

Managing organizations in the Third World: a case study of management control in a Bangladeshi jute mill

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SUMMARY

This article reports on a study of the operation of management control systems in a large nationalized jute mill of Bangladesh. The study seeks to describe how 'control' operated in practice and to explain why the systems of control worked in these ways. Investigations revealed a number of significant factors. First, the organization operated in both competitive and regulated environments; it had little authority over its operational activities and, head office and the sponsoring ministry were prominent in organizational planning and control. Second, the accounting system in the mill was mainly a response to external legitimacy (e.g. stewardship and tax matters). Third, although budgeting was perceived as part of the formal structure of control, it was not a dominant mode of control in the organization; the budgeting system was created to comply with head office and state requirements. Fourthly, the mill managers used a variety of social/informal control and mechanisms to cope with the complexity and uncertainty around the mill's operations. This study reinforces the conclusions of other research claiming that the wider social, economic, political and institutional contexts govern the ways management control operates in an organization.

INTRODUCTION

Of late, management control systems have become one of the central issues in development theory and practice. Recent discussions on 'good governance', 'transparency', 'sustainable development' and 'institution building' all, in effect, implicitly recognize this (see, for example, World Bank, 1992a; Blunt and Collins, 1994). Apart from their role in promoting organizational efficiency and effectiveness, management control systems are advocated for their economic, political and administrative values. Economically, they are perceived as desirable since they lead to faithful, efficient

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and economic management of the organization and resources entrusted to it. They are a vehicle for rational planning and resource utilization. Politically, they control the behaviour and actions of public officials, who are, in turn, accountable to legislators, the media, opposition parties, interest groups and tax payers. Administratively, they ensure that diverse activities are coordinated into coherent strategies and patterns of organizational behaviour that lead to desired outcomes.

Most developing countries which are striving for rapid socio-economic development have in the past decades created and hailed public enterprises as one of the major instruments for this purpose. But the performance of these organizations, with rare exceptions, has fallen short of expectations and in most cases has proved disappointing. Waste, corruption and inefficiency in their management have become the norm of public enterprises (World Bank, 1983). Today they are regarded as bloated, money-losing white elephants (Islam, 1993). Their failure has triggered serious debate and their survival is threatened amid the strong wind of privatization globally. While much of the debate is centred around whether state intervention is appropriate, there is also a debate on the desired limits of control and autonomy of these enterprises. However, one thing that is not disputed is that improved management of these organizations, including their management control systems, is an imperative for their better performance.

The need for better management control in public enterprises in Bangladesh is even greater since accusations of waste, maladministration and inefficiency are particularly pronounced (CMI, 1986; World Bank, 1992b). In theory, public enterprises in Bangladesh are managed rationally and centrally through national economic plans within which budgets are key administrative cogs. Their activities are monitored by formal systems of accountability which correspond to conventional prescription. Yet these enterprises do not operate as they should, partly because systems of accountability and control are complicated by the turbulent and changing political, economic and social environment and external events that overwhelm these organizations. The continual economic and social crises that Bangladesh faces provoke political actions which impact upon the day-to-day management of public organizations. Consequently, formal plans often bear little correspondence to actuality and the performance of organizations rarely meets expectations. Thus, line managers tend to regard the formal plans as dysfunctional and accounting information as irrelevant for control. Yet the systems of accountability and accounting are retained and a semblance of control is maintained by managers, albeit through unconventional means. Based on field research, this article¹ describes the operation of management control in a nationalized Bangladeshi jute mill to understand why a rational system of control persists when it appears irrational and how managers cope under such circumstances. It commences with the methodology adopted in the study, followed by a brief account of the political economy of jute industry in Bangladesh.

¹ This is an abbreviated version of Hoque and Hopper (1994) rewritten to focus on development issues. The original paper, directed at accounting researchers, contains a more detailed analysis of the research data. The rationale of the present version is the belief that the material and issues are also relevant to development specialists who would not normally read accounting journals. Secondly, by presenting these issues the authors wish to facilitate a greater dialogue between accountants and development specialists.

RESEARCH METHODOLOGY

Following a pilot study, four main theoretical approaches to control were used to take advantage of their complementarities and build a more holistic analysis (Ansari and Euske, 1987; Berry *et al.*, 1991; Ansari and Bell, 1991). First, technical-rational perspectives (Anthony, 1965; Ijiri, 1965; Horngren, 1977) emphasizing bureaucracy, hierarchical controls and optimal resource allocation helped explain why the control systems were originally so designed. Second, a human relations approach relating participation to managers' usage of and satisfaction with budgets was informative for understanding managers' behaviour, frustrations and attitudes towards their accounting and control systems (Argyris, 1952; Simon *et al.*, 1954; Hopwood, 1973, 1974; Hirst, 1983; Dunk, 1989; Brownell and Dunk, 1991). Third, given the distinctive cultural features of the organization, it was necessary to frame actual behaviour according to the actors' meanings (Blumer, 1978; Colville, 1981; Hopper and Powell, 1985). However, the 'interpretive approaches' needed to be supplemented by aspects of political economy to capture significant external 'institutional' factors influencing controls and associated behaviour (Burchell *et al.*, 1980; Tinker, 1980; Cooper & Sherer, 1984; Hopper *et al.*, 1986).

This study used 'data triangulation' (Campbell & Fiske, 1959), a mix of qualitative and quantitative methods, in order to generate a rich source of field data with internal checks on its validity. The data were gathered over 7 months in two phases: the pilot phase lasted for 3 months during 1990-91 and the main intensive study lasted for 4 months during 1991-92. The research methods consisted of five parts: a series of semistructured interviews with 141 managers and public officials; a study of documentary materials; direct observation of work processes and the shadowing of key personnel; a postal questionnaire; and the feedback of preliminary findings to managers.

The interviewees were selected from different hierarchical levels of the nationalized jute industry. They included managers from the mill² under investigation, Bangladesh Jute Mills Corporation (BJMC), and the controlling Ministries of Jute and Finance. Documentation, manuals and operating statements relating to accounting and control systems were collected. In addition, reports on the jute industry from the government, press and external agencies were collected for contextual information. In order to compare interviews and documentary evidence with actual behaviour, one of the researchers worked alongside managers in Adamjee and shadowed key personnel including general managers, deputy general managers and managers in accounts, cost and budget departments. A postal questionnaire was sent to 81 managers in other jute mills of BJMC during the second research stage. This yielded 56 responses, a response rate of 69 per cent. The questionnaire covered issues that emerged as significant during the pilot study. The questionnaire supplemented and corroborated the case study data and addressed issues of validity, reliability and generalization, which are common criticisms of case study research (McKinnon, 1988). The feedback of initial results and observations to informants further validated evidence.

² In addition, 22 managers from Bawa and Latif Bawany jute mills were interviewed to supplement the case study data from Adamjee.

With GNP per capita at US\$180 (1990), Bangladesh is one of the poorest countries of the world. Economic growth in Bangladesh is slow (on average 4 per cent per annum) compared with other low-income countries. The economy has major structural problems: on the balance of payments side, export earnings do not finance the import bill, while on the fiscal side total revenues do not cover total government expenditures (CMI, 1986). Such problems are exacerbated by frequent natural disasters in the forms of floods and cyclones, which disrupt production and impose a severe economic burden. Bangladesh is highly dependent on external assistance for financing development activities, dealing with natural disasters and bridging its sizeable fiscal and external deficits.

The manufacturing sector contributes less than 10 per cent to GDP (GOB, 1990) but accounts for 65 per cent of foreign exchange earnings, especially through exporting raw jute, jute goods and ready-made garments (GOB, 1985a). Jute ranks first as an export crop and second after rice as an agricultural crop in Bangladesh. It is one of the major sources of cash income for over 9.5 million farmers (GOB 1985b; FAO, 1989). Almost one-quarter of the Bangladesh population are directly or indirectly dependent on jute and are engaged in jute-related activities (World Bank, 1992b). There is a widespread view that Bangladesh without jute is unthinkable: jute is popularly acclaimed as the '*Golden Fibre of Bangladesh*' (GOB, 1990). The jute industry is the largest manufacturing industry, producing about one-third of manufacturing output, and the largest export commodity, earning about 35 per cent of total export revenues in Bangladesh. The sector provides about 10 per cent of the total employment in the economy (World Bank, 1992b).

The public sector plays a dominant role in jute manufacturing, marketing and trading. Following independence in 1971, all industries were nationalized. In 1972 the government set up the Bangladesh Jute Industries Corporation (later renamed BJMC) to manage the nationalized jute industry. Despite the policy shift towards a market-oriented economy in the post-1975 period, the public sector still dominates the jute sector. Currently 31 of the 64 jute mills in operation are publicly owned and operated under the BJMC. All the public sector mills operate within the centralized framework of national economic planning (Alamgir, 1978).

The jute industry of Bangladesh has been experiencing a serious crisis which has affected normal work practices and its performance (United Nations, 1984; FAO, 1989; GOB, 1990; World Bank, 1992c). The highest production in BJMC's history (560,507 tons) was achieved during 1969-70. Since then its production has declined owing to various factors, including shortages of materials, frequent power failures, workers' absenteeism, political instability and poor industrial relations. The sector has suffered badly from stagnant world demand and prices. Because of the introduction of synthetic substitutes for jute and new handling methods (which reduce the use of bags), world imports declined at 1.3 per cent per annum since 1973 and prices remained sluggish. Consequently, the jute industry could not recover its cost of production most years. In 1978-79 the government stopped subsidizing these losses, which led BJMC to rely on debt financing. The total debt of the jute industry (both public and private) to the banking sector at 30 June 1991 was Tk 32 billion (US\$ 842 million). The performance of the public sector mills was particularly bad; financial losses of BJMC increased from Tk 1.8 billion in 1990 to Tk 2.4 billion

in 1991, and unit costs exceeded the export price by 55 per cent. The industry was experiencing major difficulties in financing its working capital and planned programmes of balancing, modernization and expansion. The jute mills under BJMC could not even repay their bank loans. These financial crises had led the government to resume grant subsidies.

The political environment in which jute mills operate is characterized by a tradition of violence, demagoguery, military coups and political assassinations and a high frequency of industrial disputes. Although Bangladesh has recently returned to a democratic system, political instability remains: street demonstrations, student violence and labour unrest are common. The industrial sector in general, and the jute industry in particular, has been seriously affected by this political environment. The problem is worsened by the pervasive political influence of trade unions and confrontational labour-management relations. Although trade unions represent only 3 per cent of the total labour force, they exert a great deal of political pressure through strikes, lock-outs, demonstrations and other forms of labour unrest. Most unions are linked to political parties and to particular politicians (Ahmad, 1977), which allows them to use the political process to achieve their goals. Thus, the jute industry of Bangladesh is subject to enormous uncertainties in the areas of market competition, national politics, industrial relations and resource scarcity, especially finance. Management control in a Bangladesh jute mill must be understood in this broader context. Before entering into the detailed analysis, it is important to give a short account of the organization studied.

ADAMJEE JUTE MILLS LTD: THE RESEARCH SITE

Adamjee Jute Mills (AJM) Ltd was chosen for the main intensive study because it is the largest mill under BJMC and highly significant politically and economically. In June 1992 Adamjee employed 26,145 industrial workers and 3,463 staff. Established by a private entrepreneur in 1949 in Narayanganj, Adamjee became part of the nationalized BJMC in 1972. It manufactures mainly jute products: hessian, sacking and carpet backing cloth, cotton bagging cloth and laminated bags. The performance of Adamjee parallels that of BJMC generally. In the first year after nationalization it was expected to produce 76,500 tons of goods, but its actual output was 41,234 tons and it lost over Tk 28 million. Its highest production was during 1982-83, when it reached at 71,481 tons—335 tons less than planned. This pattern of unmet targets became the norm. During 1990-91 the mill produced 61,319 tons of jute goods—over 15,000 tons less than budgeted. The potential for domestic sales (about 6 per cent of total sales) is limited, requiring it to export the bulk of its output. The loss of market share to synthetic products has contributed to the mill's heavy losses and its rising level of indebtedness. By June 1992, the debt was so large (Tk 2017.33 million) that the mill could not even cover the interest on its borrowing. On most conventional criteria of commercial effectiveness, Adamjee, like the Bangladeshi jute industry as a whole, would be deemed poor.

The state's control over public enterprises in Bangladesh, including Adamjee, is characterized by a three-tier system: the ministry, the corporation board and the enterprise management. The sponsoring ministry through its minister-in-charge has the authority to manage the corporations under it. The ministry formulates policies

for programmes such as capital investment, production and pricing, budgets and management information systems. The Planning Commission under the Ministry of Planning reviews and approves the annual and long-term development plans and the Ministry of Finance is responsible for overall budgeting and control without becoming over involved in the day-to-day management (GOB, 1985a). The corporation board headed by a chairman supervises, coordinates and directs the enterprises under it. The enterprise management boards in the jute industry consist of a chief executive (designated 'project head' or 'mill manager') and head office (HO) representatives appointed by the board of the corporation. The enterprise board's powers are exercised subject to HO management supervision and coordination. A line-staff structure imposed by the Ministry of Jute operates from the ministry through HO down to the mill. The chief executive of Adamjee Jute Mills is called the 'executive director' (ED).³ Adamjee's enterprise board has 11 members, all appointed by HO with the involvement of the Ministry of Jute.

Adamjee is divided into seven functional departments: accounts and finance; administration; production; jute purchase; marketing; computing; and central workshop. Functional managers (general managers), assisted by heads of departments (deputy general managers), advise the ED, to whom they are accountable. They are responsible for managers, assistant managers and junior officers in the mill, all of whom are appointed by HO.

MANAGEMENT CONTROL IN ADAMJEE: ISSUES AND PROBLEMS

This section examines and analyses the practice of management control systems at the mill level. Its objective is limited to concentrating mainly on accounting and budgeting as a mechanism of control, being the focal point of the study.

Formal system of control: accounting and budgeting in perspective

Adamjee, like any other public sector enterprise, is subject to formal official control by the state. The financial accounting system in the mill is governed by the legal requirements under the Company's Act, 1913. According to the centralized and uniform accounting systems developed by the BJMC, all cost and financial transactions of Adamjee are recorded in one integrated set of ledgers. In addition, Adamjee must submit its annual capital and revenue budgets to the government for approval. The budgets come under strict formal scrutiny at many levels, e.g. sponsoring ministry, Ministry of Finance, and Ministry of Planning.

Adamjee begins the preparation of its budget each May. The mill receives from HO a budget timetable and guidelines providing economic forecasts for the forthcoming year. Then the cost and budget division of the mill collects the forecasted costs of each centre/department/section. Once these are on hand, they make a consolidated budget for the next financial year, which is forwarded to HO for approval. A budget committee at HO, with no representatives from the mills, reviews each mill's budget and makes recommendations to the board of BJMC for formal approval. Once the budget is agreed upon by HO the mill managers are held accountable for its achieve-

³ This position was vacant during this study: the general manager (administration) was acting as the ED.

ment. The mill has to submit a variety of financial statements each month to HO in the prescribed proforma. The mill's budget performance is evaluated in a monthly review meeting arranged by the cost and budget division (of HO), which prepares performance reports for each mill. However, observations have revealed that the HO division merely compiles information supplied by the mills. All performance reports are examined by the HO board in a budget review meeting in which Adamjee staff occasionally participated by invitation.

The philosophy of centralized formal control extends beyond revenue accounting to other functional areas, especially capital budgeting, procurement, marketing and personnel management. BJMC submits its capital investment proposals to the Planning Commission for inclusion in the annual development plans of the country. Capital budgeting decisions are made as part of the government's long-term economic development plans: the corporation has no control over its capital investment portfolio as to its shape, size or phasing. It can only voice its intentions and wait for the approval of the budget in the cabinet meeting to know whether its plan can go ahead (Sobhan and Ahmad, 1980). With respect to procurement and marketing, Adamjee has to follow the policies and directives of BJMC HO. Although this is justified by BJMC on different grounds, almost all interviewees at the mill level expressed their dissatisfaction since they have no option but to comply with HO requirements. Personnel management is another area where HO has great control. The mill management has no authority to hire, fire, promote, demote, reward or punish anyone in the mill. Most mill managers complained that HO, ministries, collective bargaining agents (CBAs) and politicians managed personnel matters in the mill. The minister for jute often interfered through HO powers, for example by enforcing recommendations for appointments and the appropriation of the mills' resources for political activities (such as using the mills' transport and workers for demonstrations).

The formal structure of accountability in Adamjee Jute Mills and BJMC resembles Weber's bureaucracy (Weber, 1947; Mouzelis, 1975). It has a precise hierarchical authority structure with clearly defined duties and responsibilities of office holders. Positions are specialized and appointees normally hold a requisite qualification, for instance professionally qualified accountants or commerce graduates are posted to the accounts and finance department; engineering graduates are the norm in the production, engineering and transport departments. Relationships between organizational members are mostly formal, for instance communications and decisions follow a chain of command: a sectional head creates a file for any decision and sends it to the head of department for review; the head of department adds his comments and places the file with his functional superior, who eventually refers the case to the executive director for final approval. If the case involves a significant amount of money it also needs the approval of the mill enterprise board and HO of BJMC.

In general, HO staff expressed a high degree of satisfaction with the structure and processes of control over the mills, arguing that the formal accounting system helped them coordinate, plan and communicate the work of the mills. *Prima facie*, the formal systems of control, including the accounting ones, are exemplary textbook manifestations of how to plan and hold accountable state organizations in a system of central national economic planning. However, despite the controls being bureaucratic in the Weberian sense with the potential to uphold rational-legal authority, they often did not do so, nor did they enhance efficiency within the enterprise. It

to be commonplace for the formal system to be bypassed through the detailed interventions of politicians, and almost all the mill managers claimed that when formal systems did not serve their interests they ignored them, while at other times they followed obsessively rule-bound behaviour.

In contrast to the principles of current organization theory that espouse open systems and democratic values and practices, the control system at Adamjee is highly bureaucratic, mechanistic and undemocratic. It assumed that a hierarchical administrative structure tying mills to government ministries and higher organizations, staffed by well-qualified officials, would produce effective accountability and control. This belief stems from what has been a very simplistic and mechanistic set of assumptions about human behaviour and the utility of central control as opposed to autonomy and participation of subordinates in decision making. The limitations of formalistic understandings of bureaucratic practices and outcomes are well known. This study reinforces these and demonstrates (as elaborated below) that decentralization subordinates' participation and motivation decisively affects how the intentions of formal control can be translated into reality.

Participation, motivation and budgetary control

The mill managers expressed acute grievances regarding their budgets including: lack of participation; failure to incorporate motivational factors; and irrelevance to day-to-day decisions. Although at times mill managers are invited to attend the budget meetings at the HO, they have little or no influence in the budget process. Field research revealed that no budget planning meeting was held within the mill. The head of cost and budgets at HO and his assistants, in consultation with the general manager, finalized the annual budget for the mill—the mill's contribution was limited to filling in budgetary control forms provided by HO. Most managers at the mill prepared budgets because HO required them to do so. Observations revealed that mill accountants sometimes constructed the budget by 'guess' based on previous years' budgets in order to meet timetables. Almost all the mill managers interviewed resented their lack of authority and power to plan their own operations *vis-à-vis* the power of head office.

Complaints about the lack of mill management participation extended to the follow-up of budgets. Managers who had attended HO review meetings reported that discussions in the committee concentrated on each mill's actual production against the targets set by HO: representatives from the mills played little part in the meeting. The results were consistent with human relations studies on budgeting which claim that inadequate participation detrimentally affects organizational participants' attitudes, behaviour and satisfaction. There was little incentive for managers to achieve HO targets: their promotion was not related to their budget record and nor were any bonuses tied to their achievement of monthly budgets.⁴ This contributed to the feeling among managers that promotion is achieved through 'manipulation' and 'personal contacts' rather than competence, hard work and achieving goals. All this

⁴ The questionnaire survey corroborated these results. It revealed that the mill managers strongly believed that the budget was not linked to any evaluation of their performance by HO or their rewards. Their belief on whether or not budget failure threatened their job security were more diverse. However, there was almost total unanimity that the budgets were useless for the execution of their own managerial tasks.

frustrated managers and compounded the organizational problems of getting them to achieve budget targets.

Mill managers' perceptions of the role of budgets

Almost all of the budgets were perceived as production driven: HO set production and productivity targets and everything else followed from this. Most mill managers believed that the formal budget did not adequately reflect either their preferred strategies or the economic and operating conditions confronting their mills. Moreover, as already pointed out, the lack of participation undermined the prospect that mill managers would accept the budget and strive to achieve its targets. Consequently, budgeting in the mill was manipulated. Almost all the accountants interviewed at Adamjee believed that their budget requests were automatically cut, along with those of other jute mills, during the budget review meeting at the HO. Somewhat predictably, mill managers often overstated their estimates to compensate for anticipated cuts to protect their mill in the struggle for resources.

The situation regarding the submission of budget actuals was similar. HO's formal guidelines and instructions dominated their content and what was deemed relevant. Most mill managers involved in preparing budgets had no clear idea why they were being prepared for HO. Almost all managers reported that they returned accounting and budgetary statements routinely in response to HO orders but made little use of them in the day-to-day management and control of the mill. Budgeting was seen as unimportant for evaluating mill performance and it was widely perceived as playing little role in the control of mills with respect to managerial motivation or performance evaluation, or in providing relevant information for operational decisions. Managers perceived the official budgeting system to be an unavoidable but irrelevant external imposition, ill-suited to the uncertain environments confronting them. Consequently, budgeting had come to be observed in the letter rather than the spirit of the law: it was routinized, formalized, highly structured and generally ignored (Kaplan, 1983; Covalleski *et al.*, 1985). It was evident that mill accountants just altered and edited the previous month's statement to prepare statements and reports for the current month due. No detailed variance analysis by product was done at the mill level; aggregated deviations from budgets were routinely computed with no explanation of their reasons. While mill managers believed in the potential of budgets, albeit in a revised mode, to aid decision making and control, they denied that the existing budget process had any relevance to operational decisions. Thus the whole budgetary process in the mill became mechanical and obsessively rule bound and divorced from operational control in practice.

Budgetary control, environmental uncertainty and political turbulence

Bureaucracy and mechanistic forms of organization, which *prima facie* prevailed at Adamjee, may be effective and acceptable in stable environments or when managers lack the experience, ability or confidence to handle more organic forms of management (Burns and Stalker, 1961; Lawrence and Lorsch, 1967). Also, they may be more effective in containing corruption than forms of delegated management (Perrow, 1986). In a country desperately short of economic resources, they also hold the promise of directing scarce resources to where they might yield greatest returns.

However, the evidence gathered suggested that none of these conditions were being achieved in this case, though it is difficult to demonstrate that more decentralized forms of control would have been better. Advocacy of centralized bureaucratic controls assumes that central agencies possess the information and computational capacity to make sound decisions and that politicians adhere to the rational–legal norms of decision making. Such conditions did not always apply in the jute industry of Bangladesh. The cleavage between the rational central bureaucracy of government departments and the mill managers’ desire for more flexible, decentralized control systems was overlaid by interventions from a political system reacting to socio-economic crises that contradicted the aims of both systems.

Three important factors were identified as adversely affecting control at the mill level: excessive state intervention, political instability and the lack of harmonious industrial relations. Most mill managers complained that the top levels of management in BJMC took no responsibility for managing the uncertain environment despite retaining their centralized powers to intervene in the day-to-day affairs of the mill. Political intervention in Adamjee is chronic and has not changed despite the changes in national leadership. Each set of political leaders in the past tried to have influence in Adamjee. As a result, managerial decisions became quickly politicized, making labour–management relations confrontational. The turbulent political climate nationwide has added to this problem, making ‘control’ a real challenge for mill managers. They argued that the intimate links between labour unions and politicians meant that national political issues had ramifications for the jute industry, as jute workers frequently participated in demonstrations, strikes and work stoppages called by opposition parties. Such stoppages were a significant cause of production losses and the failure of the mill to achieve its budget targets every year.

Almost all the managers at HO and the mills wished that jute workers were free from the political use of politicians. Managers argued that the bad industrial relations in the mill meant that they could not discipline its workforce. They could not fire or discipline any trade union officer without involving HO. Trade union leaders, local workers and politicians were prominent in the mill culture, which could be sharply differentiated. There were many rival groups of workers: local and non-local; supporters of the ruling party and opposition parties. Their rivalries could be prominent even within the same trade union. Mill managers argued that the provisions in the labour law to form multiunions within a single firm created chaos and indiscipline within the industry and weakened management *vis-à-vis* the unions. Adamjee Jute mills had 16 trade unions (six registered and 11 unregistered) during 1990–91. Inter-union and inter-group rivalry and conflicts were common. The deliterious effect of industrial relations can be illustrated in the example below. Besides its permanent workforce, Adamjee employed over 7000 *badli* (casual) workers every year to cover for permanent workers on leave. The mill paid leave wages to workers amounting to Tk 1.76 million during October 1990 and paid *badli* workers Tk 3.23 million in the same month. These wages were a significant cost of production of Adamjee—the mill spent an average of Tk 1 million each month on *badli* workers. Although about 15 per cent of *badli* workers in Adamjee were surplus to requirements, the mill management could not reduce the number and hence the cost of *badli* workers because of the power of the trade unions.

Adamjee, as the largest employers of industrial workers in Bangladesh, has a political value to each political party in Bangladesh. Sometimes unions used their

political connections and influence to get political leaders to intervene over matters such as bonus claims, overtime, idle time and welfare and washing allowances. Mill management had to yield to these pressures because the labour leaders were very powerful. This is illustrated in an incident in the middle of February 1992. The mill received a consignment of Tk 300,000 some time in January 1992 from a supplier. The preaudit department was not satisfied with the quality of the supplies and refused to pay until terms and conditions were fulfilled. The leaders of the collective bargaining agent kept pressing the deputy general manager (DGM) to approve the bill. They threatened him over the telephone several times and finally attacked him physically. The DGM was badly injured, but surprisingly no disciplinary action was taken against that leader and his associates since they were closely connected with the president of the country and the minister for Jute.

The following example illustrates further the pervasiveness of trade unions' influence. In 1991, following aid donors' recommendations, when the government decided to disinvest itself of some jute mills including Adamjee, violent protests and a call for a 72-hour *hartal* (strikes) by the unions and workers resulted in a government climb-down. In addition, the government was forced to form a wage commission to review workers' demands for a pay rise and agree an interim benefit of a 10 per cent increase in the dearness allowance.⁵ This cost Adamjee an additional amount of Tk 491.23 million and increased its cost of production by Tk 77.00 per ton, leading to huge unfavourable budget variances when the mill was already incurring the largest losses in its history.

Thus managers in Adamjee work in an environment where their activities are affected by a variety of factors, many of which are beyond their control. Yet they have to accept responsibility for any failure and they must strive to tackle the challenges of the changing environment.

Mill management through coping

Despite the difficulties outlined, managers did achieve a sort of control over everyday operations. The investigation revealed how they used social or informal control mechanisms to cope with the complex and varied situations confronting them. This was mainly directed at maintaining production and averting labour disturbances. Despite the apparently centralized command by HO and the ministry, Adamjee was in many respects loosely controlled hierarchically. While the facade of formal budgeting was maintained, its continuation relied upon the personal interactions initiated by accounting staff. For example, the cost and budget division of Adamjee was required to send monthly performance reports to HO. A memo to cost centres and departments requesting performance reports rarely elicited any responses, so the accountant responsible personally visited each section to collect the necessary information. Most managers in the mill believed this reflected a common culture within the mill whereby no one accepted the formal organization as his own.

More significant managerial interventions contrary to official guidelines were common. For example, because of Adamjee's huge outstanding debts, banks have been refusing to finance the working capital of the mill. On-site observations during 1991–92 revealed that Adamjee managers faced a serious financial crisis. They often could

⁵ This is an additional payment to wages on the grounds of inflation.

not pay even the weekly wages due to their workers (Tk 10 million on average). The general manager in the accounts and finance department was often in Dhaka negotiating with banks for funds to meet workers' wages, since failure to pay on time was likely to provoke serious violence,⁶ causing managerial tensions in the mill. It was also observed that managers entered unofficial borrowing arrangements of raw jute with sister jute mills to avoid stoppages of production. HO management appeared to turn a blind eye to informal responses of managers to mill crises. Informal unofficial coping mechanisms were functional to management in two ways: they avoided labour indiscipline in the mill and they helped maintain production.

Organizations and management control systems are political (Landau and Stout, 1979). An organization cannot be divorced from politics and the environment in which it operates, whatever its organizational structure. Thus it was no surprise that the day-to-day operations of Adamjee were affected by national politics and external realities. Given the prevailing situation managers at Adamjee often sought to 'manage' rather than 'control' (Landau and Stout, 1979) by using a variety of unconventional techniques. When there were serious political tensions, labour disputes and violent incidents in the mill, they turned to union leaders. Many of the mill managers reported that the ED of the mill sometimes gave a lump sum to the union leaders from his discretionary fund to maintain discipline in the mill. Most managers perceived this as necessary to keep workers calm and to maintain good relationships with union leaders. In the event of threatened strikes and industrial actions mill management believed they had to compromise with union leaders to maintain production. Indeed, the complex and turbulent situation in and around the mill led managers to rely on informal and social controls. The remaining question is: why do the formal systems persist when they are so patently ineffective? The next section focuses on this question, albeit briefly and tentatively.

Aid agencies and Adamjee

Adamjee operated in a larger context of formal administrative structures, policies and procedures. The organizational hierarchy above mill management, comprising ministries, government auditors, the government planning commission, parliament, the corporation board and the donor community, had cultures and preoccupations at odds to those of mill managers. According to interviews with staff at HO and managers in Adamjee, Bawa and Latif Bawany Jute Mills, the government and the donor agencies (e.g. World Bank, IMF, EEC, Asian Development Bank), who provided the major sources of funds, dominated the form of controls over and within the mills. Most mill managers repeatedly referred to the interventions of aid agencies in the government's policy towards the jute sector. The attempts to discontinue subsidies to the industry, the retrenchment of workers and staff and the closure of mills all were seen as emanating from conditions attached to donors' reform packages for the mills (see also Keeling, 1991).

Since the reliance of Bangladesh on foreign aid is excessive, donors' influence on government's annual development plans is understandable. While external aid was always accompanied by some form of conditionality, of late the donors have

⁶ For reference, see also Bangladeshi daily newspapers, January–February, 1992.

insisted that certain requirements are met by the recipients. Their concern for more transparency and increased emphasis on aid effectiveness means that the fiscal and accounting systems of the recipients have to be standard and acceptable to donors. Therefore, for the financing of programmes to proceed, the government had to meet accounting stipulations prescribed by the aid agencies, such as providing statistical data on the execution of projects, the disbursement of funds and the recovery of loans. However, the donor requirements and conditionalities often associated with their support bear little practical relevance to the context of recipient countries (Keeling, 1991). In such situations the recipient governments are left with little choice but to mitigate aid terms, especially where they appear politically infeasible. Virtually all players perceived that the political and economic reality in Bangladesh means that the jute industry had to be maintained, even with losses, to protect the interest of the mass of people and to alleviate poverty. It was, and is, crucial to foreign exchange earnings, and the employment effects of any diminution or cessation of its activities would have appalling social, economic and political effects. Continual political crises emanating from diverse sources ranging from natural disasters to distributional issues mean that any government intent on survival frequently had to transgress these legal-rational modes of control. Many aspects of Adamjee's formal structure, policies, control procedures and regulations were shaped by the institutionalized rules and expectations demanded by external constituents, rather than being evolved domestically by mill managers seeking to achieve high levels of efficiency and effectiveness locally. Consequently, the formal design of accounting and accountability systems, which on the surface were textbook models of rational resource allocation and hierarchical accountability, had been reduced to ritualistic and institutionalized roles within the mills, with the gaining of external legitimacy being their primary purpose. Such policies, coupled with political interventions, rendered the systems ineffective for managers. The frustration this engenders, the culture it creates and the transformation of controls into ceremonial or ritualistic or legitimacy systems correspond to some other case studies of accounting in public organizations (e.g. Berry *et al.*, 1985; Hopper *et al.*, 1986; Ansari and Euske, 1987; Ansari and Bell, 1991; Covaleski *et al.*, 1993).

SUMMARY OF THE FINDINGS AND THEIR IMPLICATIONS

Despite the formal structures and blueprints, management control at the mill level presents a formidable challenge for managers as their actions are limited by a plethora of constraints. Government controls the appointment of top executives and intervenes in operational decisions, the ministry controls bureaucratic procedures and the BJMC as the *de facto* head office controls operations, leaving little flexibility and initiative at the mill level. This is perceived by most managers as an obstacle since the environment they work in demands flexibility and speed in decision making. The determination of BJMC HO and the state to be involved in the everyday affairs of the mill exacerbated the complexity and uncertainty facing managers and paradoxically reduced the effectiveness of bureaucratic systems of control at the mill level. Managers do not have adequate autonomy over basic operational decisions such as production planning, procurement, marketing and personnel affairs. Such a situation demotivates managers and makes them shift responsibility and accountability to higher levels.

It suggests that, however complete the formal structure of an organization is, management control is unlikely to be effective if managers at lower levels lack sufficient autonomy over operational issues.

Second, although budgeting is vaunted as an integral component of national economic development planning and control, at the mill level it is viewed as an imposed formality. The system of budgeting which allows mill management little influence is perceived as unrealistic and ineffective. It is paradoxically that, while most managers are unequivocal about the importance of budgets, they make little use of them in their day-to-day activities. Consequently, budgeting and financial reporting systems in the mill became instruments that sought to legitimize the organization in the face of external demands. Failure to involve managers in the budgeting process and the absence of motivational factors resulted in the loss of managerial zeal and initiative needed to achieve budget targets. Policy-makers and consultants should be aware of the limitations of the organizational designs they promulgate, particularly when insufficient considerations are paid to opinions of those at lower levels.

Third, mill managers saw themselves as subject to undue and inconsistent demands from politicians and workers which had impacted upon the mills' culture and its performance. The effectiveness of management was considerably weakened by erratic political interference and poor labour-management relationships. Governments in power have used their 'control' for political gain, and their interest in gaining workers' support has complicated management control and enabled the unions to make undue demands irrespective of the financial situation of the mill, thereby adding to it chronic financial crisis. It is damaging from another point of view. Since compensation decisions are centrally controlled, official bargaining at the mill level remained confined to in-kind benefits, raising the frequency of disputes.

Fourth, while most formal tools of control did not work in this case study, it cannot be assumed that this was a 'case of absolute failure' in terms of management control. Management control at Adamjee was arguably effective in relation to its goals, although the tools used were not the ones expected in an ideal case. The institutional pressures on the mill caused managers to rely on 'social' or 'personal' controls rather than official systems to cope with complexity and uncertainty. Management control in the mill was ultimately a social and political phenomenon rather than a computational strategy of rational decision-making processes. The use of informal mechanisms of control helped Adamjee to avert major crises that could have disrupted its normal operations. This suggests that formal tools of control will fail unless they reflect the cultural, economic and political factors confronting managers. It also suggests that 'social' and 'informal' controls may not only be complementary to formal ones, but in some instances they may be effective substitutes. By implication it means that management control in organizations can only be understood through a holistic approach. To limit it to formal bureaucratic systems, thereby ignoring socio-political and cultural aspects, is likely to give a misleading impression leading to erroneous policies.

CLOSING REMARKS

The problems of management control identified at Adamjee are not unique to Bangladesh; they remain valid in many other developing societies, albeit in different guise

(see, for example, Blunt and Jones, 1992). Like the case of Adamjee, they explain, in part, the poor record of public enterprises and development failure in these societies. As such, there is a general recognition of the need for better management control and enhancing the autonomy of managers so that management becomes efficient and effective. However, the mode and extent of such management and autonomy remains a matter of controversy (United Nations, 1974; Ramamurti, 1987). There are those who advocate complete divestment as the only means to improve the efficiency of public enterprises, while others propose partial divestment and institutional reforms to expand managerial flexibility. While this debate continues, Adamjee, like many other state enterprises throughout the developing world, stands at a crossroads. Though the government and the population of Bangladesh as a whole can hardly ignore the importance of the mill in the economy and society, the donor advocacy and prescriptions have made the situation highly complex. A recent World Bank study categorized Adamjee as the worst mill of BJMC and strongly recommended closing it down. Indeed, given its current position Adamjee appears to be inexorably moving towards terminal crisis and market-based solutions. But crises in the jute industry have been the norm in politically turbulent Bangladesh, so it is difficult to discern whether the current events mark a point of transformation or whether they will be contained by political processes as previously. Whatever the policy, choices are agonizing, for they literally represent life and death decisions in such an economically deprived and fragile society. Perhaps the greatest lesson is that modernistic, wholesale, imposed solutions, insensitive to the nuances of the local political and socio-economic scene—be they central state planning, as previously, or the fashionable privatization and market solutions currently being advocated—can produce results undreamed of by their initiators, even in their nightmares.

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