2010 was unable to comment on the implementations of the regulatory guidelines at the bank level in 2014, as he had already retired from the bank. In this case, we had to contact another person from the same bank who was able to comment on their lending policies and guidelines. The other challenge, but also an opportunity was the mobility of the interviewees. An interviewee that we met in 2010, was promoted to a senior level position at another local bank in 2016. This allowed us to ask more reflective questions in which the interviewee was able to compare his experiences at different banks.

3.3. Qualitative Data Analyses

We used both manual coding and computer-assisted qualitative data analysis software such as NVIVO. This allowed us to become more familiar with the data as we read the transcripts multiple times, systematically analysing the data and storing the data for a long period of time. First, we identified themes, creating a large set of codes. They are mostly based on the regulatory guidelines, e.g. 'collateral requirements' and 'interest rate margins' (see **Table 2**). Under each of these codes, sub-themes were developed based on the interviewees' perceptions of the regulatory guidelines and how they were implemented in their lending policies. We were open and sensitive to the data without rejecting pre-existing theoretical concepts and constructions. We considered the theories as an important component of abductive reasoning (Dey, 2004; Kelle, 1997; Locke, 2007) but we held firmly that theories are not to be used mechanically to derive a hypothesis for testing (as in deduction), but as a source of inspiration, a means of seeing, and interpreting detected patterns. Hence, we were open to emerging concepts in addition to the original coding paradigm. The interviews that we conducted provided us with rich data on how the selected banks interpreted and implemented the CBM's regulations. However, it was challenging for us to understand the rationale of all the actions that they have undertaken because regulatory encounters between the regulated and the regulators can be ambiguous for both the observers and the participants of those encounters (Hawkins, 1990). Thus, we used interview data as a pointer, which allowed us to trace the origins of the state control type that was responsible for banks' choices of action and the challenges they faced.

To achieve qualitative rigour, we conducted constant comparative analysis, theoretical sampling and theoretical saturation (Corbin and Strauss, 1990). In constant comparative analysis, we compared the data from different sources. Through theoretical sampling, we were constantly confirming the key responses from the participants with responses from other participants. We translated all of the interview questions from English to Burmese; once the data was collected, the verbatim transcripts were translated back to English (Win and Kofinas, 2019). We used two competent researchers to do backward and forward translations for the selected samples to ensure that all of the data was coded properly. This was conducted to achieve consistency (Regmi et al., 2010; Behr, 2017). From 2010 to 2016, we explored the themes again with the same interviewees in order to understand whether their perceptions changed when the regulatory guidelines evolved.

4. Discussion

4.1. Historical Overview of State-led to Market-led Development in Myanmar

In order to realise the full potential of theorisation of historical institutionalism in our study, i.e. how gradual endogenous institutional change took place through institutions' political and social interactions, and the impact this process has had in the evolution of micro-processes of control reinforcing the stability of pre-existing institutions, it is important that we discuss the context of market reforms in Myanmar (Pierson and Skocpol, 2002; Capoccia, 2016). We can divide Myanmar's economy and political system into four phases based on its political evolution. Myanmar declared its independence from the British Government in 1948. From 1948 to 1962, Myanmar was a parliamentary democracy, mixing nationalism, socialism and a capitalist market system. However, the parliament met for only two months a year, leaving the Prime Minister with the responsibility of exercising his authority most of the time. Myanmar also had a military caretaker government during this period for two years (1958-1960). In 1962, due to political instability in the country, the government installed a military-backed caretaker government as they did in 1958. However, this time, the military refused to hand over authority and ruled the country as a one-party state. From 1962 until 1988, a socialist government led by the military was formed. An economic treatise, 'the Myanmar Way to Socialism', was written as the blueprint for economic development, reducing foreign influence in Myanmar and expanding the role of the military (Holmes, 1967).

Given that the country was under a military regime from 1962, Myanmar's political and economic conditions received little interest from the international community. In 1990 and after a series of pro-democracy protests in 1988, the government organised an election where the National League for Democracy (NLD) won 81% of the seats in parliament. The military nullified the election and refused to hand over power, resulting in the arrest of many political activists. The government introduced a market-oriented economic system in the first half of the 1990s. Myanmar's financial market liberalisation in during this period can be considered significant (Bissinger, 2014) because it led to the establishment of new financial regulations and the emergence of private banks (see *Figure 2*). Under the Central Bank of Myanmar Law 1990, the central bank's aim was to assist the government in raising the efficiency of the state-owned enterprises, to develop and expand the private sector and to promote exports by increasing production, while creating more employment opportunities and enhancing regional development within the state. According to this law, banks and other financial institutions were administered directly by the CBM, which belongs to the Ministry of Finance and Revenue (previously known as Ministry of Planning and Finance). In other words, the CBM was controlled by the government and its aim was to control and channel the state's monetary policies.

Some minor revisions to these laws were made in 1991, 1994, 1995 and 1997. These reforms led to the establishment and licensing of a series of private banks in Myanmar (see Appendix 1). In total, 18 new

private banks emerged between 1992 and 1997. Despite Myanmar's limited economic and political openness, its financial system had its share of bank runs and crises in 2003. In 2010, Myanmar's financial system experienced another reform along with the first democratic election in 22 years. The military-backed Union Solidarity and Development Party declared victory. It was considered to be a historic reform, both politically and economically. Between 2010 and 2015, eight new private banks were given license to operate (see Appendix 1). Existing laws were revised and new laws were enacted. For example, new versions of the CBM Law and FIML were enacted in 2013 and 2016 respectively. Similarly, the new Microfinance Business Law was introduced in 2011. The Central Bank of Myanmar Law 2010 was revised to give CBM more independence in monetary policy making. By being independent, the CBM was separated from the government and its monetary policies should not be influenced by the government's political agenda.

In 2015, the Yangon Stock Exchange was established. The plan for developing a stock exchange in Myanmar started in 1996 with a cooperation between the Myanmar Economic Bank and Japan's Daiwa Research Institute. Nevertheless, there were only five companies listed in the exchange. Two of them were Myanmar Citizen's Bank and the First Private Bank, which joined in 2016 and 2017 respectively. By 2015, Myanmar had another general election; NLD, the opposition party, won the general election. From 2015 until 2018, four new banking licenses were waiting for approval from the CBM while one had been issued with a licence to operate. In May 2018, the country's first credit bureau was established. Thus, Myanmar's banking sector has evolved alongside political reforms. By analysing the macro-level institutional changes, one can see that the necessary elements for market reform have taken place, for example, granting licenses for private banks to promote competition in the financial markets, and creating capital markets to mobilise financial resources (Hopper et al., 2009). In an ideal form of market-led economy, these policies should enable market-based pricing and efficient allocation of financial resources. However, the actual implementations of market reforms at organisational level deviates from the ideal, which we will elaborate this further in the following sections.

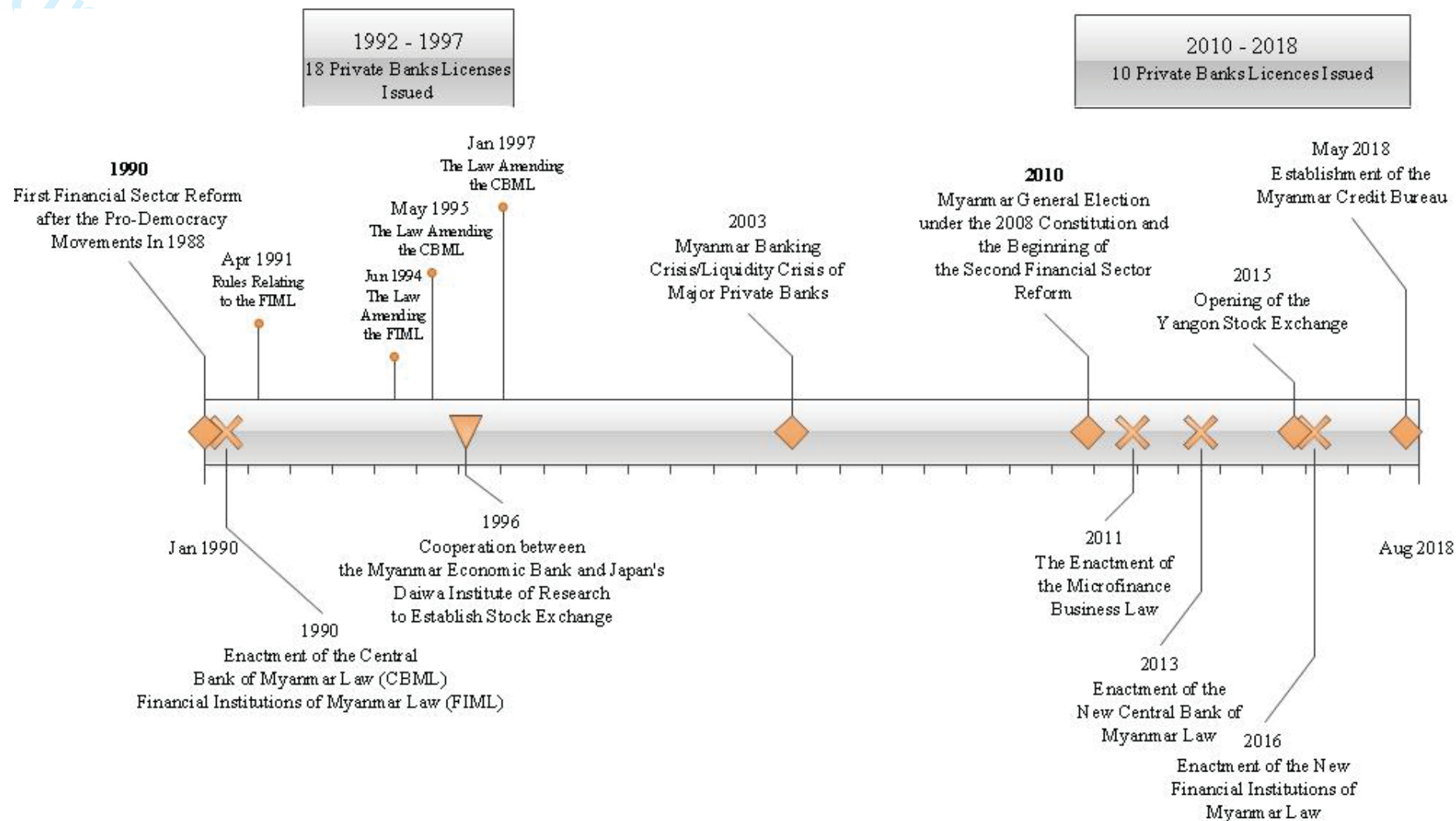


Figure 2: Major Developments in Myanmar's Financial Sector from 1990 to 2018

4.2.State-Owned Banks, Business Group Affiliated Banks, Non-Business Group Banks and Hybrid Banks

Through analysing the financial sector reforms that occurred over the period of 1990 to 2018 (see *Figure 2*), there has been the tendency by successive governments to grant private banking licenses, in accordance with market based capitalism. As of 2018, CBM listed 25 banks on its website as private-owned banks¹. However, their affiliations cannot be clearly identified without knowing the history of the banks in question. Furthermore, due to the opaque nature of banks and the government, the state's equity ownership and the composition of the management of each of the banks has been ambiguous. Based on our interviewees and extensive secondary research, we eventually located the affiliation of these banks. We can informally group the banks in Myanmar into four groups, based on their ownership and management affiliations: state-owned banks, business group affiliated banks, non-business group banks and hybrid banks.

State-owned banks, as the name implies, are fully owned and operated by the government (e.g. Myanmar Economic Bank). Business group affiliated banks, on the other hand, are often formed by a business group belonging to a single family or a small number of families (not a coalition of firms) to fund their own investments in Myanmar. For example, the Asia Green Development Bank and Ayeyarwaddy Bank, which were established in 2010, are affiliated to the Htoo Group of Companies and the Max Myanmar Group of Companies respectively. All of these business groups are engaged in trading, energy and mining, construction, agriculture, hotel, travel and tourism businesses. Though these banks have no state affiliation, the business groups that own them secured these licenses due to their historically close ties with the government (Tipton, 2009). For example, the Asia Green Development Bank had historically close ties with the family members of U Ne Win, the former head of the military government from 1962 to 1981 (Shin and Kyaw, 2014). This is an important and unique characteristic of Myanmar's banking industry.

Non-business group banks, in our paper, are identified as those which are not owned by a single business group. Instead, they are run by a group of small businesses. For example, Myanmar Oriental Bank, established in 1993, is owned and run by and for the Chinese community in Myanmar (Nehru, 2015). However, there were very few non-business group banks. As shown in Appendix 1, state affiliations could also take a different form in Myanmar's banking industry, different from fully state-owned banks. We identify them as hybrid banks. They can be further divided into: state and business group affiliated banks, state-affiliated public banks and state-affiliated banks. An example of a state and business group affiliated bank is Myawaddy Bank, which was established in 1992. It is listed as a private bank by CBM. However, it is owned by the Union of Myanmar Economic Holdings Company (UMEHC), widely known locally as 'U Paing'. The share capital of the bank was jointly owned by the Directory of Procurement of Burma's Ministry of Defence, and various armed forces' cooperatives, regimental associations and veteran's organisations. UMEHC operated diverse businesses including livestock and transportation.

State-affiliated public banks could be distinguished by their names. For example, the Small and Medium Industrial Development Bank (SMIDB) was affiliated to the Ministry of Industry and Finance, and Myanmar Livestock and Fisheries Development Bank (MLFDB) was affiliated to the Ministry of Livestock and Fisheries. They both issued shares to the public and formed during Myanmar's first financial liberalisation. During the second financial liberalisation that took place after the political reform in 2010, new state-affiliated banks emerged. For example, Construction and Housing

¹<https://www.cbm.gov.mm/content/private-banks>

Development Bank Limited was affiliated with the Ministry of Construction. It was established in 2013 with the aim of financing housing projects led by both public and private construction firms. The banks that had state affiliations also carried out specific strategic directions related to their affiliated ministries and the government's economic objectives. For instance, after the Nargis Cyclone destroyed the Ayarwaddy Delta region, the regulators asked Myanmar Livestock and Fisheries Development Bank (MLFDB) to provide loans to salt factories at a lower interest rate with government guarantees in 2008.

In summary, determining levels of state control in Myanmar is complicated as banks had different forms of state affiliations beyond equity control (Grosman et al., 2016). The ownership of some banks is observable through ownership affiliations while for others, it is unobservable because of the informal links with the government and political parties. The banks would already have different targeted customers to allocate credit to, limiting their market functions. Thus, though there were 25 private banks listed on the CBM's official website, majority of these so-called private banks could still be identified as SOEs. However, unlike conventional SOEs that were prevalent under traditional state capitalist models, some of the SOEs have affiliations with business groups. For CBM, this created regulatory challenges for banks, especially in ensuring the banks' accountability to the state.

4.2.1. Gaps in the State Control over Business Group Affiliated Banks and Hybrid Banks

As described in the previous section, the 25 banks that CBM identified as private in 2018 were not entirely private due to their historically close ties with the government and their original purpose of existence. As a result, two key challenges arose from differences in the banks' ownership affiliations: 1) systemic risks arising from business group affiliated banks, and 2) conflicts of interests among hybrid banks.

First of all, by allowing business groups to set up banks, instead of allocating financial resources through state banks' budgets to businesses, CBM gave them direct access to the financial market without state mediation. Due to the underdeveloped capital market, this might be seen of as a positive step. These business group affiliated banks may act as a vehicle for mobilising financial resources beyond a single family or a small group (Keister, 1998). On the other hand, this meant that CBM elevated the statuses of business groups from firms to institutions in an economy. Any actions and activities engaged by their businesses could not be separated from the banks affiliated to these business groups, thereby putting the country's financial stability at risk. For instance, in Myanmar May Flower Bank and Asia Wealth Bank, key personnel were suspected of engaging in money laundering and drug trafficking in 2003 (Parker, 2005). These incidents worsened the 2003 financial crisis that first started due to the collapse of informal finance companies, which had conducted a series of speculative investments in real estate and construction. Consequently, the financial system experienced a liquidity crisis, causing bank runs and panic among the public (Turnell, 2009). As a result, three leading private banks, May Flower Bank, Asia Wealth Bank and Myanmar Universal Bank, were closed down (Turnell, 2009). Though Yoma Bank's license to operate as a financial institution was not revoked, the government limited its rights to provide financial services until 2012.

State control of the hybrid banks was further limited by their competing accountability objectives, i.e. achieving the state's economic policy objectives and profit maximisation for the shareholders. Thus, the state could not always achieve its economic policies through these banks. For example, in 2016, SMIDB received funding from the state and other international developmental organisations to provide financial assistance to small businesses without collateral. A director from the SMIBD board of directors stated during the annual general meeting, that:

[...] We received government funding to lend to small businesses without collaterals and lower interest rates. We cannot lend all of the amount of money that was provided to us. It is too risky. So, we put the money into other banks. We still get paid interest rates on our deposits.

The condition for receiving these funds was for the bank to provide loans at 0.25% above the deposit rates. Deposit interest rates were perceived as a funding cost for the banks. Providing loans at 0.25% above the deposit rates meant that the banks were able to make a profit of 0.25%. Often, they would deposit the funding at other banks, thereby indirectly allocating the lending budgets allocated from the state to the business groups, and/or would buy government's treasury bonds, which involved paying 0.75% above the deposit interest rates. These pre-existing institutional arrangements, banks' ownership structures and institutional limitations indicate that the banks, businesses and the state in Myanmar's economy are closely interlinked and entrenched, making it very challenging for the state to implement economic policies as well as maintaining financial stability. Hence, CBM has placed other forms of accounting control on banks to enhance their accountability to the state and public.

4.2.2. Market-based Performance Measurement and Accountability Controls aiming to address Gaps in State Control

As shown in **Table 2**, CBM had already imposed accounting-based controls on banks prior to the 2003 crisis that occurred in Myanmar. These controls include strict regulatory requirements such as high liquidity, capital adequacy and reserve ratios. However, the financial crisis that occurred in 2003 due to the inter-relationships among the state, businesses and banks which over time allowed business-affiliated banks to operate in a high risk manner since the reform in 1990. From 2003 to 2011, CBM imposed much tighter regulations on the banks' lending from 2011, especially on non-business group banks and business group-affiliated banks. Since 2003, in addition to abiding by the above guidelines, senior bank executives of the Myanmar banks reported their daily activities to CBM: among other information, they would report on liquidity, solvency and capital adequacy positions, which are widely used in market-based economies to monitor banks' risk-taking behaviour (Wu et al., 2016). If they had higher deposits or loans than normal, then they had to provide justification. The practice was termed as 'Night School' by the interviewees. All of the state-owned and some of the hybrid banks were exempt from close monitoring.

In other words, the banking regulations were designed to control the banks' original purpose, i.e. funding the state's preferred businesses, rather than to operate according to their financial intermediation function in the economy as banks in a market economy. This is evident when observing the changes in regulations related to the lending limits of a single borrower. During our interviews with some of the hybrid and business-group affiliated banks in 2014, one of the regulatory challenges mentioned by the banks was the 10% lending limit to an individual borrower. Even though CBM required this type of lending to be approved by the banks' board of directors, this approval was never a hurdle as invariably these borrowers were related to the directors. This limit was increased to 20% under the 2016 Financial Institutions Law. Thus, banks affiliated to the business groups were exposed to the risks associated with the business activities undertaken by the business groups.

Table 2: Evolution of the Selected Financial Regulations on Banks' Credit Allocations from 1990 to 2016

From 1990 to 2003 (Repressive Regulations)	From 2003 to 2011 (Stricter Regulations)	From 2011 to 2016 (Relaxation of the Pre-existing Regulations)
<ul style="list-style-type: none"> • Interest rate ceilings – the CBM controlled minimum and maximum interest rates that it can be lent and paid on deposits. • Banks could provide unsecured lending • The Financial Institutions of Myanmar Law 1990 state that: <ul style="list-style-type: none"> ▪ Reserve Requirements– 10% of demand deposits and 5% of time deposits are to be held as reserve. No more than 25% of these should be kept as cash in hand while the remaining 75% should be with the CBM ▪ Liquidity – 20% of deposits should be kept in cash balances with CBM or other banks ▪ Capital adequacy ratio – total capital must be 10% of the risk weighted assets ▪ Lending Limit to an individual borrower – to limit risk exposure, the CBM limited banks from lending more than 10% of their capital plus reserves to an individual, an enterprise, or an economic group, and none of their 10 largest debtors, including economic groups shall account for more than 30% of the loan portfolio. 	<ul style="list-style-type: none"> • Interest rate ceilings – the CBM controlled minimum and maximum interest rates that it can lend and pay on deposits. • No unsecured lending– banks should not provide loans without collateral • No overdraft and factoring facilities – banks not allowed to provide overdraft without collateral 	<ul style="list-style-type: none"> • Interest rate ceilings – the CBM controlled minimum and maximum interest rates that it can lend and pay on deposits. • Banks could to provide unsecured lending but the CBM has the power to set ceilings on the unsecured, partially secured and secured financings of a bank. • Since 2011, CBM has allowed banks to accept gold and commodities as collateral. There was some relaxation toward providing unsecured loans. • Banks received funding to lend to small businesses from the government and international developmental organisations. • The Myanmar Parliament passed the Financial Institutions Law to replace the Financial Institutions of Myanmar Law in 2016. <ul style="list-style-type: none"> ▪ Lending Limit to an Individual Borrower – must not lend more than 20% of capital (including reserves). This restriction does not apply to state-owned banks ▪ CBM does not set out the capital adequacy, reserve and liquidity requirements in the 2016 Financial Institutions Law as it did in the 1990 Financial Institutions of Myanmar Law. It only mentions that it will be determined by CBM.

To address the accountability challenges arising from the hybrid and business group affiliated banks, CBM adopted pricing controls used by the state during the planned economic system. These include fixing the minimum and maximum interest rates that could be charged on banks' lending and deposits. For example, as of 2010, the CBM set the maximum interest rate on the lending and minimum interest on deposits as 17% and 12% respectively. Since 2011, the CBM dropped the maximum interest rate for lending to 13% with a floor of 10%, and the minimum interest on the deposit was set at 8% per annum. As shown in Table 2, CBM imposed high levels of solvency ratios. Theoretically, in developed countries, the banks would negotiate with the governments to minimise the required levels of capital for lending as high capital requirements mean high funding costs (Lall, 2012; Harnay and Scialom, 2016). At the same time, the Government Treasury Bonds would be paying at 8.75 percent for 2-years, 9.0 percent for 3-years and 9.5 percent for 5-years respectively. As a result, if the banks provided deposit interests of 8%, then they could make a profit of a minimum of 0.75% by investing in the government's treasury bonds. In addition, these treasury bonds were included in the banks' calculations of liquidity, capital adequacy and reserve ratios. Consequently, banks were able to maintain high solvency ratios without making a loss due to CBM fixing the interest rates on deposits and lending while paying higher interest rates on government treasury bonds than on the banks' deposits (see *Table 3*). Thus, by combining accounting controls used in planned and market economic systems, the state was able to use banks as a vehicle to redirect deposits gathered by these private banks to finance the government budget deficits; akin to the role banks play in the socialist planned economy.

Table 3: Selected Banks' Capital Adequacy Ratios, Liquidity Ratios, Loan to Deposit Ratios and Reserve Bank Ratio (Excluding State Banks) Average over 2010

Private Banks	Liquidity Ratio	Reserve Ratio	Capital Adequacy Ratios	Loan to Deposit Ratios
Regulatory Requirements	20%	10%	10%	80%
Kanbawza Bank	42.11%	65.18%	23.00%	75.77%
Livestock and Fisheries Bank	38.39%	50.99%	30.36%	74.15%
Myanmar Industrial Development Bank	43.94%	60.86%	57.13%	71.94%
Myanmar Citizen Bank	52.41%	61.97%	79.81%	71.25%
First Private Bank	54.05%	73.54%	76.30%	70.63%
Tun Foundation Bank	31.46%	31.54%	33.94%	64.55%
Myawaddy Bank	43.31%	49.57%	47.12%	63.94%
Co-operative Bank	62.16%	59.78%	22.63%	63.64%
Innwa Bank	67.00%	75.73%	42.71%	42.94%
Yadanarbon Bank	66.47%	57.96%	116.54%	59.93%
Asian Yangon Bank	84.72%	22.72%	40.21%	79.21%

In summary, the state's controls over the banks had two main objectives. First, they were designed to control the banks' funding to the appropriate businesses, which was the original purpose of the banks' formation. Hence, CBM was not about controlling the banks to maintain financial stability and to improve competition in the banking industry as a central bank would do in a market economy. Second, under the façade of establishing private banks as part of their financial sector reforms from 1990 to 2016, the Myanmar government was indirectly using the 'private banks' to provide funding to its

uncontrolled growth expenditure. As a result, the government itself crowded out private investment by using its own debt as an instrument, similar to how the state controlled the state-owned banks during the socialist era. In other words, the state took on a more sophisticated approach to emulate socialist-style banking functions to control the financial resources in the economy while ensuring that they appeared to follow the structure and regulations of a market economy.

4.3. Industrial Associations and Professionalization as Means of Reinforcing State Control at Individual Level

One of the norms, prevalent and widely practiced in the banking industry in Myanmar, has been that the central bankers, as well as employees from government banks, continue working in the private banks upon retirement. This was confirmed during our interviews at the private banks; all interviewees have worked for the government during the socialist era and have provided strategic direction to the banks. The appointment of former government officials is common in transition economies like Russia and China (Frye and Iwasaki, 2011; Walder, 1995). However, in Myanmar, in addition to the centralisation of decision making at the organisational level, the professionalisation and accounting education provided to the bank officers was further controlled by the Myanmar Bankers' Association (MBA) which was under the government's control. One of the directors from a state-owned bank in 2013 mentioned that:

We have internal trainings. For different levels of staffs, trainings are provided by Ministry of Tax and Revenue. For external trainings, they are sent to India. Some of the staffs are given on duty leave for a year to study the courses provided by the Myanmar Bankers' Associations.

The accounting curriculum design was centralised and widely criticised by some of the bankers themselves as not being revised according to the most recent international financial regulatory frameworks. For example, up until 2016 there were very few experts who were familiar with the Basel Capital Adequacy Framework guidelines 1, 2 and 3. One of the executive directors that we interviewed attributed this limited capacity of their staff to the successive governments' need to control the banks and an inability to cope with change:

We have no transparency, therefore, there is no accountability. There is no one who is willing to take responsibilities. This is our culture. The culture that has been imposed on us since 1962. Now, we have language gap, many people cannot speak good English. This created challenges for younger generations to learn in today's environment.

We were made aware that prominent banks send their staff to neighbouring and regional countries such as Thailand, the Philippines, Vietnam, Japan and Singapore for training and development. These countries have close historical proximities to Myanmar's political and economic systems. Yet again, these regional financial systems are well-known for operating under a paradoxically authoritative democracy with a high interdependence between economic institutions and political actors. For example, Japan deployed a developmental state strategy that was a combination of a semi-bureaucratic democracy with planned capitalism in the early stages of economic reform. Similarly, Thailand and Singapore were known for their modern, authoritarian democratic governance systems. In principle, banking professionals are closely attuned with the ideals, culture and norms within the national banking system or at least within the inter-regional economies' banking systems (Liden, 2012; Charumilind et al., 2006; Shatkin, 2014).

5. Lessons Learned from 30 years of Myanmar's Financial Sector Reforms

Market capitalism has been promoted by the World Bank and IMF as an idealised normative model for economic growth in transition economies (Hopper et al., 2017; Hopper et al., 2009). Hence, many

countries embarked on market reforms, yet, not all these countries experienced high levels of economic growth. This has led accounting scholars to explore the effectiveness of privatisation and market reforms in transition economies by comparing the performance of SOEs before and after their privatisations (Uddin and Hopper, 2001; Xu and Uddin, 2008). However, research on accounting practice and state control systems on private companies established after privatisation or market reforms has remained scarce (Hopper et al., 2009). Thus, our research contributes to the extant literature by applying historical institutionalist theory which has allowed us to track how state control originated, transformed and persisted. By doing so, we unravelled some of the contextual complexities that emerged as barriers for privatisation's success in Myanmar.

Moreover, we applied historical institutionalism to understand where state preferences for approaches to financial sector reforms came from. Unlike the classic generalisation of identifying Myanmar with crony capitalism, we did not insulate state preferences from social interests nor reduce them to certain societal groups (e.g. crony capitalism). Instead, we focused on one classic mechanism of feedback, i.e. the propensity of state institutional reforms to create client groups. Consequently, these interest groups were embedded in the decision-making processes of the state (Farrell and Newman, 2010). Thus, historical institutionalism allowed us to understand the causes for failures in Myanmar's financial sector reforms implemented from 1990 to 2016. These were 1) the strong socialist values embedded in the state by the past political regime; 2) the conceptualisation of successful state policies in other transition economies without consideration for the country-specific institutional limitations/conditions and 3) the historically close ties between the business groups and the state.

The first financial sector liberalisation that took place in 1990 was underpinned by the socialist values of state control. These values have been embedded in the political and economic systems implemented by the socialist government since 1962 through an economic roadmap of 'Myanmar's Way to Socialism'. Thus, the state itself experienced a conflict of interest when it performed financial sector reforms to signal change in the political regime in 1990, i.e. promoting economic growth while funding the government's growing expenditures. This was reflected in CBM's financial regulations such as limiting maximum lending and minimum deposit interest rates, and high reserve, liquidity and capital adequacy requirements. At the same time, by setting the treasury bonds' interest rates higher than the deposit rates, the state encouraged newly-established private banks to fund the government through buying their treasury bonds. By doing so, these banks were able to meet the state's restrictive regulatory requirements while being able to make a profit (see *Figure 3*). Through this process, the state emulated socialist style state-owned banks by combining market-led and state-led accounting controls on private banks. Up until 2018, foreign banks were not allowed to provide loans to local businesses (Aung, 2018).

During the early stages of Myanmar's transition to market oriented economic reform, it adopted a similar approach to the Chinese government in the late 1980s (Keister, 1998). The approach included establishing development banks with state affiliations to carry out the state's economic policy objectives and allowing business groups to establish financial companies to address funding constraints in the absence of efficient financial markets for capital mobilisation. Nevertheless, in Myanmar, by allowing business groups to set up banks, CBM increased the financial sector's systemic risks. The banks were formed by a single family or a small number of families. Some of these business groups originated from their engagements in drug trafficking and had close ties with ex-insurgent groups (Parker, 2005). By allowing these types of business groups to set up banks, the state gave them direct, autonomous access to the financial markets with limited state mediation. As a result, these business groups have been elevated to extensions of existing institutions within the country and thus have become integral to the country's economy. Consequently, any favourable and unfavourable actions or business activities undertaken by any of the business groups could create direct, systemic risks in the financial system;

hence CBM had another role, which was to monitor the banks' affiliated business groups to maintain financial stability.

Furthermore, unlike the state-owned banks, the state had relatively limited control on business-group-affiliated and hybrid banks causing gaps in the state control (see **Figure 3**). To address these gaps, CBM imposed much stricter regulations and monitoring procedures adopted from private-sector-style performance measurements, auditing and accountability controls compared to the hybrid and state-owned banks alongside the pricing controls widely used under the state-led development models (Jaysasinghe and Uddin, 2010; van Helden and Uddin, 2016), when seeking to maintain financial stability. In a sense, the regulations imposed on business group-affiliated banks were there to control their funding activity rather than facilitate their financial intermediation in the economy. All of these developments during the early stages of financial sector reform created an entrenched relationship between the state, businesses and banks, creating a 'lock-in' of the current model of state control in Myanmar's banking sector. This entrenchment was exacerbated when the state followed the same process in the second wave of reform that took place along with the political reforms in 2010.

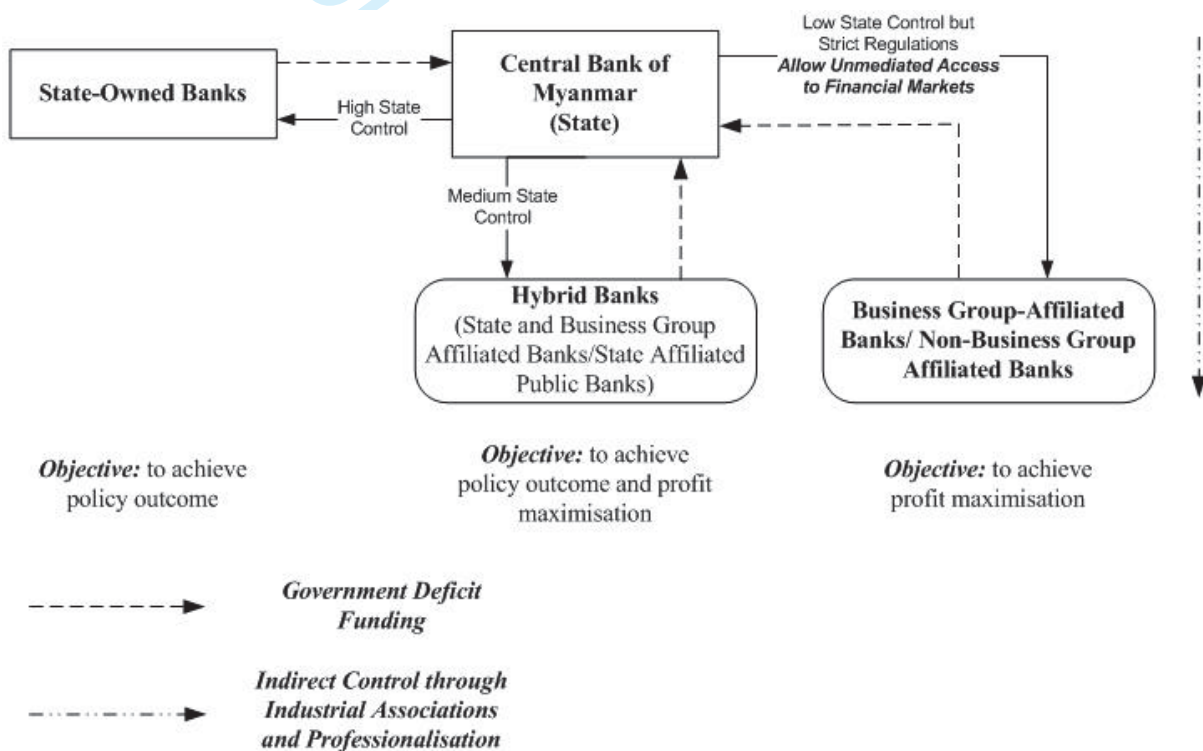


Figure 3: Mechanisms of State Control through the Banking System

Furthermore, we should not underestimate the indirect state control on the banks. By providing a detailed account of our interview process, we demonstrated that the decision-making authorities in loan allocations were highly centralised in all of the banks, irrespective of the ownership affiliations, similar to the state-owned banks under the socialist government. Likewise, most of the members of the banks' management groups, who provided strategic directions in the banks, were predominantly made up of ex-central bankers and retired government officers from the state-owned banks. As noted by Arun and Turner (2004), bureaucrats tend to be risk-averse, hence, they undertake less risky projects than is optimal. Through their appointment in banks and by providing training to the members of the banks through industrial associations, these ex-bureaucrats establish an industry norm of a conservative approach to liquidity and a risk-averse lending approach. As a result, the structure of the state control mechanisms in Myanmar can be sustained for a long period of time without disruption, creating

difficulties for institutional reform through the policies or regulatory actions (Carney and Gedajlovic, 2003).

6. Conclusions

State capitalism and state controls in an economy have been associated with planned economic systems implemented by the socialist and communist governments and many transition economies have embarked on market reforms and privatisation of their SOEs to signal their transitions from socialism towards democracy. During these transitions, some countries have experienced phenomenal and sustained economic growth such as China and Russia (Musacchio et al., 2015; Lin, 2011; Grosman et al., 2016). However, not all transition economies have experienced such high levels of growth despite implementing market reforms and privatisations, as suggested by the World Bank and IMF (Tsamenyi et al., 2010; Uddin and Tsamenyi, 2005). As a result, accounting scholars have examined the effectiveness of privatisation drives and the impact of changes in public sector management accounting practice after the implementation of market reforms (Alam et al., 2004; Uddin and Hopper, 2003; Uddin and Hopper, 2001; Hopper et al., 2017). They have made a significant contribution on our understanding of market reforms in transition economies, but this body of research has limitations. The literature often assumes that successes and failures of privatisations can be understood by examining the private companies that were privatised SOEs.

In other words, they make an implicit assumption that privatisations mean changing the ownership from public to private sector, and that private companies are exempted from state controls. They often focus on the explicit forms of state controls such as regulatory accounting standards and policies. This approach eventually limits our understanding of the management accounting practices implemented by private firms (Hopper et al., 2009) and more importantly, the pervasive and persistent influence of the state despite the market reforms. As such, scholars and policy makers may unintentionally overplay or underplay the role of state in economic reforms. To bridge these gaps in the literature, we applied historical institutionalist perspective to investigate how state controls originated from the socialist economic systems and subsequently were adapted and persist longitudinally, eventually obstructing (intentionally and unintentionally) economic development in Myanmar. Therefore, in our study, we did not only focus on SOEs but also on the so-called private banks that emerged after every market reform between 1990 and 2016. This allowed us to demonstrate that although transition economies might have embarked on the privatisation of their SOEs and allowed the emergence of new entrants to the financial sector to signal regime change (Newberry, 2015; Uddin and Tsamenyi, 2005), the governments in these countries may have used state-led and market-led accounting controls to emulate the socialist controls that previously existed in the financial sector.

Thus, our understanding of the impact of privatisation and market reform in transition economies is incomplete if we merely attributed their impact to cultural and contextual complexities. These complexities seem to have been intentionally created by the state as means of controlling the economy. Subsequently, these state controls implemented by the state to address short-term interests can and does create long-term consequences. For example, by allowing business groups to set up banks to fund their own businesses in Myanmar, CBM elevated the status of business groups from firms to institutions in an economy, thereby putting the country's financial stability at risk. Subsequently, CBM perceived that it had to implement state-led accounting controls on these same banks to prevent systemic risks. Thus, even if the state's preferences later change, these decisions cannot be easily reversed; path-dependent state controls become pervasive and affect any further institutional and policy developments.

These state controls are then sustained and persist by a plethora of professional bodies and ministries whose training is provided by ex-bureaucrats who previously worked for the socialist government thus

perpetuating the pre-existing system of controls. In other words, political and financial institutions are not independent. Instead, they function through aligning themselves with other pre-existing mechanisms (Farrell and Newman, 2010). Since 2016, the local and government banks, including the CBM has received assistance from repatriates, expatriates and international development organisations for capacity building of their respective staff. However, the progress has been relatively slow due to the previously mentioned pervasive forms of state controls that have been persisted in the sector for many years.

In summary, we argued that institutional change can be an irreversible historical process because pre-existing institutions are sticky even when political actors seek major reforms. Therefore, is hard to pre-determine the likelihood of major institutional convergence or divergence (Farrell and Newman, 2010). The governments in both transition and developed economies should take a cautious approach toward enacting and implementing state controls as they may have serious unintended consequences. We would like to encourage future research to focus on the processes by which path-dependent institutional arrangements arising from state control can be resisted and new paths can be created.

7. References

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8. Appendix

Appendix 1 Ownership Affiliations of Myanmar Banks from 1990 to 2018

Sr. No	Banks	Ownership Affiliation (e.g. State Affiliated, Business Groups, and Non-Business Group)	Year of Establishment
State-Owned Banks			
A.	Myanma Agricultural Development Bank	State-Owned	1953
B.	Myanma Economic Bank	State-Owned	1976
C.	Myanma Foreign Trade Bank	State-Owned	1990
D.	Myanma Investment and Commercial Bank	State-Owned	1990
After the Political Reform in 1990			

1.	Myanmar Citizens Bank Ltd.	State Affiliated Public Bank	1992
2.	First Private Bank Ltd.	Non-Business Group	1992
3.	Co-operative Bank Ltd.	State Affiliated (Ministry of Cooperatives)	1992
4.	Yadanabon Bank Ltd.	State Affiliated	1992
5.	Myawaddy Bank Ltd.	State Affiliated and Business Group (the Union of Myanmar Economic Holdings Company)	1992
6.	Yangon City Bank Ltd.	State Affiliated	1992
7.	Yoma Bank Ltd.	Business Group (The First Myanmar Investment Company)	1993
8.	Myanmar Oriental Bank Ltd.	Non-Business Group	1993
9.	Asia Yangon Bank Ltd.	Non-Business Group	1994
10.	Tun Foundation Bank Ltd.	Business Group (Myanmar Golden Stars Group of Companies)	1994
11.	Kanbawza Bank Ltd.	Business Group (The Kanbawza Group of Companies)	1994
12.	Small and Medium Industrial Development Bank Ltd.	State Affiliated (Ministry of Industry and Finance)	1996
13.	Global Treasure Bank Ltd. (previously known as Myanma Livestocks and Fisheries Development Bank)	State Affiliated Public Bank	1996
14.	Rural Development Bank Ltd.	State Affiliated	1996
15.	Innwa Bank Ltd.	State Affiliated	1997
16.	Myanmar Universal Bank	Business Group	1994 to 2005
17.	Asia Wealth Bank	Business Group (Shwe Taung Group)	1994 to 2005
18.	Myanmar May Flower Bank	Business Group	1994 to 2005
After the Political Reform in 2010			
19.	Asia Green Development Bank Ltd.	Business Group (Htoo Group of Companies)	2010
20.	Ayeyarwaddy Bank Ltd.	Business Group (Max Myanmar Group of Companies)	2010
21.	United Amara Bank Ltd.	Business Group (International Group of Entrepreneurs)	2010
22.	Myanma Apex Bank Ltd.	Business Group (Eden Group of Companies)	2010
23.	Naypyitaw Sibin Bank Ltd.	State Affiliated	2013
24.	Myanmar Microfinance Bank Ltd.	State Affiliated	2013

25.	Construction and Housing Development Bank Ltd.	State Affiliated	2013
26.	Shwe Rural and Development Bank Ltd.	Business Group (Shwe Than Lwin Group of Companies)	2014
27.	Ayeyarwaddy Farmers Development Bank Ltd.	State Affiliated and Business Group (Ayeyar Hinthar Companies Group)	2015
28.	Global Farmer Development Bank Ltd.	N/A*	2018
29.	Gems and Mineral Bank	State Affiliated	Awaiting Authorisation
30.	Mandalay Farmer Development Bank	N/A*	Awaiting Authorisation
31.	Sagaing Farmer Development Bank,	N/A*	Awaiting Authorisation
32.	Tourism Bank	State Affiliated	Awaiting Authorisation

*We were not able to confirm their affiliation due to limited information.