Abstract
The paper examines the post-liberalisation SOE governance and control system of Sri Lanka and argues that duality of feudal-patrimonial and rational-legal elements causes dysfunctions in the bureaucratic governance and control of organisations. Although the main aim of the paper is to theorise the formation of this duality, by definition the resulting construct will have relevance to a range of countries in the Asian region. The two specific research questions are (1) how did patrimonial-feudal elements of governance and control originate in Sri Lanka? (2) What were the antecedents to the transformation of the bureaucratic governance into a duality?. Multidisciplinary in nature, the theoretical framework used in the study draws from cultural and social anthropology, political history, political economy and Weberian theory of bureaucracy. Empirical evidence from previous research on Sri Lankan SOE governance and control is used to ground the conceptual framework.

Introduction
Sri Lanka, despite pioneering economic liberalisation in South Asia in the late 1970s, is currently in turmoil, especially pertaining to the governance of state owned entities (SOEs) and other similar fully and partially liberalised commercial entities. The initial stage of liberalisation received positive appraisals from various analysts. Nevertheless, the momentum could not be sustained, largely due to dysfunctions in governance and bureaucratic control of these entities. Dysfunctions of the bureaucratic governance of the state are perhaps the most salient causal factor that hinders the economic performance of SOEs.

The nationalisation of government business undertakings during 1950s led to the creation of a large number of SOEs. The management and operation of these SOEs are carried out by civil servants who inherited a relatively well-established bureaucratic administrative system.
from the colonial administration. In 1977, the privatisation and deregulation efforts were accelerated under the economic liberalisation agenda and the success of these efforts was gauged by the number of SOEs being liberalised, fully or partially. In this process, private enterprise governance was promoted. Consequently, the hitherto functional bureaucratic control and accountability was disrupted. The accountability and control mechanism that operated through the powers of the parliament, civil service and the Auditor General was gradually dismantled and a vacuum of governance and accountability began to emerge.

The colonial bureaucratic administration attempted to subjugate patrimonial-feudal elements of the pre-colonial traditional society, but was unable to eradicate them completely. This was due to the continuation of certain feudal-patrimonial elements by the colonial administrators. The post-independence governance system is insufficiently rational and is not based on the values and principles of either a performing bureaucracy or capitalist state. In addition, the state bureaucratic governance and control system has gone through a transformation process that apparently has produced a duality in bureaucratic governance. The duality of rational-legal and patrimonial-feudal factors has caused dysfunctions in bureaucratic governance, resulting in the subservience of bureaucratic rational efficiency to patrimonial-feudal behaviour and in the hegemony of politician’s party-based petty politics over rational-legal bureaucratic institution.

After independence, the rational-legal bureaucratic controls enacted through the relatively independent civil service of the country, coming from colonial era, started to be encroached by patrimonial-feudal control elements that pre-existed colonial bureaucracy. Thus, the state bureaucratic governance transformed into a duality of traditional and modern elements. As a consequence, the governance and control of SOEs have become dysfunctional. The dysfunctions of this duality are central to understanding the post-liberalisation SOE governance problems in Sri Lanka.

The aim of this paper is to theorise the formation of this duality. Evidence from previous research on Sri Lankan SOE governance and control is used to develop a theoretical framework. The central argument of the paper is that the patrimonial-feudal elements of traditional society reappeared in the main bureaucratic governance system of the country forming a duality of modern and traditional elements. This paper examines how the rational-legal bureaucratic mechanism operated by the civil servants transformed into a patrimonial-feudal bureaucracy.
Multidisciplinary in nature, the theoretical framework that is developed for the study uses cultural and social anthropology, political history, political economy and Weberian theory on bureaucracy.

**Genesis of traditional controls: patrimonial-feudal**

*Political economy and social anthropology of bureaucratic governance and control*

The concept of mode of production (MOP) describes the economic activities and social relations when members of a society transform natural objects into useful things. The impact of the mode of production extends beyond work relationships to exchange relations, classes, cultural beliefs, ideologies, politics and urbanisation giving rise to tensions affecting the work place and domestic politics (Davidson, 1989). Specifically, Marx distinguished four types of MOP namely, asiatic, ancient (classical), feudal and capitalist (Wittfogel, 1957). The feudal mode of production especially Kingship preceded the capitalist mode of production. However, the advent of the latter did not fully displace the former; rather both coexisted creating a duality in most developing countries. Colonialism was a significant change agent for many developing countries and therefore the colonial mode of production is assumed as a variation of capitalist mode of production (Alavi, 1980).

The type of feudalism that prevailed in medieval Europe is different from its Asian variants. The special character of Asiatic society, according to Marx, is that land is owned collectively by small localised communes but ‘climate and territorial conditions make artificial irrigation by canal and waterworks the basis of Oriental agriculture’ (Leach, 1959). Moreover, water control necessitated the interference of the centralising power of the government. Under this system, power was in the hands of a bureaucracy, yet the ownership of the means of production is in the hands of the people. Marx considered India as a typical Asiatic Society and China was atypical due to the development of private property in land (Leach, 1959). However, the social order in ancient Sri Lanka was different from both India and China.

The concept of Asia, collectively referred to as oriental society was conceived by early western writers in an abstract form having used ‘bits’ and ‘pieces’ of stories related by early explorers of the Orient such as Marco Polo (Krader, 1975). The seventeenth century European travellers to Asia appeared to have provided the information about Asian societies and sociologists such as Marx were, to a certain extent, influenced by this information. Therefore, the wide disparity of societies within Asia was not taken into account in explaining the elements of Asiatic mode of production. As a result, idiosyncratic cases such as Sri Lanka
were neglected in formulating general theories of mode of production. Thus, a detailed probe into the pre-capitalist mode of production operated in ancient Sri Lanka is necessary to achieve a broader understanding of the foundation of governance and controls.

Before North Indian settlers arrived, the indigenous inhabitants had lived for many millennia. These inhabitants, the Helaya, consisted of four groups *Yakka, Naga, Deva* and *Rakhsa*. During this period, agricultural-based civilisation with remarkably advanced irrigation culture started to emerge. During the period of Sinhalese kings, the societal and political order was based on the agricultural production, primarily paddy (rice) cultivation. Kingship dominated the political order. The basic means of production was land that was owned by the King who exercised absolute political power over the people. The Sri Lankan feudal system was different from that of other western equivalents in that the caste-based social structuration was primary (Gunawardana, 1971). This is not in line with class-based social structuration as espoused by Marx. There are two concerns with this formulation. Did Sri Lanka have a feudal system that resembled western type feudalism or was Sri Lanka subject to oriental despotism as suggested by Witfogel (1957). These two views are worth exploring, as this will shed light on the issue whether Sri Lankan people were subjected to a centralised despotic bureaucracy under the Kingship (Monarchical system).

The ancient Sri Lanka, called *Ceylon*, was unique due to a remarkable ingenuity of the hydraulic civilisation with a sophisticated system of manmade reservoirs. Civilizations whose agriculture was dependent upon large-scale waterworks for irrigation and flood control are called hydraulic civilizations (Wittfogel, 1957). The roots of the traditional controls resided in the control of the irrigational system and the related economic and social actions of the people. There are two schools of thought concerning the bureaucratic control structure that existed at that time to control the irrigation system and the other related social actions. The first theory aimed at explaining the development of ancient civilizations with systematic organization of work on a large scale, the emergence of social classes, and widespread specialization was elaborated by Wittfogel (1957). He believed that the development of irrigation works in areas such as ancient Sri Lanka led to the use of mass labour, to an organisational hierarchy for coordinating and directing its activities, and to government control for ensuring proper distribution of the water. The hydraulic civilizations of Asia were quite different from those of the West. It was hypothesised that wherever irrigation required substantial and centralised control, the king and his officers monopolised political power and dominated the economy, resulting in an absolutist (despotic) state. In addition, there was a close identification of these officials with the dominant religion. The forced labour was used for irrigation projects and was directed by the despotic state. The political power of the king
was despotic and exploitative. The Wittfogel school of thought asserted that the tanks were the work of a centralised bureaucracy and therefore that the abandonment or destruction of the tanks was tantamount to the collapse of the state.

However, Leach (1959) refutes Wittfogel’s hypothesis. He argues that, although the large tanks may have been the work of a bureaucracy, the small village tanks certainly were not (Leach, 1959). He asserted that the masses did not depend on large tanks for cultivation. The large tanks were built for the purposes of supplying water to the urban area, cultivating paddy lands to supply food to urban area and satisfying egoistic and aesthetic appeals of the Singhalese Kings (Leach, 1959). Further, there was no evidence from historical records that ancient Sri Lankans had a centralised bureaucracy to manage these small village tanks, which were about 20,000 in number. The historical records of the government archives on monarchical activities do not provide evidence of the king’s obligation to maintain small tanks. There was never a centralised bureaucracy to direct such work or to ensure that it was carried out (Leach, 1959) as small tanks were maintained and managed by the villagers.

The Sri Lankan case suggests that Wittfogel’s argument of the indispensability of centralised bureaucracy for the survival of hydraulic civilisations is not valid. The Sri Lankan villagers maintained their own irrigation system independently from the State and surprisingly they continued it even after the collapse of the state. Tennent (1860) argues that that the communal ties among villagers was through ‘concord and union’ (common agreement and social cohesion through mutual help) and were the essential characteristics for the system to work effectively. The control of the production was not by a bureaucracy at the village level, rather there was concord and union fortified by religious beliefs and caste-based rituals. There was a tradition of mutual help called *attama* within the village. Neighbours relied upon to help others in cultivation related activities. This is evident from the fact that, despite the rise and fall of many governments in ancient Sri Lanka, the village and its tanks remained the same for thousand years (Leach, 1959). Thus, pre-colonial Sri Lankans were not used to a centralised bureaucracy and were not organised according to a bureaucratic control structure. The control came from the common agreement between village seniors, tradition based on religious rituals and caste-based rituals. Thus, the oriental despotic hypothesis does not hold for Sri Lanka.

**Role of religious and caste-based social institutions**

Parallel to the Kinship-based mode of production, monasteries or religious institutions in medieval Sri Lanka played a significant role in influencing the mode of production and related social organisation (Evers, 1969). Monasteries managed by Buddhist monks held large portion of land and the corvee labour tied to them. Under this corvee labour system, people
were required to work for the king in return for the use his land. In some instances, monasteries had their independence from the king, for example, in certain cases, the king’s officers were not allowed to enter monastery land without proper permission from the head of the monastery (Evers, 1969). The religious beliefs and related social institutions were very powerful. Kings often donated land and tanks to monasteries to foster goodwill and to receive loyalty from the subjects. The most crucial factor for a king to be accepted as the rightful heir to the throne was to possess and protect the ‘sacred tooth relic’ of the Buddha – *Danta datun wahanse*. Without claiming the possession and caretaking of the sacred tooth relic, a king could not ascend to the throne and even if he grabbed the throne without it, the subjects would not accept his authority as the king. Therefore, the role of monasteries as a religious, political and economic institution was critical to understanding the mode of production and the related social structure of medieval Sri Lanka (Evers, 1969). The religious beliefs played a key role in the daily lives of the subjects. This has further strengthened by caste-based social structure. The primary occupation of all the caste was farming but each caste group had its own traditional duties to perform.

The triadic relationship between the tank - *veve*, village- *gama* and temple-*dagaba* was very significant in the traditional society. The pyramid-like colossus religious monuments called *dagaba* were erected by Sinhala kings and they were a symbol of religious devotion as well as a king’s prowess. The people became so attached to monasteries for several social, economic and political reasons. The great hydraulic civilisation was under constant attack by South Indian invaders and during the periods of disruption to the king’s administration, the monasteries held the villages together by managing the village irrigation, farming and related cast-based *Rajakariya* of villages (Moore, 1989). The village as the basic unit of social organisation was a self-sufficient economic unit, land tenure was communal, and labour was collectively organised. Relationships between peasant families were egalitarian, and the primary unit of political organisation was the democratic village council representing all heads of families (Hettiarachchy, 1982). The hierarchical relationships were harmonious and based on consent and contract. The social structure was caste-based feudalism.

While the discussion on MOP explains production relations and the resultant social structure, a separate analysis of the political structures namely patriarchy, patrimony and feudalism, is needed to understand the foundation of governance and control.

**Relationship between patriarchy, patrimony and feudalism**

Power was patrimonial in traditional society. Political structures evolve from patriarchal to patrimonial (Weber, 1968). Patriarchalism is defined as the personal domination of a master
over his household based on the *holiness of tradition*. In patriarchalism, the staff is recruited from the extended family of the patriarch. Weber (1968) saw Patriarchalism as the most typical societal actions integrated in relationships of traditional domination. As the political unit grows bigger, the ruler needs a more intricate administrative staff. When this staff is governed under the strict personal control of the ruler, patriarchalism is necessarily transformed into patrimonialism, which is the political domination of a ruler with a highly personal and strictly subordinated (dependant) administrative staff (Murvar, 1971). The principle of government is founded purely on personal favour or disfavour of the ruler toward his subordinates. The political, social and religious ideology is centred on the ruler, who is worshipped as a supernatural power. The members of the staff are not supposed to develop any sort of power independent of the ruler.

However, feudalism is distinctive from the patrimonial system (Murvar, 1971). The right to hold office in the feudal structure is a legal title whereas, in patrimonialism the administrative rights of the ‘servant notables’ are not legal. Once granted, the ruler cannot easily take back the legal rights unless the feudal lord is convicted of treason. Therefore, there is a considerable degree of independence for the feudal administrator. All means of administration, under patrimonialism, belong to the ruler. In feudalism, the means of administration belong to the feudal aristocracy in the form of their private property. The maximization of the ruler’s power and an escalation in the number of administrative functions is a norm in patrimonialism whereas, in the feudal structure, there is a tendency to minimise ruler’s power and a reduction of administrative functions.

In traditional Sri Lankan society, the relationship between the king and the landlords may be viewed as feudal, while the social relations between the landlords and farmers were patrimonial. For example, the outer provinces of the kingdom were ruled by governors (*disava*) appointed by the king. These governors’ power was virtually absolute (Leach, 1959). However, the caste-based social structure and the religious institution introduced certain checks and balances. Both feudal and patrimonial elements, therefore, prevailed in the social system.

Max Weber saw both capitalism and bureaucratisation as revolutionary forces working to undermine all traditional forms of social organisation (Mommsen, 1980). The patrimonial-feudal relations, control and authority derived from the social systems of patriarchy and patrimonial are argued undesirable to ensure rational calculation in individual behaviour. Officialdom of the rational bureaucratic mechanism is required to eradicate arbitrariness of power and authority found in patrimonial and feudal systems. In societies that are still in the
process of transition from traditional to modern, the feudal – patrimonial practices tend to interfere with rational bureaucratic systems.

**Colonial intervention**

The traditional society, which relied upon concord and union, began to tumble with the colonial intervention. Under the British colonial rule, all land for which ownership could not be firmly established was confiscated and designated as crown lands, which were utilised for commercial plantations. Once concord and union was broken and it created serious problems relating to the control and management of irrigation system. Subsequently, the control of irrigation was captured by a group of kinsmen and as a result, patronage and discrimination in control of irrigation water emerged. Many farming families did not have such kinship relations and therefore were deprived of a fair share of water. During the pre-colonial period the *Rajakariya* system (compulsory labour owed to the King by people in return for the use of King’s land) was organised by an irrigation-headman called *Velvidane* (Goldsmith & Hildyard, 1984). *Velvidane* was elected by the villagers to supervise their irrigation works. British colonial administrators also used *Velvidane* system that purely stemmed from feudal-patrimonial practices. Colonial administration made it an integral part of the colonial bureaucracy. However, the mode of operation of the *Velvidane* function radically changed in that *Velvidane* was no longer restrained by the social norms that existed prior to the colonial administration, nor was the traditional method of allocating water used. As a result, the *Velvidane* and his friends had a dominating economic position in the village (Leach, 1959). Inevitably, the allocation of water became both inequitable and arbitrary. The control of the water channels corresponded closely to the factionalism, which divided the society. This was the beginning of the disintegration of governance and control system based on concord and union. Further, with the expansion of the powers of the colonial state, communal responsibility for maintaining tanks was taken away from villagers and a central irrigation department was formed. The results were catastrophic. According to one officer who commented on this incident to a select committee of the House of Commons in 1849, ‘what was everybody’s business has become nobody’s business’ (Goldsmith & Hildyard, 1984). Thus, the result of the colonial intervention was the disruption of the principle of concord and union and the introduction of rules and regulations for behaviour consisting of both modern and traditional elements.

**Assimilation of feudal-patrimony in to bureaucratic administration**

Bureaucracy in post-colonial Sri Lanka was reciprocally interrelated with feudal patrimonies (Jayewardene, 2000). The feudal and patrimonial elements were powerful in the traditional mode of production associated with agro-based rural economy, a feudal state and caste-based
peasant religious and social obligation (Wickramasinghe, Hopper, & Hewege, 2004). The feudal lords controlled village activities, exercising the power derived from the ownership of land granted by the King (Jayewardene, 2000). In the colonial government, these feudal lords maintained their power by rendering loyal service to the government. They attained aristocratic social status and were able to sustain their feudal life style. For the services rendered by these aristocrats to the colonial government, colonial administrators granted more land and ‘official positions’, that enhanced social power and ability to maintain social control on behalf of the colonial power (Wickramasinghe et al., 2004).

The missionary education system established by the colonial administrators paved the way for the children of these aristocrats to blossom as able bureaucrats to serve the colonial bureaucracy. Interestingly, these indigenous bureaucrats brought patrimonial and feudal relations and practices to the rational bureaucratic system. This new class of bureaucrats are labelled as petit bourgeoisie by Jayewardene (2000). Similarly, post-colonial political leaders of the country emerged from the same petit bourgeoisie families who had served the colonial administration with utmost loyalty and who had accumulated wealth from commercial activities without being involved in productive activities. Continuing feudal sentiments, they were so eager to acquire land to maintain economic and social prestige. They were able to ascend the social ladder irrespective of the caste divisions. A new social order began to emerge restructuring the feudal caste-based system. This transition is appropriately termed as ‘nobodies to somebodies’ (Jayewardene, 2000). The old ‘nobodies’ under the feudal and patrimonial system became new ‘somebodies’ with the emergence of a mercantilist capitalist class under the colonial administration. The old ‘somebodies’ who derived their power, prestige and wealth from feudal relations and from cooperation with the colonial power, became influential political leaders. Some form of class structure began to form but neither one completely encroached the other; rather the new class formation was superimposed on the caste-based structure. The final manifestation was coexistence or a dualist situation. The bureaucratic system was used for non-rational or non-bureaucratic ends and the patrimonial and feudal practices were infused to the system. The use of the administrative system for political patronage became institutionalised.

The colonial government developed a large plantation economy while neglecting the traditional subsistence agricultural sector. The rapid development of this capitalist plantation sector and the economic retardation of the traditional subsistence agricultural sector operated in opposite directions and as a result, a dualist state manifested. When the economic status of the two sectors showed a wide disparity, a socio-political disharmony emanated from it. The majority of landless villagers in the traditional sector viewed capitalism and plantation
economy as an evil that deprived them of their traditional heritage. The bureaucrats of the modern sector continued to expect feudal practices from the villagers. This was done by exercising patrimony and patronage. This behaviour was spontaneously assimilated firstly into colonial business and administrative organisations and secondly, into SOEs under post-colonial governments.

**Peasant ideology**

The peasant ideology and its manifestation in organisations are central to understanding how traditional controls operate. The majority of workers, while working in modern bureaucratic structures, are nostalgic about agro-based traditional peasant values. A form of duality manifests among workers who often confront modern and traditional directives. An ideology is a system of meanings through which people interpret and understand the world (Kahn, 1985). The peasants are described as ‘a mixer of small scale, primarily but not solely agricultural, producers who make a significant contribution to the national product of societies in which they are dominated by more powerful classes, bureaucracies, and the like’ (Kahn, 1985). Though large scale plantations and destruction of the village communal farming system forced people to abandon farming, the ideology of peasantry has continued to prevail in the minds of the people. They naturally bring this ideology to organisations they work (Ranugge, 2000).

While Marxism takes the development of class consciousness, particularly proletarian consciousness, to explain peasant consciousness, such is not the case for non-Marxist scholars (Kahn, 1985). For non-Marxists, peasants are modern/rational to the extent that they engage in western forms of political and economic calculation. For example, in an approach to identifying peasant economic and political rationality that stems from political economy, peasant norms and values are approached deductively by means of theories of individual decision making (Popkin, 1979). Challenging Popkin’s view of rational peasants, an alternative approach to understanding peasant ideology is presented (Kahn, 1985). According, to this view, peasants do not behave rationally. Non class-based ideologies (Turton & Tanabe, 1984) tend to prevent rational behaviour of peasants. The unconditional devotion and loyalty to kingship, religious values and rituals, and caste-based social obligations are some of the non-class based ideologies preventing rational economic and political calculation of peasants.

The general connotation of peasant in the social and cultural anthropology literature does not seem to be a fitting label for Sri Lankan peasants. Large scale rice farming was not present in
traditional Sri Lanka and this is the case even today. Small peasants contributed to the village production. In the social structure, irrespective of the size of the farming land, farmers were considered to be of high caste. There had not been an underprivileged and exploited smallholder peasant scenario in Sri Lanka unlike in many developed countries. However, during the colonial time, the confiscation of land, the neglect of irrigation system and the spread of other numerous social evils rendered a ‘dependant’, ‘indebted’ and ‘undesirable’ peasants (Moore, 1989).

Sri Lankan peasants are very proud of their ancestral heritages and it continues to manifest in even modern day social structure. Most of the educated work force is from the rural Sri Lanka and they embrace the peasant ideology passed on to them during their childhood socialisation. Major cultural rituals and events of the people are rooted in agro-based traditional rice farming practices. Coming from colonial times, due to confiscation of peasant lands by colonial rulers to develop large-scale plantations, there is an anti-capitalist sentiment in the minds of the peasants. This was evident by the election of socialist backed governments in post independent Sri Lanka. Private ownership has been viewed with suspicion by the peasants. The Sri Lankan traditional agriculture was directed toward mitigating uncertainness and therefore, peasants give priority to permanency over profit. Above all, the feudal and patrimonial rituals practiced in traditional society are still hovering in the minds of the workers. The rationalisation process introduced into the organisational structure does not necessarily include the organisational participants. The bureaucratic controls are often challenged by the traditional practices of workers.

The rational bureaucratic principles promote impersonality and rational calculation. The workers with traditional values fortified by peasant ideology confront rationality of modern controls. The post- independent politics in Sri Lanka gravitated around peasant ideology, as they constitute of majority vote bloc. Even in recent elections, the manifestos of main political parties have addressed peasant sentiments to secure votes (Ranugge, 2000).

The governance and control system of Sri Lankan state owned enterprises

In Sri Lanka, Sinhalese kings ruled for over 2500 years, followed by 450 years of colonial rule by the Portuguese, Dutch and British respectively. Sri Lanka gained independence in 1948. It is now a democratic republic with an executive presidency and a Westminster-type parliament. Immediately after independence, a colonial style bureaucracy was instituted and this was detached from the political processes (Wilson, 1977). Since 1956, the government’s
involvement in commercial activities escalated. It replaced laissez-faire economic policies with state run socialist policies directed at making Sri Lanka a modern mixed economy with an emphasis on state-controlled enterprises.

The *State Industrial Corporation Act of 1957* and the *Ten Year Plan of 1959* initiated the establishment of state owned enterprises (SOEs) followed by the nationalisation of private enterprises. During the period of 1960-77, the number of SOEs grew rapidly. The large plantation sector inherited from colonial rule was nationalised and it added to the rapid growth of SOEs in Sri Lanka. The significance of SOEs in the national economy was evident by the growth of its share of GDP from 5.7% of GDP in 1961 to 24% in 1977. In contrast, SOEs accounted for 17% of GDP in Sub Saharan Africa, 12% in Latin America and 10% in mixed economies world-wide during the early 1980s. Sri Lankan SOEs were significant in size and economic power (Kikeri & Shirley, 1994). Since 1977, all elected governments have attempted to liberalise SOEs.

Presently, the non-commercial objectives of politicians and civil servants tend to influence the internal governance of fully state owned entities. The influence is indirect for SOEs partially owned by the state. The indirect influence generally comes through regulatory bodies instituted by the politicians to control operations of privatised entities. In most of the SOEs, instead of rational and impersonal directives, there seems to be a personal power base centred around a handful of administrators who are influenced by the political power of the relevant minister. The majority of employees are politicised and they are usually affiliated to one of the main political parties. This is reflected in the behaviour of trade unions, which usually act on the set political agenda of the political party in power. The influence of political power over the affairs of the SOE tends to jeopardise the overall governance. The political party in power manipulates performance control, budgetary control and fiduciary control disrupting enterprise performance. Answerability for the exercise of due authority by SOE managers is not treated with seriousness as it used to be during the pre-liberalisation era. The civil servants are under obligation to the minister and his political power. Sometimes, the enterprise agenda is set according to the minister’s political agenda. The civil servants can easily rid themselves of the answerability to the decisions by using the ‘acting upon ministerial directives’ as an excuse. The intensity of the auditor general’s supervision is curtailed since the auditing function of many SOEs is subcontracted to private audit firms. In partially privatised SOEs and fully government owned private limited liability companies, there is a lack of unity in governance directives. The Establishment Code, Financial Regulations and the government circulars that provided a sound regulatory framework in the pre-liberalisation era, interfere with the directions of the *Companies Act*. The lack of
coherence in regulatory framework has aggravated the use of personal power of administrators.

**Governance and control system**

The governance and control system of SOEs were derived from the colonial and post-colonial bureaucracies. The colonial regime created some SOEs under bureaucratic control structure, and the post-colonial government in Sri Lanka continued the same. Usually, a SOE was established under the jurisdiction of a ministry. For example, the department of telecommunication and postal services of Sri Lanka was under the purview of the Ministry of Telecommunications. Direct government control consists of state regulations such as the Establishment Code and Financial Regulations and guidelines, and circulars issued by the parent ministry. The Constitution of Sri Lanka has some common regulatory arrangements with regard to the role and status of public enterprises. The main aim of the governance and control mechanism is to maintain hierarchical responsibility, financial accountability and legal requirements. Inherited from colonial legacy, this control system can be described as a rational-legal, bureaucratic model resembling an ‘ideal type’ bureaucracy. Many governments have addressed the problem of controlling SOEs by integrating them into the traditional ministries and bureau of the government (Vernon, 1984).

The respective Acts of Parliament that established each SOE, instituted a link between SOEs and the parliament. This relationship is in two levels, namely policy and management. The political executive, the minister, is responsible for the policy while the board of directors and the SOE executives are responsible for managing the organisation. The minister is expected to provide explicit objectives and the goals for the enterprise in line with the policies of the ruling government. The review of the performance of SOEs is to be carried out by the minister on a monthly basis, the Parliamentary Committee on Public Enterprises (COPE) annually or once in two years and by the full parliament annually (Weerakoon, 1997). The Ministry of Finance also conducts a continuous monitoring of SOE performance. This provides the basis for COPE evaluation. The minister concerned is assisted by the officials of the ministry in regular monitoring and evaluation (Weerakoon, 1997). Figure 1 illustrates the monitoring and supervising process for SOEs in Sri Lanka.
The members of the board of directors are appointed by the minister in charge of the respective SOE. The minister can appoint anyone he wants. The directors except working directors are part time members. Usually, the working directors are ‘political supporters’ of the minister and are not appointed based on their experience and knowledge about the organisation (Weerakoon, 1997). The administrative officers and accounting officers are from the government administrative service. They are the ‘officials’ of the bureaucracy. Their recruitment, promotions, demotions, disciplinary procedures and all other related personnel administration matters are governed by the Establishment Code (Somansundarm, 1998). The administrative bureaucracy is seen as strict and rigid.

The government cash accounting system is used and the main task of the system is confined to reporting revenue and expenditure for ministerial statistics. The revenue reports were not meant for decision-making or controlling purpose. Rather, they are used as a means of legitimising the financial accountability held by accounting officials of the SOEs. The government audit department regulated the behaviour of accounting officers of the SOEs by conducting annual audits of the revenues and costs of the respective SOE with a view to...
detecting fraud and misallocation of public funds. The concept of efficiency and effectiveness were not within the scope of these audits.

**Evolution of bureaucratic governance and control in post-colonial Sri Lanka**

A discussion of the bureaucratic administration in Sri Lanka is indispensable in understanding the governance and control of SOEs. The separation of the state and the bureaucracy was considerable in the colonial regime. However, the post-independent period saw a distinctive departure. The political hegemony of the bureaucracy was making an inroad in the management of SOEs. In this regard, three distinctive stages of bureaucratic development can be identified (Ranugge, 2000). Stage I, 1948-1956, saw a continuation of the colonial bureaucratic system without major changes being introduced by the local politicians. The bureaucracy was the executive arm of the state at that time. The Public Service Commission was established under the Constitution and was answerable to the parliament. Under this system, politicians could not manipulate the bureaucratic governance to their advantage.

Bureaucratic reforms of Stage II started in 1956. The government aimed for rapid industrial development under state capitalism. The traditional bureaucracy was considered inadequate for this purpose. The civil servants (bureaucrats) resisted this change, as they feared losing benefits of the colonial tradition. The Public Service Commission was abolished in 1963 and the Ceylon Administrative Service (CAS) was established. Under CAS civil servants could manipulate political leadership to their advantage (Somansundarm, 1998). The politicians viewed bureaucracy as counterproductive for economic development and tried to secure manipulative power over bureaucracy through constitutional reforms in 1972 and 1978 respectively (Weerakoon, 1997). Under these reforms, all powers with regard to appointments, promotions and transfers of public servants were vested in the Cabinet. The tradition of respecting the seniority and merits of senior public servants was challenged when ‘outsiders’ were brought in. Many of these ‘outsiders’ did not have skills or experience to carry out work as politicians influenced their appointment to the civil service based on the connections with the political party in power and their relationships to the minister. Thus, the political neutrality of public servants ceased (Ranugge, 2000). As a result, the bureaucracy became vulnerable to the political intervention of the political party in power. Since then, the bureaucrats of the Sri Lanka administractive service became ‘puppets’ of the state politics (Weerakoon, 1997).

Stage III began with the liberalisation of the Sri Lankan economy in 1977. At this juncture, public service was further politicised giving all the powers of appointments, promotions and transfers of public servants to the Executive President and the Cabinet. Political interference
was explicit to the extent that the politicians introduced a ‘job card’ to allow political party supporters to join the public service through political patronage (Ranugge, 2000). Secretaries to the ministries, heads of departments, chairmen of statutory bodies and other senior public officers are appointed if they can secure recommendations from politicians. Hence, it is essential for officers to establish ‘hidden alliances’ with politicians. This relationship keeps the bureaucrats under an obligation to serve the political wishes (Weerakoon, 1997). Moreover, family relationships (nepotism), caste and personal relationships (patrimonial) with powerful politicians are other consideration for less qualified persons to get into senior positions of the public service. SOEs are managed by bureaucratic administrators who belong to this tradition. Nepotism, patrimonial favouritism and political patronage were the guiding principles that underpinned most of the critical decisions concerning SOEs in post-colonial Sri Lanka.

**Conceptual framework**

Crystallising the preceding discussion, we illustrate the conceptual framework to explain the elements of the patrimonial-feudal control structure that survived the in the postcolonial society (Figure 2).

**Figure 2: Formation of the Duality in Bureaucratic Control and Governance**
The kingship-based mode of production in the agrarian society of ancient Sri Lanka formed the foundation of a socio-economic system built on the principles of patriarchy, patrimony and feudalism. The caste-based social and religious institutions supported this social system. The governance and control system of this society was derived from personal power based on patrimonial-feudal values. The colonial intervention introduced rational-legal bureaucratic system and it laid the foundation for a well-established civil service. The rational-legal, impersonal power replaced patrimonial-feudal, personal power largely. Yet, the former did not fully substitute the latter since colonial government continued with some elements of the feudal-patrimonial controls. The interaction between traditional and modern governance systems occurred through interventions of colonial administration and post-colonial politics, and through the present ideology prevalent in the minds of the people as a social institution. These interactions were assumed to have caused the formation of the duality in bureaucratic governance and control. The dismantling of the colonial bureaucratic system, the shattering of the independence of the civil service and the absence of a prudent state governance and control mechanism to replace pre-liberalisation state bureaucratic control mechanism enabled patrimonial-feudal factors to subjugate rational-legal, efficient bureaucratic governance and control system.

The term duality has a specific connotation in sociology literature. Management and organisation theories are increasingly being viewed in terms of paradoxes, dilemmas, and dualities (Janssens & Steyaert, 1999). The concepts of dual organisation or the dualistic enterprise’ requires the handling of tension in the process of organising and managing (Cameron & Quinn, 1998; Evans & Doz, 1992; Hampden-Turner, 1990). ‘Thinking in two’s’ has its roots in philosophy and especially in eastern philosophy (Janssens & Steyaert, 1999). Dualities are opposing forces that must be balanced (Evans & Doz, 1992). In a duality both forces seem contradictory or paradoxical but are strictly complementary. The elements of feudal-patrimonial and rational-legal are contradictory but they have become complementary to coexist in Sri Lankan SOEs. The bipolarity of feudal-patrimonial and rational-legal factors diffused the emergence of a postcolonial governance and control. The dualistic nature of rational-legal and feudal-patrimonial control structure has weakened the state and the governance infrastructure.

**Empirical evidence and analysis**

Here, previous research on governance and control of liberalised SOEs in Sri Lanka (Balasooriya, Quamrul, & Coghil, 2006; Hewege & VanGramberg, 2006; Jayasuriya &
Firstly, a study (Wickramasinghe and Hopper, 2005) on a Cloth Weaving Mill (CWM) can be useful to understand the tension of rational-legal and patrimonial-feudal elements. CWM was located in a rural village community near a semi-urban town in the Western Province of Sri Lanka. CWM was founded in 1958. In 1990, the management of CWM was contracted out to a British company retaining ownership with the government. The researchers studied the budgetary process of the CWM. As a SOE, CWM was controlled by the Ministry of Industries and the Public Treasury and was accountable to the public through Parliament.

For managers, the budget became merely a document with ‘sufficient cushioning to accommodate shop floor conflicts and engineering requirements’. Budgeting became an expression of cultural practices. In the late 1960s, with the emergence of public financial control polices, it became a legal requirement to have financial control, internal budgets and audited financial statements. The state initiated budgeting procedures according to a regulatory paradigm of state fiscal control consistent with the ideals of Weberian legal-rational bureaucracy and central state planning (Wickramasinghe and Hopper, 2005). The organisation structure was designed to give integrated control through budgets from national planning agencies and ministers down to Mill management. The effectiveness of this system depended on the commitment and habit of taking rational decisions. It did not happen as desired.

During 1957-1971, budgeting focused on production operations of the Mill itself rather than reporting performance to the head office. The production budget linked supplies to daily production shifts, scheduled working hours (time cards), reinforced close supervision by monitoring production targets, and contained physical checks for fraud. A production shift reflected a slice of the budget. The main control strategy was the production budget that regulated the production hours. After the changes introduced by the new management, the workers who embraced village culture (traditional values) were disturbed by the strict time schedules. The workers still defined their lives in traditional terms—working in their paddy fields and engaging in reciprocal village relationships and ceremonies. Production declined and managers having realised the traditional work values reset the budget targets to accommodate traditional practices of workers.

During the period of management contract, the politicians had their own agenda and interests, workers had commitments to traditional village culture and managers had to secure effort.
from workers under difficult circumstances. The politicians used their influence within the regulatory system to make interventions based on political party advantage. The village workers accepted authority if it accorded with their beliefs in traditional, feudal values and social hierarchy. The head office of the CWM, governmental agencies and politicians were sensitive to political circumstances and the minister’s will. Politicians pressurised the management to artificially reduce prices of CWM’s products to appease voters, secure jobs for political supporters and tolerate budgets that protected workers. Thus, budgets reflected the costs of maintaining worker’s traditional cultural obligations and political interventions rather than reflecting legal-rational ends.

After liberalisation in 1990, budgeting was extended from production control to capital budgeting. The expatriate British managers found budgetary controls difficult to enforce given workers traditional behaviour. The budgets became politically manipulated documents. The expatriate managers rationalised this by adopting the view that securing efficiency and rationality through modernisation in a politicised and traditional environment requires political budgeting practices. In the meantime, workers felt alienated from this new development and suspicious about the management’s motives. They began to protest. This was seen as a human resource problem by the management. As a result, a new human resource unit was established at the Mill to resolve worker grievances. The work intensification caused by the pressure of new controls and the increased emphasis on modern capitalist social relations broke the customs and practices that had reconciled traditional life with the life at Mill. Workers perceived that the protection of employment rights and the jobs were destroyed. Worker agitation escalated and some managers who were sympathetic to workers plight, accommodated labour problems through ‘soft’ budgets and fulfilling feudal obligations.

Secondly, another study by Wickramasinghe, Hopper and Hewege (2004) on a privatised SOE in Sri Lanka, offers evidence for the duality of rational and patrimonial governance and control elements. This study illustrated how disappearance and reappearance of bureaucratic controls occurred in the organisation. This SOE inherited a bureaucratic control system from the colonial government and continued this control regime until it was liberalised in 1990 in which year the management of the SOE was contracted out to a Japanese company. Pre-liberalisation controls were rigid and bureaucratic. The liberalisation reforms introduced flexible and market-based controls changing the bureaucratic control regime. Pre-liberalisation bureaucratic controls had produced a work culture that impeded efficiency and effectiveness. The political intervention to the governance through trade unions had intensified this work culture resulting in an indulgent managerial behaviour towards workers.
The new management replaced this control structure with a philosophy of flexibility, initially amongst managers. Private sector business culture was introduced. The changes soon filtered downwards and worker’ rewards became tied to performance. The new CEO introduced a business plan system, which had not existed in pre-liberalisation era. Managerial behaviour was controlled through a series of feedback meetings tied to this business planning process. The annual business plan, broken into monthly, weekly and daily plans, meant that workers were forced to work to targets. Supervisors were made responsible for meeting daily/weekly targets at the operational level. Before liberalisation, the workers performed the minimum work possible and resorted to unofficial means to increase income. It seemed that under the new business plan system, the workers had to stop corrupt practices and to improve enterprise performance. However, many workers and managers could not cope up with the new rational changes and wanted to revert to the old practices. For example, supervisors when reporting daily/weekly performance of subordinates to the divisional office, tended to exaggerate their subordinates’ performance justifying shortfalls. Most of the supervisors were found to be considerate toward the traditional obligations of workers such as the burden of looking after elderly parents of the extended family, collecting money for the daughters’ dowry and meeting the cost of children education. As managers and workers often lived in the same locality and communities, divisional and regional managers often protected workers from the rational expectations of the business planning system by giving justifications for failure to meet targets to the monthly progress meeting held at the head office. So, armed with justifications for their actual performance being below target, workers fought for a positive evaluation in the performance evaluation. Under the new changes, salaries and annual bonus were tied to performance based on a companywide performance appraisal system. Research findings indicated that new controls replaced bureaucratic management control with positive commercial effects. However, the changes were reversed due to the pressure from feudal-patrimonial elements.

The new management used a new performance evaluation system (PES) as a strategy to control indulgent and highly bureaucratic behaviour of both managers and employees. The PES was perceived as a major strategy by the new management in achieving efficiency, motivation of staff, alignment of individual effort to organisation’s purpose and behavioural control of employees and managers. The PES was implemented in steps; initially employees were given a rating scheme for evaluating knowledge, ability and achievement of targets, followed by a self-evaluation that was scrutinised and validated by a committee responsible for determining wage rates for each person. The committee consisted of employee superior, the head of the relevant division and some head office managers from human resource department. Parallel to the implementation of PES system, a major change in the way salaries
were paid to employees was introduced. Since the beginning of this SOE, salaries had been paid in person on a stipulated salary date. A new officer named as confidential accountant was appointed to administer salary payment directly to individual bank accounts. Salaries of each individual were made confidential. The reason for making salaries anonymous was to administer the bonus payment based on performance evaluation rating. The new management believed that payment directly into bank accounts would prevent employee agitation against variable pay according to performance. Traditionally, Sri Lankans are normally inquisitive about others’ wealth and income, and salary differences are interpreted as differences in status and hierarchy. However, with the salaries being confidential, it aroused a suspicion among employees that some employees and managers were paid very high bonus giving rise to a perceived inequality and undue favouration.

There were numerous problems relating to the PES. Employees did not want to change traditional behaviour in work where they had an easy and a relaxed approach to work. The PES to them was an instrument of exploitation that created rivalry among fellow workers to have a higher performance rating. Some employees complained that the collective work behaviour, which is a social norm among many Sri Lankans, were disrupted by individual competition for higher ratings. Moreover, the workers who believed that they were victims of poor evaluations due to personal grudges, used trade unions to oppose the PES. In the mean time, the relationship between the new management and the relevant minister was poor as the political patronage in the form of paying for minister’s political expenses from the SOE’s account was restricted by the new management. The minister used the PES issue to intervene into the governance of the SOE through politically backed trade unions. The new management were puzzled by the dilemma that the reason for liberalisation was to rid SOE of political interference and indulgent behaviour of employees, but now politicians, trade unions, workers and managers joined hands to continue these anti-business practices. Since most of the managers were bureaucrats of the pre-liberalisation regime, they also supported trade union action against the new management. The workers with the support of trade unions organised a major protest against the management. According to the composition of the governing board, minister had considerable influence on SOE governance through some board members who were appointed under the recommendation of the minister. Moreover, the worker rights upheld in the industrial relations laws provided significant legal power to trade unions. As a result, the new management had to change the salary payment process where an option was given to workers to select their preference for salary payment method. Thus, traditional practices were re established overriding rational decisions through the direct and indirect influence on SOE governance and control.
The political interference emerged from conflicts between the government and the private board members appointed in terms with the management contract. After liberalisation, the governance and control from the state came from the general treasury and the regulatory mechanisms. The minister appointed some board members including its chairperson. These board members frequently clashed with the new management board led by a Japanese CEO. The minister did not like the new management as his ministerial expenses were restricted and his political supporters were not employed. As a result, minister and his officials in the ministry started to disrupt the governance and control of the new management. Trade unions and the regulatory mechanisms were the main instruments of disruption. Minister wanted the chairman to harass the CEO and his new management. The chairman did not cooperate with the minister and as a consequence he was removed from the office by the minister. Later, the supreme court of Sri Lanka reinstated the chairman in the office but he declined to continue with it. The new chairman appointed by the minister was a ‘puppet’ of politicians and acted on an agenda detailed by them. Governance and control of the new management began to pivot around patrimonial practices of politicians and some senior bureaucrats. Workers indulgent traditional practices, political patronage in the form of employment opportunities and the use of SOE business processes for politically motivated activities were gradually reintroduced. Thus, the post-liberalisation SOE governance reflects both rational-legal and feudal-patrimonial elements.

Thirdly, several other studies (Balasooriya et al., 2006; Hewege & VanGramberg, 2006; Jayasuriya & Knight-John, 2000; Samarajiva, 2000; Wickramasinghe et al., 2004) on Sri Lankan SOE governance illustrated the manner in which Sri Lanka Telecommunication Regulatory Commission (TRC) was used by politicians and bureaucrats to exercise control over the management and operation of Sri Lanka Telecom Ltd (SLT) with a view to continuing patrimonial practices for political party advantage. After liberalisation of SOEs, politicians and bureaucrats often devised mechanisms to enable them to exert indirect and inappropriate influence over privatised entities through regulatory mechanism. In some industries, regulatory function is essential to ensure fair play among firms in the industry as well as to protect interests of various stakeholders. The bureaucrats and the politicians through regulatory bodies of the government attempted to introduce a novel avenue of control and influence over liberalised SOEs.

The TRC, established and appointed by the state (minister), was responsible for fairly allocating other telecom operators access to the telecommunication infrastructure owned by SLT. Moreover, the TRC determines the charges for interconnection facilities, deals with the associated legal matters, and monitors other electronic media services. The powers of TRC
were derived from Ministerial guidelines and Constitutional law. The minister of telecommunication was said to have a personal grudge with the CEO of SLT (Hewege & VanGramberg, 2006) due to the stoppage of political patronage that the Minister had been enjoying prior to liberalisation. In the pre-liberalisation era, all the expenses incurred by the minister including the cost of his political campaign were paid by the SOE. The Minister of Telecommunication appointed one of his ‘associates’ as the chairman of TRC. The CEO of Sri Lanka Telecom perceived this chairman as ‘torturing’, ‘eccentric’, ‘acting on somebody else’s agenda’, ‘destructive’ and ‘out of his mind’ (Hewege & VanGramberg, 2006). The TRC chairman was found to have favoured competitors who in turn wanted to exploit the grudge between minister and CEO for their advantage. Most of the employees who were loyal to SLT rallied around the CEO to protect SLT against ‘wilful’ and ‘malicious sabotage’. The post–liberalisation governance and control of SLT in a way has reverted back to pre-liberalisation governance. The feudal-patrimonial practices have found a way to reappear in the governance and control through regulatory mechanisms created by the politicians and the senior bureaucrats of the government.

The relations between TRC’s bureaucracy and SLT’s new managers were poor since liberalisation. It was rumoured that TRC officials took unwarranted advantage of the regulatory powers under the new competitive structure among telecom operators (Balasooriya et al., 2006; Hewege, 2005, 2007). Relations between TRC and SLT could have considerable impact upon management activities of SLT. TRC officials could not directly intervene into day-to-day operations but their decisions were crucial for determining the competitive environment of SLT. Under the new arrangements, SLT retained a monopoly of the telecom infrastructure and SLT’s competitors found it difficult to maximise their turnover and profits. It was alleged that TRC officials took unofficial payments from SLT’s competitors to enable them to transfer their ‘voice-based calls’ into ‘data-based calls’, using SLT infrastructure. This was triggered by the deteriorating relationship between minister and CEO. It was evident that corruption, political patronage and patrimonial practices of bureaucrats and politicians had been resurrected through the practices of regulatory agencies in Sri Lanka after liberalisation. Regulatory bodies can be manipulated by politicians and bureaucrats as instruments of hegemony to influence governance and control of liberalised SOEs. The implication of this development is that post-liberalisation governance and control that aims to rationalise operations are often challenged by the feudal-patrimonial practices. Thus, the rational-legal character of the bureaucratic governance undergoes tension from patrimonial-feudal elements. The post-liberalisation SOE governance characterises a duality of rational-legal and feudal-patrimonial elements.
Conclusion

The main issue addressed by this paper is how the rational-legal bureaucratic governance and control mechanism was transformed into a patrimonial-feudal mechanism giving rise to a duality that causes dysfunctions in the governance of SOEs. The rational-legal aspects of modern controls and feudal-patrimonial aspects of traditional controls have formed a duality in the governance and control. The colonial intervention, the post-colonial politics and the peasant ideology of the organisational members facilitated the interaction between the two. The historical development of the traditional controls is useful in understanding the dysfunctions, which emerged during post liberalisation era. The traditional society did not experience a despotic or centralised bureaucracy as hypothesised by many theorists. The traditional social order was a unique system based on elements of patriarchy, patrimony and feudalism with checks and balances infused through caste-based religo-social obligations. The traditional controls were designed on the principles of concord and union and the traditional society was a communal one. The colonial administration did not fully abolish the elements of this traditional system; rather some elements continued alongside rational-legal bureaucracy. The post-independent political administration continued the same bureaucratic governance until liberalisation. The post-liberalisation era saw the weakening of the rigid state bureaucratic governance and as a result, a governance vacuum emerged in the absence of the sound rational system of governance and control. Thus, the feudal-patrimonial elements of the traditional system infiltrated into the existing system. Bureaucracy came under the influence of patrimonial authority as discussed in post-Weberian writings such as (Blau & Meyer, 1956; Merton, Gray, Hockey, & Selvin, 1952; Selznick, 1966). The politicians and the state officials were indulgent to an inefficient and sometimes corrupt workforce stemming partly from political patronage over employment opportunities. Thus, political control, arising out of politician’s vested powers within bureaucracies, manifested to be an exercise of feudal-patrimonial characters rather than the pursuit of rational, modern development (Wickramasinghe et al., 2004).

The implications of the study are quite relevant to the understanding of the governance and control of SOEs in many developing countries. The effective performance of any rational governance and control system is largely dependent on country specific variables that include historical development of the social, political and commercial order, the ideology of people, the effects of colonial intervention and the post-colonial politics. It is assumed that these variables can be influenced to eliminate dysfunctions. As a direction for further research, it is important to replicate the proposed framework for other developing countries that characterise similar set of variables.
References


