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Japanese cost management meets Sri Lankan politics

Disappearance and reappearance of bureaucratic management controls in a privatised utility

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Abstract *The Sri Lanka Telecommunications company was recently partially privatised and a major Japanese company became responsible for its management. Previously, it was a government department characterised by rule bound, bureaucratic management and political interventions into operational issues. The longitudinal study illustrates how a Japanese manager's charismatic and patrimonial leadership eliminated bureaucratic controls, brought new management controls and reward systems, and achieved some commercial success. However, some employees unsympathetic to the changes allied with politicians frustrated with their exclusion from organisational affairs to get the Japanese manager removed and restore formal bureaucracy. This was achieved not through direct intervention but largely through the politicians' control of the regulatory system. Conflicts between the two competing management control ideologies were profound and violent. The paper traces how modes of production and management accounting and controls in less developed countries are related, and are transformed in an unpredictable and often unexpected fashion due to cultural, economic, and political factors.*

Introduction

Recent research has studied how management accounting systems (MASs) in less developed countries (LDCs) deviate from those in advanced capitalist countries due to different historical, socio-political, and economic circumstances (e.g. Berry *et al.*, 1985; Hopper and Armstrong, 1991). A central issue is whether market-based economic reforms, especially privatisation, improve accounting practices in LDCs (Hoque and Hopper, 1997; Uddin and Hopper, 2001).

MASs in state enterprises of LDCs were often a component of centralised state planning for economic development instituted in the first flushes of

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independence (Adam *et al.*, 1992). However, such rational systems often proved ineffective, systems were too slow and inflexible to meet the uncertainties confronting enterprises (Caiden and Wildavsky, 1990), and norms of legal rational decision making underpinning state bureaucracy and enterprise accountability were frequently superseded by political factors (Hoque and Hopper, 1997). Interventions by politicians, often in cahoots with party-based trade unions, came to dominate operational decisions to the detriment of economic performance. Public enterprises, rather than being engines of economic development, became impediments and their losses contributed to fiscal crises of the state (Hemming and Mansoor, 1988). Detailed and technically sound MASs remained but were often rule bound, ritualistic, and largely irrelevant for effective management of operations. Confronted by economic problems and pressures from external aid agencies to reform public enterprises, politicians have increasingly adopted market-based programmes, including privatisation, as a remedy.

Proponents of "privatisation" assume that competition and the transference of property rights to private hands will bring better management controls, improve enterprise efficiency, and ultimately promote development goals (Rees, 1985). Owners will remove managers who fail to do so or ultimately the company will fail or be taken over. Previous intensive case study research investigating this thesis has produced variable results. In a Bangladesh case, privatisation brought more market-sensitive, computerised MASs linked to operations but this was accompanied by centralised, arbitrary management by-edict, inferior conditions of employment, abandoned collective bargaining, increased casual labour, reduced financial transparency and irregularities, and some continuation of political patronage (Uddin and Hopper, 2001). In a Sri Lankan case, private owners proved as incapable of securing effort from workers embedded in a traditional Sinhalese village culture as their predecessors (Wickramasinghe and Hopper, 2000). In both cases increased productivity, declared profits, and taxation, spin-offs of improved management and technological investment for national development did not materialise after privatisation, and the new owners allegedly indulged in serious financial malpractices. Thus, whilst not wishing to idealise management and accounting practices of enterprises under public ownership, the researchers were sceptical that privatisation will invariably improve management controls and hence promote development goals.

The opportunity to research Sri Lanka Telecom (SLT) was seized, being a chance to replicate and extend our research on accounting and privatisation in LDCs generally and Sri Lanka specifically. SLT, a telecommunications company, was founded and administered by the colonial state. It had recently been partially privatised in a deal involving a major Japanese company – NTT. Unlike the previous cases, which involved economically failing state enterprises, SLT was profitable and growing, albeit beset by poor service and unfulfilled potential. The main hurdle for the new management was rule bound management coupled to political interventions into operational matters. Problems lay in the sphere of control rather than in difficult economic and market environments.

This paper has two aims. First, it investigates whether partial privatisation, here involving Japanese management leadership, wrought a more effective MAS and improved performance. Second, it enhances theory by tracing how modes of production (MOP) relate to the evolution of MASs by tracing how post-colonial politics transformed nineteenth century imperialist legacies of institutionalised bureaucracies in unexpected directions.

The paper contains six sections. The next section outlines the theory of the transition of MOPs during post-colonialism to related neo-Weberian literature. The following section describes the research procedures. Then features of SLT pre-privatisation are described. The main body of the paper follows. The first empirical section illustrates how the new Japanese managers' control initiatives overcame previous political and bureaucratic impediments. The next empirical section describes the diverse reactions: employee resistance and politicians' resentment of exclusion led senior state officials and politicians to use their regulatory powers to remove the Japanese manager. This brought employee divisions concerning organisational changes that resurrected previous control practices and culminated in previous impediments to efficiency reappearing. The conclusion reflects on the implications of this circular story for understanding MASs in a post-colonial MOP.

Post-colonial formation: MOP, bureaucracy, and politics

Formal management control in many large organisations in LDCs is a legacy of colonial relations, especially the articulation between traditional (mainly aristocratic) and modern (mainly legal-rational) authority associated with non-capitalist and capitalist MOPs respectively. How bureaucracy and management controls actually operate stem from this tension and, viewed from a rational perspective, practices may appear idiosyncratic and undesirable. Bureaucracy can become a tool for patronage and political advantage rather than executing rational ends. Subsequent commercial failures and the rigid bureaucracy of public enterprises have resulted in their stigmatisation and being denounced as counter-productive to development. However, the apparent failure of modern bureaucratic controls should be seen in the historical context of a non-capitalist MOP being transformed into a capitalist one. Politicians and bureaucrats must constantly mediate between both MOPs and may exploit this for their own ends. Thus policy is continuously manifest in complex, unstable, and reciprocal political dynamics between tradition and pressures to modernise.

The theorisation draws from eclectic but interrelated sources, namely Marxian and Neo-Marxian MOP literature (Taylor, 1979), Weberian and neo-Weberian work on power, bureaucracy, and authority (Gerth and Mills, 1948; Blau and Meyer, 1956; Merton *et al.*, 1952; Michels, 1921; Selznick, 1966), and political sociology of Sri Lanka (Jayawardane, 2000). Despite their philosophical and methodological differences, they each bring important insights whilst converging towards a similar theme. The Marxist perspective delineates features of MOP and reasons for their historical transformation, whereas Weber tempers this with a more subtle, multifarious, and less deterministic analysis and adaptation of neo-Kantian philosophy (Gerth and Mills, 1948; Holton and Turner, 1989). However, both Marx and Weber are critical scholars of the dynamics of capitalism and modernity (Sayer, 1991). Both examined notions of separation: Marx focussing on alienation following workers' separation from owning the means of production; Weber examining individual disenchantment with rationality under bureaucratic management. Both saw capitalism as a means of social destruction and transformation: Marx depicting it as undermining traditional society based on village and peasant life; Weber as destroying traditional beliefs and natural rhythms of pre-modern production and consumption in traditional households (Lowith, 1982). Together their analyses of capitalist dynamics are pertinent to understanding how MOP and management control, including budgeting practices, become problematic in LDCs when bureaucracy and new forms of ownership are introduced. However, the theoretical marriage of Marx and Weber requires substantiation and articulation with local historical, social and political empirics. This was found in political sociology from Sri Lanka (Jayawardane, 2000). Overall, the theoretical aim is to extend a cultural political economy of MASs to embrace issues of bureaucracy, with the practical intent of explaining why MASs and management controls in LDCs often deviate from rational expectations.

The articulation of MOPs and bureaucracy

In many LDCs, including Sri Lanka, Kingship underpinned non-capitalist MOPs reproducing traditional rural cultures with feudal beliefs about the state and politics (Wickramasinghe and Hopper, 2000). In pre-colonial socio-political structures, nobody controlled the labour process: the level of self-satisfaction of villagers determined production volumes, and social controls lay in traditional, feudal, political cultures: they did not require modern MASs. Colonialism had to operate within this traditional context, whilst simultaneously challenging it in selected industries. It created a new labour force in sectors where finance capital could be profitably invested, an export economy with a supporting infrastructure, and wrought new class relations. Taylor (1979) characterises this transition as an articulation of a non-capitalist MOP with a capitalist one. On the other hand, especially in agricultural and domestic production, much of the economy and its governance remained rooted in a traditional MOP and culture.

If these countries had fully developed a capitalist MOP, as in Western advanced capitalist countries, then bureaucratic values would permeate post-colonial society. Adoption of an ideal, technical, and rational bureaucracy (Gerth and Mills, 1948) would be embedded in the MOP (Clegg, 1990); used for a form of governance distinguishable from monarchy or aristocracy (Albrow, 1970); and, above all, be a vehicle for modernisation (Taylor, 1979). For example, formal rules and regulations would govern worker behaviour, with performance monitored by formal calculations (Blau and Mayer, 1956). However, this did not occur in many LDCs because of their historical, social, and political circumstances.

Bureaucracy in post-colonial societies such as Sri Lanka was reciprocally interrelated with feudal patrimonies, imperial legacies, and post-imperial politics (Jayawardane, 2000). Feudal patrimonies were powerful in a pre-colonial MOP associated with an agro-based rural economy, a feudal state, peasant religion, and caste-based village cultures. Aristocrats controlled day-to-day village activities, deriving their power from the ownership of land granted by the King (Jayawardane, 2000). As Weber noted, power was patrimonial and feudal: there was no call for formal organisation of socio-economic activities (Gerth and Mills, 1948). Colonialism was instrumental in the formation of a capitalist MOP. The imperialist administration strategically transformed patrimonial power into a legal-rational bureaucracy within localities. Aristocrats maintained their power by rendering loyal service to the government and thus could maintain their feudal life style. Colonial administrators gave more land and titles to aristocrats for services rendered, which enhanced the latter's social power and ability to maintain social control on behalf of the colonial power. In colonial Ceylon, for instance, aristocrats were not obliged to pay a share of their produce to the government, and their continuing feudal right to make subjects work their land enabled aristocrats to accumulate capital (Jayawardane, 2000). The important point is that traditional feudal and patrimonial elements did not entirely whither in colonial regimes but were blended together.

Missionary education and state bureaucracies reciprocated with localised patrimonial and feudal governance. The colonial government introduced missionary schools to give an English education to children of aristocrats and *petite bourgeoisie* to prepare them for roles within the imperial administration. Some families managed to send such children to Indian and British universities. The entry of educated aristocratic youth into the bureaucratic machinery strengthened patrimonial power. Simultaneously a *petit bourgeoisie* emerged as a consequence of employment in a colonial bureaucracy essential for accomplishing large-scale administrative tasks and systematically co-ordinating work in a newly established money economy (Blau and Meyer, 1956). The establishment of a state apparatus, "a relation of men dominating men" (Gerth and Mills, 1948) was essential to capitalist development and colonial rule. The colonial state gained authority to collect taxes, maintain services, develop infrastructure, and co-ordinate activities between local peripheries and the imperial centre. Over time these became functions of the state and its bureaucracy, initially manned from the imperial centre, and then from local bourgeoisie. However, regardless of origins, officials were expected to conform to bureaucratic norms.

The assimilation of feudal patrimonies and imperialist legacies into bureaucratic control structures institutionalised an authoritative management control paradigm in private and public sector organisations and was seen as central to modernising society (Beetham, 1987). Haferkamp (1987) argues that this was "necessary", "unavoidable", "unstoppable", "inescapable", "universal", and simply "unbreakable" (cited in Clegg, 1990).

The assimilation of bureaucracy into patronage politics

Bureaucracy in post-colonial societies became distinctive because it fused modern, rational values with traditional values and power structures. Bureaucracy became assimilated into the volatile politics that permeated social and economic life. Political leaders tended to emerge from the bourgeoisie, which had served colonial rule benevolently and had accumulated wealth from commercial activities. They were obsessively concerned with acquiring land for economic and social prestige and ascended social ladders irrespective of caste divisions. The bureaucratic machinery became used for non-bureaucratic ends, namely furthering political patronage.

Jayawardane (2000) termed this transition in Sri Lanka as "nobodies to somebodies". The wealthier high caste class – "old somebodies" – who owed their power, prestige, and wealth to feudal relations and co-operating with the imperial power, prospered post independence. During the nationalistic independence struggles in the early 20th century, "somebodies" demanded equal opportunities, constitutional reforms, and a limited franchise. After independence in 1948, the old and new "somebodies" became influential political leaders. But to secure votes they had to respond to voters' demands for public sector employment opportunities: many constituents expected politicians to dispense favours by exercising kingship. Failure to do so could fuel party-based trade union agitation against elected governments. The state had to engage in political compromises and exercise patronage to preserve power whilst maintaining its central planning role based on modern rationality and bureaucracy. This produced a distinctive post-colonial MOP: "somebodies" mediated between an inherited colonial administration and popular demands for the largesse of kingship. This spawned a reform-resistant patronage-based political culture (Uyangoda, 2000).

Hettige (2000) observed that:

> Political violence, intimidation of voters, election irregularities, abuse of power, corruption, alleged lack of transparency in business transactions, favouritism and political interference etc., gradually became significant features of the political landscape over the last three decades (p. 9).

The state and state-agencies became impregnated by a political culture of intervention by politicians for patronage and, in turn, public officials (bureaucratic administrators) became subservient to this culture. Initially there was a tug of war between political authority and the state bureaucracy but over time they developed a working relationship for mutual opportunistic advantage and maintaining power. Officers in the state bureaucracy increasingly intervened into state enterprises and blocked reform programmes to enable the "somebodies" to exercise aristocratic and patrimonial power.

Management controls became expressions and manifestations of these circumstances. The insights of new institutional sociology about organisational controls being an isomorphism of their environment are apt (Meyer and Rowan, 1977; Scott, 1987). Thus in Sri Lanka, as in many LDCs, modern, technically sound MASs purport to pursue modernisation through legal-rational means to external constituencies, not least external aid agencies. However, in practice, the dominance of political criteria in enterprise affairs means they are irrelevant, manipulated, or inaccurate. Yet they are maintained for legitimacy and, hence, MASs become decoupled from control in action. Thus Weber's ideal type bureaucracy is far from the actual form.

Development discourses and the disappearance of bureaucracy?

Recent development discourses and policies contest that poverty is best reduced through bureaucratic state central planning (Little, 1982). The problems of maintaining control and efficiency in the face of political intervention are a crux for alternative market-based reforms. Local politicians, given their dependence on external donors promoting the new policies, especially the World Bank, had little choice but to accept them. The ideological core of these new discourses lay in economic neo-liberalism (Hayek, 1944) and its practical expression in "structural adjustment programmes" (Friedman and Friedman, 1980). The latter aim to improve resource allocation through returning to market prices, removing import restrictions, promoting private sector operations, privatising or closing state enterprises, and contracting out government functions to private sector organisations. A central belief is that private ownership and diffuse market exchanges will weaken political intervention and patronage, better mobilise resources, and hence facilitate economic development. The new discourses seek a minimal state playing a supply-side and regulatory role but leaving economic affairs to market transactions between autonomous, self-governing, and rational individuals. Consequently, MASs should be rational, market-driven, and performance-based rather than quasi-bureaucratic and ineffective as in previous eras.

However, realising these aims is problematic: precluding the state from accountability for economic matters leads to governance issues (Moser *et al.*, 1997; Hettige, 2000). For example, studies of privatised enterprises in Bangladesh had unanticipated and undesirable consequences, e.g. less transparency, declining state revenues, deteriorating conditions of employment, and in extreme cases fraud (Uddin and Hopper, 2003). It has been recognised, if somewhat belatedly, that introducing market-based reform without an effective legal and regulatory structure (including accounting) frustrates rather than facilitates development. State officials and politicians can maintain power and intervene into economic matters within a supply-side role. For example, by capturing the regulatory process they can exert considerable influence in a less overt fashion. As Robinson *et al.* (2000) argue, it is not evident whether free markets, transparent and accountable systems of governance, and more vigorous civil societies will follow the new policy initiatives. These concerns suggest that bureaucracy must reappear to establish "good governance".

Research methods

The above issues marked the entry point for the empirical research examining the effects of privatisation upon controls and bureaucracy. Gaining access to SLT was accidental. An author had developed a good rapport with SLT following some consulting. When the researchers approached the chief executive officer (CEO) for research access he gave permission for visits to any division or office. In addition, a senior manager, a student of an author, was a key informant about SLT and organised the interviews. In addition to the main research site, SLT, officials at the Public Enterprise Reform Commission (PERC) and the Telecommunication Regulatory Commission, two related public regulatory agencies were interviewed.

The study had no pre-designed research model, it used in-depth field study methods informed by "grounded theory" (Glaser and Strauss, 1967) and ethnographical description (Wolcott, 1999). Much of the research gathered ethnographic accounts from organisational members and important external actors to build explanations consistent with their interpretations of events. However, the research was not unaffected by prior theory, the aim was to shed light on the theorisation of management control in LDCs, especially the political dimension of a postcolonial MOP, and the "disappearance and reappearance of bureaucratic management control", described above.

Interviews were held with officials from Telecom Regulatory Commission and PERC, and within SLT – four key senior managers, 11 middle level managers, 16 lower level managers, and 15 workers at operational and service levels. Interviewees within SLT were selected through a cascading "top-down approach". Initially all key senior managers were approached. Then, with their guidance and our understanding of events from interviews, middle managers and lower level managers were selected and this process was repeated to select operational level workers (see the appendix for the interview protocols). The discussions with the four senior managers[1] during June 1999 quickly established that the CEO's personal involvement in management control changes was vital. His mediation of conflicts between non-engineering and engineering managers, Japanese managers and government representatives, workers, their trade unions and the firm, were crucial to the changes underway. A total of 48 semi-structured, in-depth interviews probing managerial issues in relation to day-to-day activities took place from June to October 1999.

The interviewees rejected the tape-recording of interviews, as they could be prosecuted for the offence of "information providing to outsiders" and the researchers wished to maintain their rapport with the firm and its managers. However, two researchers always conducted the interviews, one leading questions, and the other concentrating on careful note taking. Later, as good relations with subjects were established, the researchers had long discussions with the main respondents during weekends before and after meals at the university cafeteria or at an author's home. Immediately after all interviews, the researchers jointly read, corrected, and evaluated notes and transcripts, compared and contrasted them with previous daily and weekly summaries of emerging issues, and corrected and/or developed empirical findings as necessary. This enabled verbatim quotations to be constructed though it was costly and time consuming. Subsequently, most interviews were translated into English.

Annual reports, internal memos, and circulars were studied and used to validate interviews. In December 1999, the basic data, observations, and insights were word-processed and read by each researcher for further checks. The observations and insights were intermittently shown or e-mailed to six selected respondents for comments, clarification, and additional information. The main research project was concluded in January 2000 but events during 2001 and 2002 were observed, and an update in early 2003 was conducted.

SLT as a government department and preparations for privatisation

The antecedence of SLT lay as a government-controlled monopolistic public utility. The Oriental Telephone Company, under the control of the British colonial government, installed the first telegraphic service in 1858. In 1896 the colonial government took the company over. International operations were handed over to the Cable and Wireless Company in 1941 but they were re-nationalised by the post-colonial government in 1951. Considerable technological developments and geographical expansion took place up to its partial privatisation in 1997. Thus, colonial and post-colonial government controls governed operations for over 100 years. As a public utility, organised as a government department, it enjoyed monopolistic power and had an ethos of public service rather than profit seeking. It did not deploy marketing or human relations personnel, nor did it imbue an ethos of quality consciousness or customer satisfaction. Instead, it sought to maintain its monopolistic power, bureaucratic procedures, and a relatively static range of services and products. Managers were content with the state powers vested to them and sought to maintain the status quo.

The department's management controls followed state regulations such as the establishment code and financial regulations, and guidelines and circulars issued by the parent ministry. Regulatory arrangements stemmed from the constitution's specification of the roles and status of public departments. Controls emphasised hierarchical responsibility, financial accountability, and legal requirements. Its conception resided in the colonial legacy of legal-rational, bureaucratic controls. Ostensibly it represented a Weberian model of control but in practice it reproduced bureaucratic dysfunctions characteristic of post-colonial political culture.

With good reason, ordinary people in Sri Lanka believed that this department was not a consumer-oriented, flexible organisation. For instance, it took years to get a telephone line for an applicant, unless the application received a "supporting letter" from a politician. Even when the connection was granted, engineers might not make the installation without informal inducements such as a celebratory feast prior to work commencing. The government realised telecommunications provision had to be improved given its increasing importance for global competitiveness.

The central thrust of accounting was reporting revenues for ministerial statistics. Revenue reports were not significantly used for decision-making or control, rather they legitimised the financial accountability of "accounting officers" for line-by-line expenditure. Detailed costs were not collected as they were not required for central government's accounts. The central financial authorities calculated the department's aggregate costs and compared them to its budget but variances were not analysed, though government auditors monitored "accounting officers" for possible fraud and errors. Accounting for devolved managerial planning and control, or auditing for examining efficiency and effectiveness, was not embraced: conventional management accounting was disregarded. Bureaucracy became a control practice legitimised by bureaucracy itself (Clegg, 1990).

In August 1980, the department was divided into the Postal Department and the Department of Telecommunications as a prelude to government intentions of privatisation. In February 1990, the Department of Telecommunications was converted into a semi-autonomous public enterprise, the Telecommunications Corporation, to free it from government-based controls. Ministerial directives vested management control to a board of directors appointed by the minister concerned. The board had legal and practical powers to institute changes in the Telecommunications Corporation's organisation and controls[2].

In September 1996 the Telecommunications Corporation was converted into a public limited company (Sri Lanka Telecom (SLT)) with a registered authorised share capital of Rs. 100 billion (approximately, US$1=Rs. 90) and issued capital of Rs. 18 billion held by the Treasury. Being a huge business relative to indigenous Sri Lankan companies, SLT faced two major issues:

(1) how to control 8,200 employees for commercial ends; and

(2) how to create new, profitable business opportunities.

PERC, the government agency responsible for managing privatisation programmes, started to address these issues, concentrating on improving telecommunications and meeting demand for telephone connections by investing in improved information technology. By March 1997 the waiting list for telephones was 287,200 and it was apparent that SLT had inadequate capital to clear this backlog (it needed US$450-500 million to achieve a telephone penetration rate of five per 100 people – in 1984 the penetration rate was 0.8). Cries from every corner emphasised that eradicating dysfunctional bureaucracy was the key to eradicating operational inefficiencies (Ranugge, 2000).

With the blessing of the "left-wing" government, PERC decided to sell 35 per cent of SLT's share capital to a foreign company with telecommunication industry expertise and capital to invest in increased capacity. Three companies were short-listed:

(1) France Telecom;

(2) Korea Telecom; and

(3) NTT (Japan).

Each was judged against factors such as financial capacity, technical expertise, and reputation for good management. NTT was selected, it paid SLT US$225 million for 35 per cent of its issued shares and the Sri Lankan government awarded NTT a contract to manage and supervise operations in SLT from 1997 to 2002. NTT's management fee was 1.2 per cent of the net revenue of SLT and 0.5 per cent of its gross operating profit. The new Japanese CEO stated that "after over 100 years of state control, Sri Lanka Telecom entered into a partnership with one of the largest telecommunications conglomerates in the world" (SLT Annual Report, 1997).

The CEO invested in new technology, increased connections, restructured the organisation, introduced a new performance evaluation system, and, in turn, built up customer relations. The aims were "to lead Sri Lanka to become the hub of telecommunications in South Asia" and "to anticipate and fulfil the communications requirements of all sectors of the nation, in a service oriented work ethic which will provide total customer satisfaction through the most modern telecommunications facilities" (SLT Annual Report, 1997). This represented a distinct paradigm shift in SLT's management control systems. For ordinary people in Sri Lanka this really was a panacea!

Employees, however, were concerned about SLT's future, especially possible redundancies. Employees were organised within 35 trade unions (TUs) representing different hierarchical levels and political parties. The TUs had collectively organised major protests against the privatisation but these ceased after meetings between TU representatives and government officers, which resulted in PERC making concessions over job security and pension schemes. PERC convinced the TUs that economic prospects would improve if SLT was financed and managed by experts rather than the state. PERC promoted the government's message that privatisation would increase salaries with no redundancies or termination of existing pension schemes. An official from PERC said:

> The unions ... were so violent because they thought that their jobs and pensions would be under threat. We gave a promise ...

A worker's comments indicated the scale of the industrial relations problems confronting the new owners:

> We were given the promise ... You know our unions are very strong. They [Japanese management] can't do whatever they want. The achievements are results of our struggles. Otherwise they would have done a lot of job cuts.

A senior manager's comments suggested workers' fears were justified:

> Most of the workers are actually not suitable for this company. In fact, they have to have an early retirement. But no one can do that. Trade unions are very powerful.

The disappearance of bureaucratic management controls

The CEO's main challenge was changing the 100-year-old bureaucratic management control system, which he believed was inappropriate for SLT's uncertain and increasingly competitive environment. It fostered an anti-strategy philosophy, inflexible and remote operational controls, inappropriate reward schemes, and lax supervision that indulged workers. He commented that there was "no business", "no business plan," and "no business operation". He soon made substantive changes.

Changes to the organisation structure

Before privatisation, the managing director was the executive head assisted by directors, general managers, and deputy general managers. According to the new CEO:

> This was clearly not a system suitable for a private company.

He complained of its:

> Layers of administration, no proper definition of functions and responsibilities, as well as an in-built seniority system for promotion and individual advancement.

Another senior manager (a moderniser) said:

> The old system did not allow us to quickly respond to customers' requests. Nor did it lead to any flexibility.

The CEO introduced an organisation structure directed at avoiding unnecessary delays, rules and regulations, and would facilitate a customer-oriented employee ethos.

The CEO[3] now reported to the chairman and board of directors, assisted by a team of key strategic personnel, including a chief financial officer, chief legal officer, chief internal auditor, regulatory matters officer, and construction programme team manager. Key management functions were allocated to four groups:

(1) customer service;

(2) network planning and construction;

(3) human resources; and

(4) finance.

The service group was responsible for line operations, especially new connections to residential customers. Its activities were divided into three regions, eight provinces, and 32 divisions. The other groups provided support activities such as planning, marketing, human resource management, procurement, strategy, and accounting. Each group was directly responsible to the CEO.

The new structure was different from the previous rigid structure of a government department. It was flatter and leaner: managers had wider spans of control. Organisational roles and responsibilities were more clearly defined and managers' authority over subordinates was limited, the emphasis was now on sharing knowledge and experience rather than enforcing rules and commands. A manager commented:

> Unlike in the early days, now we are clear about our duty . . . our bosses are clearer about our roles . . . to accomplish them without any discrepancy.

A manager concerned with strategy stated:

> We can ask others for ideas and procedures. Everybody likes to help each other as tight regulations and procedures are now not a must.

The CEO claimed the changes promoted more effective and quicker communication, especially between divisions.

Managers could now share opinions and knowledge with the CEO, who often suggested improvements to senior managers to stimulate discussion and generate new alternatives. Senior managers reported that this improved procedures pragmatically. The CEO took a personal interest in improving operations. For instance, an operational manager recounted how installing a service centre in a remote area now required an economic justification approved by the CEO who invariably monitored whether it was successful. If not, then the CEO would review why. A senior manager commented that the CEO was a strategic thinker and an operational monitor. Others observed that he was an engaged, active, intuitive manager.

The aim was to create a "customer-oriented and customer-friendly" organisation with more personal service. A respondent commented:

> The department era was awful ... it was difficult to respond to customers' requests. The officers did not have service-oriented minds ... they wanted to escape from undue actions against regulations.

The result was 287,200 customers awaiting connections without any communication about their plight. Senior managers' believed that poor customer orientation threatened SLT's business survival in the new deregulated environment[4]. The CEO agreed that personnel should be retrained in customer relations. A training centre manager commented:

> Now we are training people for marketing purposes ... We concentrate ... that people will have to be kind and polite ... to the customers.

Relatedly, the CEO promoted the opening of "Tele-shops" to provide customer services and collect revenues. Young graduates were appointed for activities such as billing, selling equipment, and providing informational services. One such manager informed us that the creation of Tele-shops had been one of the most successful innovations:

> Now customers find it easy to pay their bills and enjoy with more services ... This is the centre for creating customer relations and value for SLT.

The shift from rigidity to flexibility

SLT had established its organisational rigidity over a century of direct government controls, which had become ways to justify delays, inefficiency, and ineffectiveness[5]. The new CEO remarked:

> This system is always loyal to rules, not to duty. Everybody is not really producing but wasting their time on paper work. Nobody creates anything. You can't survive in competition.

Japanese management wanted more flexible procedures and organisation. A senior manager recalled how:

> The new CEO wanted to get work going. Restrictions from regulations and rules have been curtailed.

Employees were allowed to make decisions according to local circumstances. For example, if a vehicle could not go down a particular road then the officer on the spot could make alternative arrangements. Previously work would have stopped as the rules prohibited local officers changing arrangements and rule transgressions were punishable. The CEO defended officers who ignored rules in reasonable pursuit of their duties and made a point of praising such acts. An operations manager remarked:

> Our work is now commended ... so we are inclined to work. Earlier we did not have that mentality.

The CEO took pains to identify managers who stalled operations until "everything is provided". A senior manager explained how:

> Japanese managers identified that we often had unnecessary issues. To do something, we used to talk about needs and facilities ... We used to make complaints about such problems. Long procedures did not resolve these problems. So, we did not concentrate on the duty. The only thing we concentrated on was insufficiency of resources.

Bureaucratic structures had produced a work culture that impeded "getting things done". Coupled to political interventions at the behest of trade unions, this fostered indulgent managerial behaviour towards workers. The Japanese managers sought to replace this with a philosophy of flexibility, initially amongst managers. However, the changes soon percolated downwards and workers' rewards became tied to performance. An operator commented:

> We have to work now. Our bosses command us to do so ... it is difficult. Anyway, we get paid more.

Many managers switched their efforts from getting departmental resources or enforcing rules, to getting results through "flexible arrangements" knowing that the Japanese management would approve.

"Flexible organisation", "flexible management", "flexible work culture", became common terms in the senior managers' vocabulary. The reconstruction of organisational language was greater amongst educated young managers rather than older ones promoted from the ranks. Young managers became propagators of "flexibility" as they appreciated their ideas being listened to rather than being rejected for "bureaucratic justifications". The CEO commented that "we want creative and active managers", gradually an era of modern management controls began to be institutionalised.

A business planning system with operational controls

The CEO, assisted by the strategic and divisional managers (DMs), introduced a business plan. It contained three layers: an annual plan for operations broken down into monthly plans for each of the 32 divisions, which in turn was broken down into weekly targets for each operational division. A senior strategic manager commented on the novelty of this:

> This is the first time that people are working according to a plan ... The plan does not mean any regulation or set of rules because the CEO consulted everybody, including operational managers, when it was developed.

The business plan spawned controls. Each week the DMs checked whether operating managers had achieved weekly targets and DMs reported progress reports to monthly meetings with the CEO and three senior managers (strategy manager, chief financial officer, and chief administrative officer). The CEO examined each DM's explanations for discrepancies between performance and plans. A manager observed:

> DMs cannot get rid of any loophole. They need to come out with excusable points. The CEO always cross-examines. This is a real point of control.

This process enabled the CEO to link operations to strategic goals.

These controls operated independently of cost controls. DMs were not subject to cost constraints, the emphasis was on physical targets, which reflected the CEO's priority of "getting things done" rather than minimising costs or maximising short-run profits. He showed little interest in costing issues – his approach drew from an operational rather than a financial culture. A manager illustrated this:

> There is a CFO who deals with financial matters but he manages financial aspects for the entire company. He is not worried about operations.

According to the CFO, there were company-wide cost management initiatives. He noted:

> We are concerned with cost cutting. We have identified various wasteful sites. For example, we have to decide whether central exchange facilities are to be located in Colombo or somewhere else. Sometimes it is worth locating them in different places given the transport problems. Once the CEO advised us to move a business centre to Kegalle rather than it being here. We always look to such cost-effective ways.

The implication was that cost savings lay in careful financial scrutiny of capital investment in technology, whereas operational savings came from closely monitoring physical performance rather than cost cutting.

Significant cost savings were expected from new technology. Old plant handling calls, which were continuously faulty, were replaced with state-of-the-art equipment and systems. A programme for computerising administration took place, billing was decentralised by networking it to regional offices, computer inventory control systems now linked headquarters procurement division main store to regional stores, and head office administration and the finance function embarked on major computerisation of their activities. The CEO stated that the:

> Strategy is to computerise all possible systems, network them and have a complete management information system, improve the quality of service to enhance customer service.

Many commentators saw the CEO as a methodical businessman not a rule-bound bureaucrat, and the business plan reflected his character.

Following the rapid technological changes in control systems, engineers rather than accountants dominated operational controls. All DMs were engineers and their principal concerns lay with technical problems affecting targets in monthly business plans. Accountants played a minor role, most of their time was spent grappling with information processing for financial reporting. Accountants within divisions collected data on revenues and expenses for divisional reports submitted to head office for external financial reporting purposes. A DM remarked:

> Accountants are not much aware of our technical matters. This is an engineering based company. They don't know even some new terms came to be using.

In contrast, an accountant claimed:

> Engineers don't know how accounting information can be used in their decisions. Management accounting has no proper role in this company. However, we deal with our reporting side very well.

The tension between these two professional groups was to prove important but initially, under Japanese management, accountants played a peripheral role whereas engineers gained greater status and power. There was a shift from line-by-line financial control dominated by state regulations, to operational control promoted by flexibility and strategy. The new paradigm embraced a newly introduced performance evaluation system (PES).

The performance evaluation system

The PES was directed at a major organisational problem – employee work motivation. The system was implemented in steps: initially employees were rated according to their technical knowledge, ability, and achievement of targets, followed by a self-evaluation. A committee consisting of the employee's superior, the relevant DM, and some head office managers – normally from the human relations division examined and validated these reports, and determined individual wage rates. PES had major effects as a senior manager recalled:

> Now people are keen on getting a higher rate. They are talking about each other's rates and competing with each other.

Information on each evaluation and wage rates went to a newly appointed confidential accountant, independent of the accounting function, who calculated salaries payable based on the rates and performance. Payments went directly into individual bank accounts. A middle manager stated how:

> Now we are even not aware of the salary rate. We get our salary in advance. Nobody knows what others' salaries are.

The new pay system was radically different from its predecessor, it had a performance-related element, ratings were systemised, and payment was automated and confidential. The Japanese management believed the latter would reduce employee agitation because it would be difficult to ascertain pay differentials. A manager commented:

> Since Sri Lankans are normally inquisitive about others' wealth and income, this system is capable of avoiding such consequences.

Apart from minor squabbles amongst rival professional groups over salary levels, managers accepted the new payment system.

The organisational restructuring, the philosophy of flexibility, and the new business planning system made the PES effective and attractive, especially to senior managers. Now individuals were systematically evaluated and competed for a higher salary. Everybody wanted higher performance scores as salaries were partly based on work done rather than time served. By early 2003, this system was well established. Due to trade union agitation (addressed later) some employees were not in the system but by 2003 they were. The procedures changed substantially when local committees were replaced by immediate superiors' evaluations (the CEO and HD evaluated top managers) and a three-member board in the human relations division scrutinised these and made the final decision. Most managers commented that this new system is "much better than the previous one, being exceedingly unbiased".

Commercial results

By 1999 Japanese partial ownership and management had led to control, power, and the impetus for change residing with the new Japanese CEO. Systematic attempts were made to inculcate attitudes of greater market and customer consciousness. Customer problems regarding telephone connections, billing, and retailing were addressed. Priority was given to reaping cost advantages of improved technology, hence the recruitment of many young engineering graduates. Improving productivity by changing work habits and intensifying work was addressed through the new PES. This brought considerable improvements, for example, according to annual reports SLT provided 72,000 new connections in 1997, 140,000 in 1998, and 130,000 in 1999. The CEO commented that:

> This was the result of the carefully thought out strategy of expanding the network from the inner to the outer periphery in areas covering commercial customers, residential customers, and rural customers.

SLT increased operating revenue by 24 per cent in 1998 and 32 per cent in 1999. International services improved substantially, accounting for 60 per cent of total revenue in 1999, but the local customer base also increased significantly. However, due to increased depreciation on tangible fixed assets following heavy investment in plant, costs increased and profits decreased, being 8.4 per cent return on assets in 1998, 7.1 per cent in 1999, and 6 per cent in 2000 (annual reports). The CEO was unperturbed arguing that:

> This is clearly a small and temporary set back before the next big leap ahead.

In 2001 profit after tax increased by 19 per cent, representing 7.9 per cent return on assets, following significant cost reductions and tariff increases. It is difficult to accuse the Japanese management of short-run rapacious profiteering or outcomes at odds with consumer or development goals or a lack of commercial success but they were unprepared for the political ramifications of their changes.

Politics, trade unions, and work practices

The CEO realised that TUs in Sri Lanka were different from their Japanese counterparts. In NTT's Japanese operations, TUs were company based and sought benefits within mutual commitment to effort and improvement. In Sri Lanka, TU members expected unions to improve their welfare whilst retaining traditional, indulgent work practices. The CEO complained that:

> People here are not work-oriented but seek benefits. How can we increase their payments unless they work hard? We wanted to convince the workers about this.

The CEO tried to co-opt the TUs by changing their leaders' attitudes and propensity for militant, direct action. He identified important TU leaders and discussed with each his determination to introduce a "no retrenchment – no recruitment" policy. He justified this by pointing out the large number of excess staff. The CEO arranged two visits to Japan for TU leaders to meet NTT's Japanese TU leaders. The CEO commented:

> This is an unprecedented event ... This has resulted in a more cordial and harmonious relationship between management and the work force.

The TUs' agreement to the CEO's policies was oiled by increases in the TU leaders' salary increments and bonuses. A senior manager observed:

> Sometimes proactive TU people automatically become silent for no reason. They are given direct cash payments into their banks. SLT can do this in the name of an incentive payment.

These steps reduced top-down TU agitation and brought a modicum of industrial peace but it failed to eradicate shop floor divisions over payment arrangements and the new "work-culture".

Residuals of bureaucracy

The new controls created a work ethos in SLT at odds with the bureaucratic but indulgent custom and practices during public ownership. The business plans meant workers now had to work to targets and supervisors became responsible for their section's short-run physical budgets. A supervisor described how this worked:

> We get the weekly report from the divisional office. We know what to do every day. Workers are also aware of these targets. So, we try to do the job.

He claimed targets were difficult to achieve for they were alien to previous work practices. According to supervisors and DMs, before privatisation workers performed the minimum work possible. A DM alleged that:

> Those days they did only one connection a day. Customers used to give them drink, food, and money. They favoured the customers. Customers also do this because the connection comes after five or ten years after they put in an application.

Many workers were used to bolstering their income through corrupt practices rather than productivity.

The new work culture was a shock to most workers. They had to work harder and be customer-friendly. Illicit earnings were difficult as customers were aware that now they could complain to the nearest divisional office. Nevertheless, workers could exceed previous official earnings if they met physical targets. The new situation was not well received by many workers. A typical complaint was that:

> You know we can't work like this. Too much work. Company likes to exploit us much. We know salaries are now increased. But it is not fair to ask for this much work.

It was difficult to take official action as grievances were based on the loss of illicit earnings and indulgent work practices fostered by decades of government bureaucracy, political patronage, TU agitation, and the work rhythms and expectations of a non capitalist MOP.

When DMs prepared reports on supervisors' daily and weekly performance they tended to excuse poor performance. They empathised with workers' traditional expectations and shared their problems of family commitments such as the cost of their children's education, looking after elderly parents, and collecting dowry for young daughters. Consequently, supervisors often exaggerated workers' performance in the reports and/or excused shortfalls because of poor weather, transport problems, accidents, etc. Armed with such justifications for not meeting targets, workers then sought positive performance evaluations.

Divisional and regional managers were aware of these "tricks". According to one:

> These workers have their connections with supervisors because most of them live (together). They cannot control the workers well. We cannot do this either. We have to live here.

Because senior managers often came from the same community as workers, they too protected workers by fabricating excuses for budget failures to monthly progress meetings at head office. The CEO scrutinised such justifications closely and interrogated managers to ascertain whether reported problems actually existed. When pinned down the managers had little alternative but to explain the true nature of problems confronting them. Over time the CEO realised the practical limits of wrenching improvement from operators, given the nature of social obligations in Sri Lankan communities and traditional work commitments. Nevertheless his reforms had fostered resentments and divisions amongst workers.

Wage payment disputes

Many workers wished to retain a payday with cash paid directly into their hands. An accountant reflected how workers:

> . . . are not familiar with bank transactions. Most of them did not have bank accounts . . . They wanted a pay-day on the 20th.

Workers who had suffered in absolute and/or relative terms due to poor evaluations and low bonuses (normally older, longer-serving employees) began to oppose the wage payment system. The accountant continued:

> Workers who wanted to create problems were senior ones. They did not want to co-operate with the system. They don't want to have changes.

Worker agitation followed.

In February 1999 workers organised a major protest against pay into bank accounts. They surrounded the CEO's office, shouting slogans urging the CEO to "go home" and "withdraw the payment method". The CEO, warned in advance of the demonstration, called a meeting with senior managers to brief him. Eventually, the CEO agreed that payment into bank accounts would continue only for employees who wanted it (normally highly evaluated, well-rewarded workers). The agitation ceased. A senior manager recollected that:

> Fortunately, the CEO got the support of all senior managers at the meeting. We did not want to discontinue the system ... it was the first time that workers came to that level [of performance]. This was only an agitation led by a few TU people who were not appreciated by the management. Before that most TU leaders had been shut-up by the CEO.

Managers saw the incident as a minor grievance rather than a symptom of broader unrest.

Workers opposed to the payment system continued their agitation. Employees whose wages went into banks received payment in advance, whereas workers paid in cash received wages in arrears. The latter sought recompense. Managers did not perceive this as a potential crisis, they believed that workers paid in cash would gradually work harder to gain more pay, and realise the benefits of bank payments. A senior manager stated:

> The CEO knew that the workers would co-operate with the system. The workers wanted to have money anyway – they had problems at their homes.

Middle management identified and then met workers deemed susceptible to persuasion to switch from cash to bank payments and this process was gradually extended to the entire work force. However, managers' beliefs that this had resolved the matter proved unfounded.

Skilled young workers versus experienced seniors

The PES inadvertently divided the workforce into two camps: skilled-young and experienced-senior workers. If the PES exercise was executed correctly, skilled-young workers would normally be better rated than experienced-senior workers, as younger workers were more qualified and familiar with the new technology. In addition, being freer from family commitments, younger workers preferred to work hard to develop their career rather than indulging in work restrictions and unofficial payments. A senior manager commented:

> We are pleased with the young ones. They are regarded as value-adding resources. The CEO likes to give more opportunities for this generation ... these workers are not much interested in politics and TU activities.

Managers valued young workers because their behaviour and attitudes were congruent with organisational aims of improved productivity. In contrast, most senior workers had no vocational qualifications other than "on-the-job-training" and were less conversant with the new technology. Managers regarded them as "difficult" as a senior manger's comments bear testament:

> Under the policy of no-retrenchment, we cannot lay-off these workers but we do not get much out of them. They always come with problems instead of new ideas or hard work.

Another manager stated that "these workers are TU agitators".

One might have expected older workers to be poorly rated in the PES exercise but this was not always so. Most supervisors came from the senior camp, held bureaucratic orientations, and were sympathetic to senior workers' predicament. Consequently, many supervisors allocated good PES rates to senior workers, whilst cutting points of young-skilled workers. A skilled worker complained that:

> We are qualified and work hard but we don't get good points. Some senior people who are not qualified do this.

Managers responsible for strategy became aware of this, as one revealed:

> The conflict between qualified and non-qualified people is similar to the conflict we are having between engineering and non-engineering people. However, the qualification problem is always at the operational level. We like to ask such people to get an early retirement and give an opportunity for their children to join. But they don't like that. What they like and wanted is to give a job for his son while he is also there.

The PES became biased and meaningless due to unreliable scoring. A senior worker reflected how:

> This is an old institution. There are ways of doing things. We cannot forget them. If there is a new thing coming, we have to be careful. At the end of the day, we are the people who are sacrificed.

Friction between pro- and anti-TU groups grew, though the bases of division varied: sometimes it was between young and old workers, sometimes it was jealousy over qualifications, sometimes it concerned union and political matters. The frictions made management control difficult. Several managers wished to make militant workers redundant but this was impossible given the "no redundancies" agreement made with the government pre-privatisation. Worker divisions amongst were paralleled by schisms between older, non-engineering, senior managers and their younger, more scientifically qualified counterparts. The former, imbued in civil service traditions, hankered for traditional bureaucratic procedures whereas the latter wanted to handle dynamic situations flexibly. It was evident to all that the CEO favoured the latter group. Older managers formed a loose alliance with disgruntled older workers who pressed their TUs to petition government to block the CEO's and younger technocrats' reforms.

The reappearance of bureaucratic controls

Proponents of privatisation believed that rule-bound management controls associated with political patronage and intervention would whither after privatisation. However, the state retained control over SLT through the General Treasury (GT) and the Telecom Regulatory Commission (TRC). The minister of telecommunications appointed some SLT board members (from treasury officials), and the chairman, who frequently clashed with the Japanese managers. In addition, disputes between TRC and SLT emerged. These clashes are crucial for understanding why the new, apparently effective management controls became undermined by exogenous factors.

Tensions between the CEO and the chairman

The Japanese management success at SLT was acclaimed by many segments of society, including politicians. The credit invariably went to the CEO, who attributed it to senior managers' strategies and workers who met targets. Congratulations on SLT's achievements after privatisation regularly appeared in the company magazine, alongside reports of outstanding achievements, "best performers", and awards of tokens and presents to employees. Employees regularly talked about these matters, pointing out how Japanese methods had improved the situation. A middle manager commented:

> It is amazing. People are now happy about the progress .... All agree that it is . . . the CEO . . . that the Japanese are clever!

For many, this was relief from a rule-bound bureaucracy that controlled for the sake of controlling and stifled efficiency.

Few accolades went to the chairman and board members. This was not surprising, as government officials had played little part in SLT's achievements, the chairman and the board had largely played ceremonial roles and were rarely consulted over strategies. A senior manager commented:

> The chairman was not even invited for the annual sports meet . . . Though he chairs the board, he did not enjoy acceptance and status.

This neglect provoked reactions from government representatives on the board, including the chairman, who began to raise matters such as SLT's avoidance of rules and regulations hailing from its government department days. He increasingly argued that as the government was the majority shareholder, important decisions on financial resources should have government consent. An officer from PERC commented:

> You know still most of the shares are owned by the government. While we are interested in foreign management, we have to be careful of handling these funds.

Board members held similar sentiments.

The chairman openly disagreed with many of the changes introduced by the CEO. It was rumoured that a petition was sent to NTT, alleging that the CEO had overthrown well-established bureaucratic procedures resulting in failures to adhere to financial regulations. A head office respondent alleged that:

> There was a petition … That is what everybody believes. Indeed, the chairman was so fired up about the … CEO. He [the chairman] was not given any substantive position …

Sending petitions to government officers concerning administrative transgressions is an established tradition in Sri Lanka (Jayawardane, 2000). The petition had an effect – NTT cancelled the CEO's appointment in SLT. The CEO perceived this as a rebuke for, as a respondent commented:

> Japanese managers enjoy taking up positions here … They draw a very big salary. They live in very big houses. They enjoy a low cost of living … The CEO's dismissal is a real punishment.

The CEO had to return home and a new Japanese CEO was appointed by NTT and assumed office soon afterwards.

The new CEO was very different. His style was very bureaucratic, he always asked about rules and regulations when judging individual's work, and he was calm and quiet: he rarely chased people for results or investigated alleged transgressions. He was slow and predictable and did not strive for ambitious targets. A respondent noted that:

> He is called Buddha for his simple behaviour.

Unlike his predecessor he was always available for visitors for he took little direct interest in operational affairs. A respondent remarked:

> He doesn't look serious. So, we can approach him very easily.

It became evident that the new CEO had no intention of accelerating changes not within established rules and regulations.

The chairman, delighted with the dismissal of the former CEO and the new appointment, gradually gained greater power. With the agreement of the new CEO, the chairman decreed that the rules and regulations that had dominated the enterprise for decades but abolished by the former CEO should be restored. A senior manager observed:

> This is a sort of re-establishing the old telecom.

However, reversing the previous manager's policies needed acceptance, many employees, especially younger technocrats, were sceptical of the return to old methods. The return of the previous bureaucracy became contentious.

A former administrative officer was appointed chief human relations officer (CHRO) to re-impose the informally abolished old rules and procedures and to investigate employees alleged to have broken them. The CHRO had been a non-engineering government officer and favoured restoring the rules and regulations from department days. Several middle managers alleged that his attitudes and beliefs stemmed from an aristocratic and imperial oriented era, e.g. "He was a person living with rules". His appointment created tensions. A respondent claimed that:

> This is the seed of the current crisis. The biggest problem is that people who worked hard have avoided unnecessary rules. Now these people are at the risk of investigation headed by the new HR officer. He is now finding frauds and errors.

With the blessing of the chairman, the new CEO appointed a committee to investigate violations of rules and regulations. It included senior managers wishing to restore the old controls, the CHRO, and representatives of TUs affiliated to the government and main opposition political parties.

The fraud investigations brought conflicts between technical and non-technical employees to a head. The former CEO had given engineers a central role in achieving targets to the chagrin of senior non-technical employees. The organisation became divided into two camps: engineering and non-engineering. Senior non-engineering managers supported the investigation whereas the engineers saw themselves as victims. A middle manager remarked:

> They are now questioning our performance which was highly appreciated by old CEO.

The situation became volatile and a major incident occurred. An unidentified "gang" shot the newly appointed CHRO, who received severe injuries and was secretly shifted to a hospital. A manager commented in an e-mail:

> We thought the HR officer was dead. People actually wanted to kill him. Fortunately he escaped. This is a real mess. I don't know what will happen tomorrow.

It was alleged that a contract to murder the CHRO was linked to political violence elsewhere in the country and objections to restoring bureaucracy. However, subsequent investigations were abruptly halted. Later, it was revealed that the CHRO now had a permanent mouth injury that made it difficult for him to talk, and he had left for new employment in Singapore arranged by the CEO. Establishing the "facts" in such a fraught situation, which remains dynamic and sub judice is fraught with difficulties. However, the incidents illustrate the problems of bringing modern commercial management into an enterprise conditioned by a bureaucracy subordinated to the politics of patronage. SLT's managers discovered lingering state controls became conduits for shop floor grievances and state interventions to restore the influence of TUs, politicians, and state officials based on maintaining the status quo. However, in SLT such direct intervention was difficult given NTT's power within management. Consequently politicians and state officials pursued new avenues of control through regulatory structures.

Regulatory capture

The regulatory body, TRC, established and appointed by the state, was responsible for fairly allocating other operators' access to the telecommunication infrastructure owned by SLT[6]; determining charges for interconnection facilities; various associated legal matters, and monitoring other electronic media services. Their powers derive from ministerial guidelines and constitutional law. TRC officials are oriented to bureaucratic regulatory practices. National communication policy states that there should be "greater independence and authority for the TRC for its regulation, as well as complete transparency" (Ministry of Mass Communication, 2000).

Poor relations between TRC's bureaucracy and SLT's new managers prevailed from the inception of partial privatisation. In the new competitive structure for telecom operators, SLT retained a monopoly of the infrastructure and SLT's competitors had difficulties increasing turnover and profits. It was alleged that TRC officials received unofficial benefits from SLT's competitors to persuade them to let SLT's competitors transfer "voice-based calls" into "data-based calls" using SLT's infrastructure. A senior SLT manager complained of:

> . . . a loop-pole in the agreement between the government and SLT. It does not mention that this practice is impossible. Therefore, TRC people have been corrupted through this chance. Our problem is that other operators use this facility and provide low price services to the customers. We have lost a tremendous amount of revenue because of this practice.

However, TRC officials strongly maintain that they are independent, professional, and transparent. Nevertheless, rumours that TRC officials take unwarranted advantage of their regulatory powers abound. Unsubstantiated allegations that corrupt practices of government officials during the public monopoly of the posts and telecommunications department era have been resurrected in regulatory practices after partial privatisation have not been rebutted.

During public ownership, politicians and state officials gained influence and pecuniary advantage by exercising patronage to speed up individuals getting telephone connections. They had an advantage in delays, which was lost under privatisation. Now officials at TRC could exploit unclear rules and regulations to adopt a policy of studied inaction unless they are unofficially paid. An informant from SLT maintained that TRC's:

> . . . duty is sometime unnecessary. We are having government representatives on the board – they can adopt monitoring activities if they want. TRC is really a trouble. We are losing out and they are collecting underhand money.

Japanese management acting on behalf of private ownership found eradicating bureaucratic inefficiency was difficult, if not impossible, given the lingering presence of state control, domestic politics, and possibly corruption.

Relations between TRC and SLT can have considerable impact upon corporate activities. TRC officials cannot directly intervene into SLT's operations but their decisions are crucial for determining the competitive environment of SLT. Older senior non-engineering managers in SLT who hankered for the bureaucratic and regulatory practices of the department era, and often still identified with the civil service, took pleasure in TRC's actions and denied that TRC could or would take undue advantage of its position. One commented:

> You know regulations are always wanted – otherwise people would do anything they want. The rumours cannot be true – TRC people cannot do that. They are well controlled by circulars.

However, this opinion was not widespread in SLT.

Disputes between TRC and SLT were still apparent by January 2003. According to SLT managers, TRC still maintained discriminative controls if their demands were unmet, which was detrimental to business operations. A senior SLT manager commented that:

> TRC regulates only SLT, which is now headed by an ex-MP appointed by the minister. TRC does not allow either reducing or increasing prices. TRC does not allow selling new connections at lower prices as they think it affects the private sector's small telecom service providers. TRC controls the frequency ranges offered to SLT. They always favour other companies in regulating frequencies in transmission.

SLT has reacted by acquiring 100 per cent ownership of a cellular phone company (Mobitel) as, it is alleged, TRC acts more flexibly towards cellular companies.

The suggestion is that regulation may resurrect, albeit indirectly, traditional state bureaucracy and political intervention. Privatisation may not remove political control but rather may resurrect it through new means with deleterious commercial consequences. This is explored below.

Revitalised bureaucracy and politics revisited

After July 2002 the chairman became more powerful than the CEO, who was relegated to a board member responsible for operational control and subservient to board decisions. A senior manager commented that:

> This is a complete change compared to [the former Japanese CEO's] days. We are now heading to more government controls.

The turnaround had two effects – bureaucratic and political.

The restoration of traditional bureaucracy stemmed from the annual business plan. Previously this was an independent internal strategy document: now it must be evaluated by the General Treasury (GT), which established two permanent technical evaluation committees to approve projects over and under Rs. 10 million respectively. An internal committee that reports to the GT evaluates projects below two million Rs. Government officials and engineering experts on the GT committees subject the annual business plan to considerable scrutiny and frequently insist on amendments. An internal audit official claimed:

> Internal matters were not properly controlled under [the former Japanese CEO's] period but now everything is under control.

The treasury controls are linked to administrative procedures including cabinet approvals, ministerial circulars, and gazette notifications. The results must be signed and approved by relevant state officials. However, this apparent model of bureaucracy is not divorced from politics.

The chairman's appointment was a political rather than an administrative move. He was a leading businessman who prospered from business "developments" during the right wing government before 1994. Having had little support from the left-wing government after 1994, he supported the right wing political party elected to power in January 2002[7]. He was highly critical of Japanese CEOs and, aided by ministerial influence, he re-instituted bureaucratic controls reducing the CEO to running the business under his control.

It is premature to assess the effects of this. For example, the internal management intends to introduce Japanese management accounting methods towards the end of 2002, including kaizen costing, a five "S" system, and supply chain management. How these interact with politics and bureaucracy will be revealed in time. However, whatever the rights or wrongs of events, the chairman established patrimonial authority with the blessings of politicians and state officials. Politics once again drives bureaucracy, which in turn dominates management. The Japanese management must mediate between politics and commercial ends because of bureaucratic imperatives such as annual business plan approvals and regulatory initiatives. The danger is that political involvement becomes oligarchic rather than democratic and the regulatory mechanism becomes a tool of poor governance rather than effective competition, which would mark a return to the problems of public enterprises before partial privatisation. Management control is essentially a corporate governance issue in a state allegedly changing from traditional forms of patronage to a more detached supply-side and regulatory role.

Conclusions

The paper addresses how management accounting and control operates in LDCs such as Sri Lanka where patronage politics interact with and transform bureaucracies. The immediate aim was to investigate whether partial privatisation substituted products of the latter with market sensitive MASs.

The theoretical aim was to understand how bureaucratic management controls evolve in LDCs in transition from traditional to modern MOPs and cultures.

The findings indicate that "new" accounting and control regimes replaced bureaucratic management controls with positive commercial effects. However, the changes were reversed due to political interventions partly in response to trade union opposition, via the regulatory system. The essential point is that accounting change and adoption of capitalist MOPs are not inevitable and deterministic but lie within complex political dynamics and, to a degree, cultural expectations concerning work and patronage. On the other hand, the initial effectiveness of the Japanese management, popular reaction to improvements, and the commitment of younger qualified workers indicate that change is possible and not necessarily ended.

Accounting in STL pre-privatisation was similar to observations of state enterprises elsewhere (e.g. Hoque and Hopper, 1997). A technically sound accounting system was maintained and ostensibly was a component of state central planning. However, it was used in a rule-bound manner and was marginal to decisions. Control lay with politicians who intervened into operational affairs to exercise patronage and gain party advantage. The enterprise was inefficient, neglectful of customers, and beset by corruption, not least by an indulged workforce.

The privatisation of SLT was transparent with no apparent malpractice and placed management in the hands of minority private shareholders. They changed management control systems consistent with the predictions of advocates of privatisation. Bureaucratic and commercially ineffective controls based on government rules and regulations were replaced by detailed business plans, regular monitoring and accountability, individual performance evaluation and rewards, and computerised information systems. Flatter, more organic organisational structures evolved. Budgeting concentrated mainly on physical measures and took pains to link supply to demand. Overall, these changes constituted a new management accounting and control system. However, the new calculative practices and organisational language of accounting resided with the CEO and engineers rather than accountants *per se*. It linked physical business plans to mainly physical controls, and thence individual performance evaluation and rewards. Thus cost accounting was cost management – part of everyday activities with efficiency represented by physical targets (cf. Ogden, 1995). These accounting practices arguably go beyond conventional Western market-based cost controls. The partial privatisation brought relatively little financial malpractice, regular and transparent external reporting, and tried to reduce corruption.

The partial privatisation of SLT was initially successful because its management had greater autonomy from politicians and state bodies, and its CEO was an effective, hands-on, charismatic leader, who introduced effective controls over operations and investment. Other studies of partial privatisation have noted they brought few positive managerial changes, no break of political interference, wrangles between directors representing private capital and government interests, and poor commercial results (Uddin and Hopper, 2001). The effects of partial privatisation in SLT were more consistent with predictions of benefits from full privatisation. The reforms in SLT promised commercial success, consistent with development goals, maintenance of employment, preservation of employee rights, improved communication structures, investment in modern technology, and the infusion of modern management. The controls in SLT reinforced conventional delegated professional management rather than centralising information and decisions as in Uddin and Hopper (2001). This may be because NTT was a large international corporation whereas the other case involved family owners and indigenous entrepreneurs with capital constraints. Also SLT was in a growing and potentially very profitable sector with the blessings of improved technology.

However, despite their initial successes, SLT's reforms foundered upon political influence and intervention. As in other cases of partial privatisation (Hoque and Hopper, 1997), albeit more slowly in SLT, political interference emerged from conflicts between government and private board members. However, the major lesson of SLT is that politicians and state officials came to influence operating decisions through regulatory capture, not merely through treasury controls and appointment of directors as observed elsewhere. This culminated in the CEO's replacement by a bureaucrat amenable to restoring rules and regulations of public sector days. The reversion to rule-bound bureaucracy destroyed the operational rigour of the "new" management accounting and control systems. This turnaround was driven by political intervention. It is too early to judge the extent and commercial effect of restoring politicised bureaucracy but, for better or worse, the privatisation did not break state control – a *raison d'être* for privatisation in the first place.

The MASs changes are not an organisational phenomenon, their roots are social and historical. It is social in that the operation of bureaucracy is related to socio-economic structures of power in Sri Lanka. It is historical as it reflects systems of controlling localities developed during imperialism (Jayawardane, 1972). The orientation is aristocratic control, office is often exercised for status and accumulating capital through patronage rather than improving efficiency (Jayawardane, 2000). Thus, as in SLT, businessmen who have accumulated capital through political backing can assume control of modern enterprises and subordinate foreign, more professional managers' initiatives to their whims. The attainment of rational ends through bureaucracy and associated MASs become a myth. Bureaucracy becomes an expression of aristocratic, patrimonial authority, as noted in post-Weberian writings such as Selznick (1966), Blau and Meyer (1956), and Merton *et al.* (1952).

The case illustrates and extends a cultural political economy of accounting. There was little to suggest that accounting during public ownership was different from previous research. Politicians and state officials were indulgent to an inefficient and sometimes corrupt workforce emanating partly from political patronage over employment opportunities. The resulting operational inefficiencies, for example in getting connections, gave politicians further opportunities to exercise patronage for constituents. Thus political control, stemming in part from politicians' vested powers within bureaucracies, transpired to be an exercise of traditional kingship and largesse rather than the pursuit of rational, modern development.

It is difficult to disentangle retrospectively whether politicians tolerated indulgent work arrangements to accommodate workers' traditional cultural expectations and work patterns within an alien, capitalist MOP, or were the result of unionised workers using their political muscle to secure economic advantages, illicit or otherwise, within normal capitalist work relations. Whatever, the two divergent explanations illustrate organisational tensions in societies undergoing substantive transformation from traditional cultures and MOP. Managers and politicians must accommodate behaviour and expectations consistent with different MOPs and cultures operating simultaneously and are not immune from taking personal advantage of the situation. Hence the instability and unpredictability of change.

The Japanese management addressed these issues by introducing technologies and management systems consistent with contemporary capitalist MOPs. The role of conventional MASs was relatively minor due to the nature of the business, which required careful scrutiny of capital investments and operational control through physical budgets and evaluation schemes. Nevertheless, sound accounting and effective management controls were exercised. These were accepted and welcomed by TU leaders, managers, and younger skilled workers habituated with capitalist MOPs and modern cultures. They had much to gain from their adoption. Managers pacified TU leaders but older, less qualified workers, and managers committed to previous regimes of control resisted the reforms. Because of pre-privatisation agreements, SLT's managers could not make disgruntled employees redundant. Resistance became focused on three sets of employees:

(1) state nominated board members resentful of their marginalisation;
(2) managers hankering for a restitution of bureaucratic controls; and
(3) workers wanting restoration of customs and practices of the public sector era.

Their complaints focused on surrogates for their general dissatisfaction. Disgruntled managers complained of infractions of rules and regulations, and workers focused on wage payment systems. TUs became the focus of resistance for disgruntled employees and they made political interventions on the workers' behalf. Directors of SLT, being government appointees, had direct access to politicians and state officials. Their pleas and complaints received a sympathetic reception, partly because state officials, especially regulators and politicians, had found SLT impervious to political intervention or illicit dealings. The result was the restoration of state intervention, instigated by a loose but traditional coalition of party-based TUs, politicians, and state officials. This culminated in the CEO's removal and inter-organisational conflict.

Events may have turned full cycle. Controls introduced for rational economic ends have evolved into vehicles for very different purposes. Now the rational, market-based controls introduced by the new Japanese managers may become marginal. If so, it illustrates how in many LDCs the transformation between MOPs and cultures and the activities of the state render the practice of controls different to that intended. It remains to be seen whether Japanese management can eventually resolve problems of cultural and political dissonance. Despite their best efforts to date, they have failed to do so. The "somebodies" that dominate Sri Lankan politics have, apparently, restored vestiges of patronage politics.

Notes

1. We promised to disguise their names or positions.
2. The changes were consistent with most privatisation projects in LDCs facing new market environments (Adam *et al.*, 1992). It was instigated in Sri Lanka by political action (Kelegama, 1993).
3. The CEO was a board member. The title managing director ceased after privatisation – NTT preferred the CEO designation.
4. Since 1981, deregulation measures have been progressively introduced in the telecommunications industry: in 1985 the government permitted private companies to deal in telegraphic instruments such as telephones, teleprinters, fax machines and PABX systems; in 1997 there were five companies engaged in paging services.
5. This is so in many public departments in Sri Lanka. There is a commonly held view that the Post Office is extremely inefficient due to rigid rules and regulations.
6. By 1999 there were two other land phone companies and 12 mobile telephone companies using infrastructure owned by SLT.
7. This precipitated changes of senior officials in many organisations including SLT.

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Appendix. Interview protocols

Understanding the big picture

Aims:	To become familiar with the organisation, its members, and main managerial issues at a glance.
Actors:	Four key senior managers (names and positions are disguised).
Tasks completed:	One-two hour interviews with each, visits to the training centre and two regional offices, collection of available literature including annual reports.
Time:	2 June 1999-17 June 1999.
Issues/remarks:	Very much collaborative; newly created CEO driven management control system was in operation; how this happened was the area to go ahead; had a lunch with one senior manager; agreed to come back for further interview arrangements.

Picture from the outside

Aims:	To see how regulatory bodies (TRC and PERC) interpret the change at SLT and to comprehend the regulatory measures they have taken.
Actors:	Two senior official (names and positions are disguised).
Task completed:	One-two hour interviews with each, collection of available literature in relation to regulatory mechanisms.
Time:	21 June 1999-25 June 1999.
Issues/remarks:	Respondents appeared to be formal and objective; emphasised that regulations are key to success of privatisation; sceptical about political changes; agreed to be more helpful.

Arrangements for digging up to the middle

Aims: To arrange further interviews with middle level managers.

Actors: One senior manager (name and position is disguised).

Task completed: Met 11 middle level managers and made appointments for interviews.

Time: 23 June 1999.

Issues/remarks: The senior manager was respected by the middle managers; they gave appointments with no hesitation.

Digging up to the middle

Aims: To see how middle managers perceive new changes, particularly CEO's initiatives, to collect necessary documentation as additional/corroborative data, and to arrange further interviews with their subordinates.

Actors: 11 middle manager (some names and positions are disguised).

Task completed: One-two hour interviews with each; collection of available literature at the point of interviews; data were collected on (i) how early bureaucratic administration looked like, (ii) how new organisation structure meant to them, (iii) how new work culture is interpreted, (iv) how employees were segregated on seniority, professional status, age, and qualifications, (v) how new business planning system was understood, (vi) how new salary payment system was described, (vii) how trade union activities were seen, (viii) how new top managers are defined, (ix) how regulatory mechanism was identified, (x) how political intervention is described; documentations were collected from respective respondents mainly on old guidelines and new reports on business planning and performance evaluation.

Time: 28 June 1999-2 August 1999.

Issues/remarks: The managers were collaborative and respectful; answers to same questions were varied reflecting some segregation; data were carefully recorded either in English or Sinhalese; most of the visits were facilitated by our secretary recording data; off-company discussions with the respondents were highly successful! Post-interview discussions were held for clarifying and analysing the data; enjoyed as issues emerged.

Understanding operational controls

Aims: To see how lower level managers engage in the operation of new changes, to understand how they interpret these changes, and to arrange further interviews with workers at operational and service level.

Actors: 16 lower managers (some names and positions are disguised).

Task completed: One-two hour interviews with each; collection of available literature at the point of interviews; data were collected on (i) how new paradigm is understood, (ii) how new organisation structure affected them, (iii) how new work culture changed their managerial attitudes, (iv) how employees were segregated on seniority, professional status, age, and qualifications, (v) how new business planning system was connected to them, (vi) how new salary payment system was effective; (vii) how trade union activities changed their operational control, (viii) how new top managers effects on their daily vocational life, (ix) how political disconnection affected their daily controls; documentations they handled were observed in relation to management controls.

Time: 29 August 1999-22 October 1999.

Issues/remarks: Most of interviews were held in Sinhalese and the notes were translated into English for recording purposes; post-interview discussions were highly important in this regard.

Seeing the workers' perception

Aims: To see how workers interpret new changes and to understand how they later involved in the destruction of the new system.

Actors: 15 selected workers.

Task completed: One-two hour interviews with each; data were collected on (i) how new paradigm is understood, (ii) how new organisation structure affected them, (iii) how new work culture changed their work habits and attitudes, (iv) how new salary payment system was effective; (v) how trade unions reacted to these changes and effected on workers changing attitudes.

Time: 29 August 1999-22 October 1999.

Issues/remarks: All interviews were held in Sinhalese and the notes were translated into English for recording purposes; post-interview discussions were highly important in this regard.