ISSUES IN CHANGING MANAGEMENT CONTROL REGIME
OF A PRIVATIZED ENTITY: JAPANESE MANAGEMENT IN
SRI LANKAN CONTEXT

by

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ABSTRACT
This paper examines management control issues related to the change of control regime from rigid, state bureaucratic system to flexible, market responsive system. Based on a longitudinal case study, the paper illustrates as to how conflicts emerge during the transition period from state venture to a privatised entity. The study highlights the operation of diverse forces such as power bargaining with political party-based trade unions, malicious competitive forces in the industry, political interference through telecommunication regulatory body, indulging work habits of employees and feudal and imperial mentality of Sri Lankan managers. Expectations of privatisation based on neo-liberal economic assumptions are often challenged by feudalistic, traditional management controls that prevail in large enterprises in post-colonial Sri Lanka.

Keywords: Management controls, Privatisation, Japanese management, Sri Lankan context, Case study research

INTRODUCTION
The paper aims to illustrate the intricate nature of issues that emerge with the change of management control regime of a privatised entity in Sri Lanka. It further, explores the nature and magnitude of dysfunctional forces stemming from cultural, social, political, regulatory and traditional relations that confronts the neo-liberal expectations of privatisation.

As a response to neo-liberal economics since the late 1970s, Sri Lanka began the privatisation of state owned enterprises. With the escalation of pressure from donor agencies such as the International Monetary Fund (IMF) and the World Bank, all elected governments after 1977 were forced to move ahead with the privatisation project (Kelegama, 1993). The main emphasis was to transfer ownership into private hands. It was widely assumed that mere ownership transfer would be the sole remedy for all the ailments in state owned enterprises. From mid 80s onward, issues pertaining to the management and control of these entities began to emerge through research on privatised enterprises in Sri Lanka investigating the economic and related macro issues that caused dysfunctions and subsequent failures of the privatised entities (Kelegama, 1993; Ranugge, 2000; Karunathilake, 1987; Abeysekara, 1984). Political interference, cronyism, trade union agitation, industrial disputes, investor malpractices, unethical dealings of the new management have been some of the problems that have hindered the achievement of objectives of privatisation.
In developing countries, management controls (MCs) in privatised entities operate differently in comparison to those in developed countries (e.g. Berry et al, 1985; Hopper & Armstrong, 1991). Expectations of neo-liberal economic assumptions based on ‘efficient market hypothesis’ often confront non-rational, traditional and feudal relations that prevail in privatised entities in developing countries such as Sri Lanka (Eg. Uddin & Hopper, 2001; Wickramasinghe et al, 2002,2004; Hoque & Hopper, 1997; Uddin & Tsamenyi, 2005). Proponents of privatisation assume that ownership transfer from state to private investors is certain to alleviate most problems associated with state enterprises (Rees, 1985). Management and control issues are highlighted as critical determinants that regulate the economic performance of these enterprises. Few case studies (for example: Wickramasinghe & Hopper, 2000) conducted on management controls of Sri Lankan privatised entities have focused on much broader contextual issues such as political interference, postcolonial manifestations, indulging work habits of employees and managers and struggle of trade unions with new private owners. The present study aims to extend the understanding of the management control issues that are related to change of ownership and change of control regime from rigid to flexible system.

The paper is organised in five sections. The first and second sections review privatisation in developing countries in the context of neo-liberal expectations and management controls in Sri Lanka. The third section explains the methods of the study. The fourth section deals with the empirical case followed by discussion and conclusion in the fifth section.

**NEO-LIBERALISM, PRIVATISATION AND MANAGEMENT CONTROLS**

Numerous forces contributed toward rapid privatisation process of state enterprises in developing countries. Failure to achieve development targets through centralised state planning led many developing countries resorting to market based development (Adam et al., 1992). Privatisation was imposed on developing countries by external donors and local political authority had little choice in this. Financial agencies, such as World Bank, increasingly made financing conditional upon market-based reforms. The rationale for this transformation lies in economic neo-liberalism (Hayek, 1944) and its practical expression in ‘structural adjustment programmes’ (Friedman and Friedman, 1980). The aim is to improve resource allocation through institutional reforms that normally include: returning to market prices in agricultural, commodity, goods and financial markets; removing import restrictions; promoting private sector operations; privatising or closing state enterprises, and contracting out government functions to private sector organisations (Wickramasinghe & Hopper, 2003). Privatisation is underpinned by the notion that that private ownership and market mechanism will weaken political intervention and patronage, better allocate resources, and hence facilitate economic development (Van Gramberg & Teicher 2000). Management controls are essential to such policies but policy makers and development economists tend to believe that shifts in property rights from public to private ownership will induce more rational, market-driven, performance-based management controls (Wickramasinghe & Hopper, 2003). The question is whether this automatically occurs in developing countries when these countries pursue such structural adjustment programmes. It is easily rationalized that management controls also stem from these structural adjustments and support the achievement of rational objectives of privatisation. In this sense the practice of neo-liberalism in Third World countries has been criticised (e.g. Moser et al., 1997). This process often tends to
ignore the effects of traditional culture, political systems, state patronage and intervention and bureaucrats supporting their own interests (Wickramasinghe & Hopper, 2003). Given this scenario, neo-liberal objectives of privatisation may be difficult to realize in developing countries.

STATE OF MANAGEMENT CONTROLS IN PRIVATISED ENTITIES: DEVELOPING COUNTRY CONTEXT

In Sri Lanka, like many other developing countries, controls in state-owned enterprises often became a component of centralised systems of state planning for economic development (Adam et al, 1992). This was instituted in the first few years of independence. Often the bureaucratic and rational systems failed and became ineffective. Planning was too slow and inflexible to meet the uncertainties confronting enterprises in developing countries (Caiden and Wildavsky, 1974), and the legal-rational basis of decision-making underpinning state bureaucracies and enterprise accountability often became superseded by political factors (Hoque & Hopper, 1997). Interventions by politicians, often in collaboration with party-based trade unions, came to dominate operational decisions to the detriment of economic performance. Public sector enterprises, rather than being engines of economic development, arguably became impediments (Hemming and Mansoor, 1988). Their losses contributed to fiscal strains on the state. Public enterprise became a byword for poor productivity and politicised managerial practices. Under these circumstances, bureaucratic and technically sound systems of management controls existed but they were rule-bound, ritualistic, and largely irrelevant for effective managerial planning and control at the operational level (Wickramasinghe et al, 2004). Politicians, faced with such problems, and confronted by pressures to reform public enterprises from external aid agencies and donors, turned to Structural Adjustment Programmes based on market-based themes, including privatisation, as a remedy (Wickramasinghe et al, 2004).

Several issues have emerged from recent case study research on management controls in developing countries including Sri Lanka. These cases have illustrated how management control systems deviate from those in advanced capitalist countries due to different historical, socio-political and economic circumstances (eg. Berry et al, 1985; Hopper & Armstrong, 1991). This phenomenon has been studied in the context of privatisation by a number of researchers (Uddin & Hopper, 2001; Wickramasinghe et al, 2002,2004; Hoque & Hopper, 1997; Uddin & Tsamenyi, 2005). One study on a Textile Mill in a traditional Sinhalese village in Sri Lanka, found that interference by government and conflict between modern management controls and traditional, rural culture based Kingship obligations caused serious dysfunctions in the controls and post-privatisation resulting in chaos. The workers and managers resisted the foreign owners who subsequently fled upon the surfacing of financial irregularities committed by them.

In many cases, the transfer of ownership has not been transparent and, to a degree, has allegedly been linked to political patronage. However, in one Bangladesh case (Uddin and Hopper, 2001) this was associated with centralised, arbitrary management-by-edict, inferior conditions of employment, abandonment of collective bargaining, and the introduction of casual labour. In a Sri Lankan case, (Wickramasinghe and Hopper, 2000) the new owners proved as incapable of securing effort from a workforce embedded in a traditional Sinhalese village culture as their predecessors. In both cases
the anticipated improvements in productivity and profits, and their spin-offs for national development did not materialise. In each instance the new owners allegedly indulged in serious financial malpractice, which, in the Sri Lankan firm, led to the state temporarily resuming ownership of the enterprise for political reasons and electoral advantage.

**METHODOLOGY**

This case study research is based on a modified grounded theory approach as the researcher had a general understanding of what to seek in terms of Management controls in the organization under study. The underlying ontology here is that management control systems are context specific and contexts vary from society to society while contextual factors change over time, producing dynamic characteristics in management control systems. The study used ethnographic accounts developed by various actors. These ethnographic accounts have come out with actors’ interpretations within their subjective understanding.

The case study examines the management control issues emerging from the transition of management and controls of Sri Lanka Telecom (SLT) under the new Japanese CEO appointed by Nippon Telegraphic and Telephone (NTT) to manage NTT’s interests in SLT. Investigation extended to include other related institutions such as the Telecommunications Regulatory Commission (TRC), and the Public Enterprise Reform Commission (PERC). Initial interviews began in 1999 with four senior managers. Guided by these preliminary interviews, a research schedule of in-depth interviews was conducted to investigate these issues further. In addition, annual reports, internal memos, and circulars were collected to gain more information about the firm in general and its control systems in particular. A further 48 interviews were held with: an official from TRC; an official from PERC; and within SLT, with 4 key senior managers, 11 middle level managers, 16 lower level managers, and 15 workers at the operational and service levels. Then, more focused set of interviews was started in July 2005 when the author secured an opportunity to visit NTT head office in Japan. Fifteen rounds of interviews took place in Japan with the CEO and four senior Japanese managers who served his board at SLT.

**THE CASE**

**Pre-Privatisation Era of SLT**

The predecessor of SLT was a government department - the Department of Postal and Telecommunications, founded in the late 19th century by British colonial administration. As a public utility, the Department enjoyed monopolistic power and it had an ethos of public service rather than profit seeking. It did not significantly employ marketing or human relations perspectives to its day-to-day activities, nor did it practice quality consciousness or customer satisfaction. Instead, it sought to maintain its monopolistic power, bureaucratic procedures, and relatively static range of services and products. Managers were happy with the state powers vested to them and did not attempt to change the status quo.

The Department’s management control system had evolved over a century of state monopoly over postal and telecommunication businesses. It followed and reproduced direct government controls based on state regulations such as the Establishment Code and Financial Regulations, and guidelines and circulars issued by the relevant

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Regulatory arrangements stemmed from the national constitution that specified the roles and status of Public Departments. The emphasis of control mechanisms was to maintain hierarchical responsibility, financial accountability, and legal compliance.

Fiduciary controls were often rigid and ritualistic. Revenue reports were not significantly used for decision-making or control. Rather, they legitimised the financial accountability of managers. Detailed costs were not reported as they were directly incurred from the central government’s accounts. The central financial authorities calculated the Department’s aggregate costs and compared them to their budget but variances were not analysed. However, government auditors monitored managers for possible fraud and errors.

The general perception of ordinary people in Sri Lanka was that this Department was not a consumer-oriented, flexible organisation. Also the government realised the need to reform existing arrangements given the increasing importance of telecommunications for global competitiveness. In August 1980 the government separated the telecommunication and postal businesses into two public departments: the Postal Department and the Department of Telecommunications as a prelude to privatisation. In February 1990, the Department of Telecommunications was converted into a semi-autonomous public enterprise, the Telecommunications Corporation, in order to free it from government-based controls. The management control function was entrusted to a Board of Directors appointed by the Minister concerned. The Board had legal and practical powers to institute changes in Telecommunications Corporation’s organisation and controls.

Privatisation Process
In September 1996, the Telecommunications Corporation was converted into a public limited company - Sri Lanka Telecom (SLT) with a registered authorised share capital of Rs. 100 billion and issued capital of Rs. 18 billion held by the government. SLT was a huge company compared to indigenous Sri Lankan companies and it faced two major issues: how to effectively control 8200 employees for commercial ends, and how to create new, profitable business opportunities. The Public Enterprises Reform Commission (PERC), the government agency responsible for managing privatisation programmes, started to address these issues in 1997.

The employees were highly concerned about SLT’s future and especially the problem of severe labour redundancies. Employees were organised in trade unions (TUs) and collectively opposed possible privatisation. At the time of privatisation, there were about 35 TUs, belonging to various political parties. Major protests were organised and TU representatives met with government officers. PERC was eventually able to dissolve the protests by promises of job security and the maintenance of existing pension schemes. They convinced the TUs that the economic prospects of members and the country’s economic development would improve under private ownership with enterprises financed and managed by experts rather than the state.

PERC sought to improve the telecommunication business through greater use of information technology to bridge unsatisfied demand for telephone connections. For instance, it took 5 – 10 years to get a telephone line if the applicant did not have a supporting letter from a politician. At March 1997 the waiting list for telephones was
287,200. SLT had inadequate capital to clear this back-log. SLT needed $450 –500 million to achieve a telephone penetration rate of 5 per 100 people. In 1984 the penetration rate was 0.8. Consequently SLT decided to sell 35% of its share capital to a foreign company that possessed expertise in the telecommunication industry and had the necessary capital to increase capacity. PERC administered the privatisation process. It short-listed three companies: France Telecom, Korea Telecom and NTT (Japan) and judged each against factors such as financial capacity, technical expertise, and reputation for good management. NTT was selected. NTT paid SLT US $ 225 million for 35% of its issued shares and the Government of Sri Lanka awarded NTT a contract to manage SLT. The contract to manage and supervise on-going operations was for five years from 1997 to 2002. NTT’s management fee was 1.2% of the net revenue of SLT and 0.5% of its gross operating profit. In his welcome message, the new CEO of SLT appointed by NTT stated that ‘…after over 100 years of state control, Sri Lanka Telecom entered into a partnership with one of the largest telecommunications conglomerates in the world’ (Telecom Annual Report, 1997). Thus from 1997 a strategic alliance between SLT and NTT was formed.

Management Problems of SLT as Perceived by CEO
The CEO perceived the main challenge as changing the 100 year old, traditional civil service-based management control system. Its problems included: a bureaucratic organisation structure inappropriate for an organisation in an uncertain and increasingly competitive environment; an anti-strategic philosophy; inflexible and remote operational controls; inappropriate reward schemes; and ‘soft’ supervision that was indulgent to workers. The dysfunctional nature of the management control system led the CEO to perceive that there is ‘no business’, ‘no business plan’ and ‘no business operation’ in SLT. The CEO soon initiated considerable changes.

CEO immediately started to increase new connections, restructure the organisation, build up customer relations, invest in new technology, and introduce a new performance evaluation system. The aim was ‘to lead Sri Lanka to become the hub of telecommunications in South Asia’ and ‘to anticipate and fulfil the communications requirements of all sectors of the nation, in a service oriented work ethic which will provide total customer satisfaction through the most modern telecommunications facilities’ (Annual Report, 1996). These changes represented a distinct shift in SLT’s management control systems.

Restructuring the ‘Structure’ for Improved Market Responsiveness
CEO believed that the bureaucratic public sector organisational structure in SLT was unsuitable for the telecom business. Before privatisation, the Managing Director acted as CEO assisted by Directors, General Managers, and Deputy General Managers. According to the CEO: “This was clearly not a system suitable for a private company.” He complained of its “layers of administration, no proper definition of functions and responsibilities, as well as, an in-built seniority system for promotion and individual advancement”. Another senior manager commented: “The old system did not allow us to quickly respond to customers’ requests. Nor did it lead to any flexibility in the organisational front”. The CEO sought to introduce an organisation structure that avoided unnecessary delays, rules and regulations, and would facilitate a more customer-oriented ethos amongst employees.

According to the new structure, CEO now reported to the Chairman and Board of Directors, assisted by a team of key strategic personnel, including a Managing
Director, Chief Financial Officer, Chief Legal Officer, Chief Internal Auditor, Regulatory Matters Officer, and Construction Programme Team manager. Key management functions were allocated to four groups: Customer Service, Network Planning and Construction, Human Resources, and Finance. The Service Group was responsible for line operations, especially new connections to residential customers. Its activities were divided into 3 Regions, 8 Provinces, and 32 Divisions. The other Groups were responsible for support activities such as planning, marketing, human resource management, procurement, strategy, and accounting. However, each group was directly responsible to the CEO.

The new structure was different from the previous rigid, static, and bureaucratic structure. First, the new structure was a flat and lean organisation where limited authorities for subordinates in a wider span of control with an emphasis upon sharing knowledge and experience between organisational members (SLT documentation from Training Division, 2000). The roles and responsibilities of the members were clearly defined. A manager commented: “Unlike in the early days, now we are clear about our duty. In addition, our bosses are clearer about our roles so that we need to accomplish them without any discrepancy”. Another manager at strategic level stated: “We can ask others for ideas and procedures. Everybody likes to help each other as tight regulations and procedures are now not a must”. The CEO argued that the changes promoted more effective and quicker communication, especially between the divisions.

Second, managers could now easily share opinions and knowledge with the CEO. The CEO often generated ideas about improving day-to-day activities, communicating them to senior managers with a view to stimulating discussion and new alternatives. Also, the CEO improved and took a personal interest in the results and effects of operational activities. For instance, as an operational manager recorded, before an installation of a service centre in a remote area could proceed, its economic justification had first to be approved by the CEO who in turn always monitored whether the implementation was successful or not. If it was unsuccessful, then the CEO would review why this was so. As a senior manager commented, ‘the CEO was a strategic thinker as well as an operational monitor’. However, this produced a division between older, senior managers, who were groomed in civil service traditions, (were not engineers, and preferred traditional bureaucratic procedures) and younger, more scientifically qualified managers who preferred to handle dynamic situations flexibly. It was evident to all that the CEO favoured the young group.

Third, there was an attempt to create a ‘customer-oriented and customer-friendly organisation with more personal service. A respondent commented, “The Department era was awful in that it was difficult to respond to customers’ requests. The officers did not have service-oriented minds. Instead, they wanted to escape from undue actions against rules and regulations”. The result was the 287200 customers awaiting connections.

The CEO agreed that personnel dealing directly with customers had to be retrained in customer relations and customer awareness. A manager in the Training Centre of SLT commented, “Now we are training people for marketing purposes. One of key features that we concentrate on is that people will have to be kind and polite in delivering the service to the customers”. However, the structural changes were not institutionalised throughout SLT. Conflicts and struggles between governmental agents and older
managers with the younger technocrats and Japanese managers, and cultural resistance allied to trade union action from lower level employees disrupted the management control reforms.

Initiating ‘Teleshops’
CEO promoted the opening of ‘Tele-shops’ that provided customer services and collected revenues and appointed young university graduates in activities such as billing, selling equipment, and proving informational services. One such manager informed us that, “This mechanism is one of the most successful in SLT. Now customers find it easy for paying their bills and asking for more services. This is the centre for creating customer relations and value for SLT”. These Teleshops enabled SLT to shift from ‘production-orientation’ to customer-orientation’.

Breaking the Rigid Controls
CEO believed that it is essential to demolish the organisational rigidity in SLT built over a century through direct government controls. Managers used these controls to justify delays, inefficiency, and ineffectiveness. CEO remarked that, this system is always loyal to rules, not to duty. Everybody is not really producing, but wasting their time on paper work. Nobody creates anything. You can’t survive in competition’. A senior manager commented, ‘The new CEO wanted to get work going. Restrictions came from regulations and rules have been reduced. In other words, people were given an opportunity for doing their work according to situations. For example, if one cannot drive a vehicle on an unfamiliar road, the officer concerned can look for an alternative arrangement to get the work done. Duty is central. Earlier, under such circumstances, the work has to be stopped. According to rules, alternative arrangements are extremely impossible. Previously, ignoring rules was punishable, whereas now the CEO protected officers who ignored rules in reasonable pursuit of their duties and often showed his appreciation of such acts commending them to others. The CEO openly criticised managers who tended to delay decisions and action until ‘everything is provided’. A senior manager explained how, ‘Japanese managers identified that we often had unnecessary issues. To do something, we used to talk about needs and facilities. Then we talked about lack of resources. We used to make complaints about such problems. Long procedures did not resolve these problems. So, we did not concentrate on the duty. The only thing we concentrated on was insufficiency of resources’. Now workers were assigned tasks and payments and incentives were based on achievement. As an operator mentioned: ‘We have to work now. Our bosses command us to do so. It is now difficult. Anyway, we get paid more’.
Thus many managers, rather than dealing with getting resources or enforcing rules and regulations now sought to ‘get things done’ through ‘flexible arrangements’ hoping to be in the good books of the new CEO.

Controlling Mangers through Business Planning
CEO introduced a Business Plan to control operations. It had three layers: an annual plan for operating activities broken down into monthly plans for each of the 32 divisions, which in turn were broken down into weekly targets for each operational division. A senior strategic manager illustrated the novelty of this idea for SLT, “There was no plan that SLT formulated in its history. This is the first time that people are working according to a plan. In place of regulations, now we are having a plan. The plan does not mean any regulation or set of rules because the CEO consulted everybody, including operational managers, when it was developed’. 
The Business Plan was a tool for control. Each week the divisional managers [DMs] checked whether operating managers had achieved weekly targets. DMs from the 32 divisions had to present monthly reports to the monthly Progress Meeting consisting of three senior managers (Strategic Manager, Chief Financial Officer, and Chief Administrative Officer) and presided over by CEO. Discrepancies between performance and monthly plans had to be reported and explained, and the CEO closely examined whether these explanations were legitimate. One manager observed, ‘this situation is crucial. DMs cannot get rid of any loophole. They need to come out with excuses. The CEO always cross-examines. This is a real point of control’. CEO linked operational activities to strategic direction. He was not worried about cost controls or ‘cost cutting’. The priority was on ‘getting things done’. His approach drew from an operational rather than a financial culture. There is a separate CFO (chief financial officer) to deal with financial matters. He used to advise CEO on cost effective methods.

**Initiating a New Performance Evaluation System (PES) as a Strategy for Behavioural Control**

The CEO initiated a new PES with view to align employee behaviour (improving employees’ motivation and commitment to work) with the new objects of the SLT. More importantly, according to CEO there was no discipline among employees who often disregarded superiors’ orders. One objective of the PES was to bring about a culture of obedience and respect to seniors. PES was considered to be the ‘controlling core’. The system was implemented in steps: initially employees were given a rating scheme for evaluating their knowledge, ability, and achievement of targets, followed by a self-evaluation that was examined and validated by a committee responsible for determining wage rates for each person. The committee consisted of the employee’s superior, the head of the relevant division, and some Head Office managers, especially from the Human Relations division. It was evident that the new pay system had major effects. As a senior manager commented that, “Now people are keen on getting a higher rate. They are talking about each other’s rates and competing with each other for getting better rates”.

Information on each evaluation and related wage rate for each individual was passed on to a newly appointed ‘Confidential Accountant’ (CA), independent of the accounting and financial function, who calculated salaries payable according to rates and performance achievement. Payments went directly to individual bank accounts. A middle manager stated that, “This is a wonderful method. Earlier we had to wait in a queue to get the salary. Now we are even not aware of the salary date. We get our salary in advance. Nobody knows what others’ salaries are’. The new pay system was radically different from its predecessor: it had an element that was performance related, ratings were systematised, payment was automated, and payments were confidential. The Japanese management believed that payment directly into employees’ bank accounts would help prevent employee agitation against variable pay according to performance, as information on relative pay levels would be difficult to ascertain. As a manager commented, “Since Sri Lankans are normally inquisitive about others’ wealth and income, this system is capable of avoiding such consequences”.

Apart from some arguments between rival professional groups over relevant salary levels, managers accepted the new payment system. However, workers wanted to
retain a payday with cash being paid directly into their hands. An accountant reflected: “You know the workers at that level are not familiar with bank transactions. Most of them did not have bank accounts. They were not sure of sending money into the bank. They wanted a payday on the 20th.” Workers who believed that they suffered in absolute and/or relative terms due to poor evaluations and hence low bonuses began to oppose to the system. These tended to be older, longer-serving employees. The accountant continued: “The workers who wanted to create problems were senior ones. They did not want to co-operate with the system. They don’t want to have changes.”

Workers Revolution against the New PES and Mode of Salary Payment
Workers organised a major protest against management, focused on the issue of salary having to be paid into bank accounts. They surrounded the CEO’s office and shouted slogans urging the CEO to ‘go home’ and ‘withdraw the payment method’. The CEO had received advance warning of the demonstration and had called a meeting with senior managers who briefed him on the situation. Eventually, the CEO agreed to make changes to the payment method. Direct payment of wages to bank accounts would continue only for employees who wanted it. The agitation ceased. A senior manager remarked that, “Fortunately, the CEO got the support of all senior managers at the meeting. We did not want to discontinue the system. We were also attracted by it. This was only an agitation led by a few TU people who were not appreciated by the management. Before that most TU leaders had been neutralised by the CEO. They got short-term training visits in Japan and they were impressed by the situation back in Japan without TU activities. They had realised that the company can be improved if the workers work hard, instead of putting pressures on the management.” Managers treated the incident as minor, specific grievance rather than an indication of impending continuous agitation.

However, workers opposed to the payment system and continued their agitation. Workers whose wages were paid into their banks received their salaries in advance, whereas those who were paid in cash received their wages at the end of the relevant work period. However, managers did not see it as a major issue as they believed that workers paid in cash would gradually began to work hard with a view to receiving more payments. Positive workers also seek the extra benefits from being paid via a bank. A senior manager stated, “The CEO knew that the workers would co-operate with the system. The workers wanted to have money anyway - they had problems at their homes. Continuous increases in the cost of living were so difficult for these workers. They then gradually became co-operative.” Potentially co-operative workers who might switch from cash to bank payment were identified by middle management for persuasion to be paid via a bank. This process was gradually continued over the entire work force.

Identifying a Loyal Management Team
Given the enormity of changes that needed to be introduced, CEO realised that it was essential to have a loyal and trustworthy senior management team from SLT. He observed the performance of all senior managers for about six months and carefully assessed their competencies and loyalty. The CEO commented, ‘I kept CVs of all of them and watched. I wanted to have a team that I can trust as I cannot gain support of Sri Lankan workers without having the support of Sri Lankan managers.’
promoted some mangers breaking the seniority rule and this created some agitation among other managers.

**Positive Results for SLT From the New Controls**
According to the Annual Reports for 1997, 1998, and 1999, SLT managed to provide 72,000 new connections in 1997, 140,000 in 1998, and 160,000 in 1999. The CEO commented that, “This was the result of the carefully thought out strategy of expanding the network from the inner to the outer periphery in areas covering commercial customers, residential customers, and rural customers respectively in parts of the island. Proceeding on this approach...SLT deployed the modern ‘Pair Gain’ system and RLL system in order to cater to the heavy demand.” SLT steadily increased operating revenue by 24% in 1998 and 32% in 1999. Whilst international services improved steadily, accounting for 60% of total revenue in 1999, the local customer base accounting for 40% of total revenue was also significantly increased. However, due increased depreciation on tangible fixed assets following heavy investment in plant, operating costs increased and the after tax profit decreased in the years 1997, 1998, and 1999 (Annual Reports): there was a 25% decrease of after tax profit in 1998 and 19% in 1999. The CEO argued that, “This is clearly a small and temporary set back before the next big leap ahead. That is the principal aim of privatisation”.

**Teaming up and Sharing the Credit of Success**
The success of the Japanese management of SLT was commented on by various segments of society, including politicians. The credit was invariably attributed to the CEO, who in turn passed credit to his strategic personnel and workers who met their targets. Records of congratulations on the achievements of SLT after privatisation are regularly documented in the company magazine, alongside reports of outstanding achievements, ‘best performers’, awards of tokens and presents to the employees involved. Employees regularly talked about these matters, pointing out how Japanese methods satisfy employees compared to the situation with the dreaded old management. A middle manager said, “It is amazing. People are now happy about the progress of SLT. All agree that it is a result of the peculiar behaviour of the CEO. Everybody says that the Japanese are clever!”

**Japanese Management Vs Sri Lankan Government**
Privatisation did not release SLT from all the bureaucratic and government controls. After privatisation, SLT became under the state controls from the General Treasury (GT) and the Telecom Regulatory Commission (TRC). Some Board members, including its Chairman, were appointed by the Minister of Telecommunications (with or without a recommendation by a special cabinet committee headed by Prime minister). The Board members appointed by the state frequently clashed with the Japanese management led by CEO. In addition, a series of disputes emerged between TRC and SLT. These disputes were critical as new, apparently effective, management controls became threatened by extra organizational factors.

In terms of the privatisation agreement, SLT took over the procurement business that involves purchasing expensive capital equipment and other consumables. The Minister of Telecommunication and his officials had executed this process and through this they had earned considerable money through commissions and ‘good will payments’. Frequently, media reported frauds and ‘misappropriation of public wealth’
relating to tender procedures. All these ‘extra benefits’ to political officials stopped and they were unhappy about it. In the meantime, CEO instructed to stop paying some of the expenses of the Telecommunication Minister from SLT accounts. This action aggravated the ‘grievances’ of politicians. As a result, Minister and his officials started to disrupt the activities of SLT and especially the control regime of CEO. TUs and TRC were the main instruments through which politicians effected ‘sabotage’ on SLT management.

The present chairman was very supportive of CEO’s initiatives: ‘a gentleman with good business sense’ according to the CEO. The Minister and his officials wanted the Chairman to harass the CEO and his management. Since the Chairman did not give his consent to it, he engaged in a direct conflict with the Minister and this was reported in the media. Upon removal of the Chairman by the Minister, the Chairman sought legal action and won. The Supreme Court heard the case and instructed reinstatement of the Chairman of SLT. However, the Chairman refused to return to SLT. CEO was deeply moved by the absence of this Chairman. He noted, ‘this is a great loss to me. He supported me lot in my actions, and I lost a great gentleman’. Since then, CEO began to face a real ‘war’ from the politicians. The new chairman was a ‘puppet’ of the politicians and acted on an agenda detailed by them. Management meetings began to take a new turn with arguments and flexing of power. Now, resistance was ‘inside the change mechanism itself’. In addition, Minister and his officials used TRC to hamper SLT progress by dictating unfair terms and conditions that supported competitors.

**Telecommunication Regulatory Commission Vs Japanese Management**

The state political intervention was evident from regulatory process over SLT. The regulatory body, 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, TRC determines the charges for interconnection facilities, deals with the associated legal matters, and monitors other electronic media services. Their powers derive from Ministerial guidelines and Constitutional law and TRC officials are oriented to bureaucratic regulatory practices.

The Minister appointed one of his associates as the chairman of TRC. He came directly from USA and ‘not aware of the Regulatory principles’. CEO perceived him as ‘torturing’, ‘eccentric’, ‘acting on somebody else agenda’, ‘destructive’ and ‘out of his mind’. He purposely 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 relations between TRC’s bureaucracy and SLT’s new managers were poor from SLT’s inception. It was rumoured that TRC officials took unwarranted advantage of their regulatory powers under the newly competitive structure between telecom operators. Under the new arrangements SLT retained a monopoly of the 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. A senior manager complained that, “There is a loop-hole in the agreement between the government and SLT. It does not mention that this practice is impossible. Our problem is that other operators use this facility and
provide low priced services to the customers. We have lost a tremendous amount of revenue because of this practice. ‘It is worthwhile to note that corruption practised by government officials during the public bureaucratic monopoly of the Posts and Telecommunications Department had been resurrected through the practices of regulatory agencies in Sri Lanka after privatisation.

Handling Trade Union Power
Workers in SLT are represented by 35 TUs representing different hierarchical levels and The TUs had been active and influential during the pre-privatisation era. The interviewee at PERC commented that, “The unions were very crucial in dealing with privatisation. They were so violent because they thought that their jobs and pensions would be under threat. We gave a promise that everything will be secured.’ A worker commenting on the same issue claimed, “We were given the promise that we will not be redundant or our pension will be cut. You know our unions are very strong. They [SLT’s Japanese managers] can’t do whatever they want. The achievements are results of our struggles. Otherwise they would have done a lots of job cuts.” Given the comments of a senior manager their fears were justified: “Most of the workers are actually not suitable for this company. In fact, they have to have an early retirement. But no one can do that. Trade unions are very powerful.”

CEO realised that TUs in Sri Lanka were different from their Japanese counterparts. Unlike in Japan where trade unions are company based and seek benefits within a framework of company improvement and mutual commitment to effort, Sri Lankan TU members look to their unions to improve members’ welfare whilst retaining traditional, more indulgent work practices. As the CEO complained, “People here are not work-oriented but seek benefits. How can we increase their payments unless they work hard? We wanted to convince the workers about this.” The CEO’s strategy was to co-opt the TUs by changing the attitudes of leaders and their propensity to encourage militant, direct action. First, he identified the important TU leaders and discussed with each his determination to introduce a policy of ‘No retrenchment – No recruitment’. The TUs agreed with this policy. The CEO justified his ‘No Recruitment Policy’ by pointing to the large number of excess staff. Second, the CEO arranged for the TU leaders to visit Japan in two batches to meet NTT’s trade union leaders in Japan. The CEO commented that, “This is an unprecedented event in the sphere of Industrial Relations in SLT. This has resulted in a more cordial and harmonious relationship between management and the work force.’ This was supported by increases to the TU leaders’ salary increments and bonus payments. A senior manager observed that, “Sometimes active TU people automatically become silent for no reason. They are given direct cash payments into their banks. SLT can do this in the name of an incentive payment.” This was effective in controlling potential top-down TU agitation.

Objections to the Creation of a Work Culture
The new controls of CEO created some friction with work cultures that had existed in SLT for over a century. The annual business plan, broken down into monthly, weekly and daily plans meant workers were forced to work to target. Supervisors were made responsible for meeting their daily/weekly targets at the operational level. A supervisor described how this worked: ‘We get the weekly report from the divisional office. We know what to do to every day. Workers are also aware of these targets. So, we try to do the job.’ Before privatisation, workers performed the minimum work
possible and resort to unofficial means to increase income. A divisional manager commented, ‘those days they did only one connection a day. Customers used to give them drink, food, and money. They favoured the customers. Customers also do this because the connection comes after 5 or 10 years once they put an application’. Thus workers were habituated with maximising their income through corrupt unofficial practices rather than through efforts to improve company performance.

Employees now had to work harder and, in the face of the customer-friendly marketing strategy, it was difficult to seek unofficial earnings. Customers were aware that now they could complain to the nearest divisional office. However, workers could exceed previous official earnings if they met their given targets. The new situation was not well accepted by these workers. A worker complained that, “You know we can’t work like this. Too much work. Company likes to exploit us much. We know salaries are now increased. But it is not fair to ask for this much of work.”

Supervisors had to report their area’s daily/weekly performance to the respective divisional office. When preparing their reports, supervisors tended to excuse workers’ poor performance. They understood and shared the problems that their workers had with family commitments, e.g. the cost of their children’s education, looking after elderly parents, collecting dowry for young daughters. A supervisor reflected that, “We are also having same problems. That’s how we are.” Consequently, supervisors often exaggerated their workers’ performance in the weekly reports and/or justifying shortfalls because of poor weather conditions, transport problems, accidents, etc. Armed with justifications for their actual performance being below target, workers then fought for a positive evaluation in the PES exercise. As managers and workers’ often lived in the same locality and communities divisional and regional managers often protected workers from the management control system by giving justifications for failure to meet targets to the monthly progress meetings held at Head Office.

CEO scrutinised such justifications very closely and analysed situations to understand what had gone wrong. When managers brought their justifications to the table the CEO would interrogate them to ascertain whether such problems actually existed. Pinned down the manager had to explain the true nature of the problems confronting them. Gradually, the CEO began to realise the practical limits of enhancing improvement from operators given the nature of social obligations in a Sri Lankan community and traditional work commitments.

**Conflicts between Skills and Seniority**

The PES divided the operational level workforce into two camps: skilled and young, and experienced and senior. If the PES exercise was executed correctly, skilled-young workers would normally be highly rated whilst experienced-senior workers would not be. The young were qualified having taken vocational courses and were familiar with the new technology. Managers tended to allocate high rates to these workers because of their knowledge and ability. Moreover, being freer from family commitments they preferred to work hard with a view to developing their career rather than indulging in work restrictions and unofficial payments. A senior manager commented, “We are pleased with the young ones. They are regarded as value-adding resources. The CEO likes to give more opportunities for this generation. The other thing is that these workers are not much interested in politics and TU activities.” The young workers
were highly valued by managers as their behaviour was in line with the privatisation aims of improving work productivity.

In contrast, the senior workers had no vocational qualifications other than the experience they had gained from ‘on-the-job-training’. They were less conversant with the new technology and managers tended to regard them as ‘difficult’ workers. A senior manager commented that, “Under the policy of no-retrenchment, we cannot lay-off these workers but we do not get much out of them. They always come with problems instead of new ideas or hard work.” Another manager stated that “These workers are TU agitators, not peaceful ones.’ Given these characteristics, these workers might have been expected to be poorly valued in the PES exercise. But it did not happen in that way.

At the operational level most supervisors came from the senior camp and held bureaucratic orientations. They were sympathetic to the predicament that senior workers face, consequently the supervisors tended to allocate good rates to senior workers, whilst cutting off some points collected by young-skilled workers. A skilled worker complained that, ‘We are qualified and work hard but we don’t get good points. Some senior people who are not qualified do this’. However, managers responsible for strategy became aware of this. A member of the strategic team revealed that, “The conflict between qualified and non-qualified people is similar to the conflict we are having between engineering and non-engineering people. However, the qualification-problem is always at the operational level. We like to ask such people to get an early retirement and give an opportunity for their children to join. But they don’t like that. What they like and wanted is to give a job for his son while he is also there.” Given these problems the PES became biased and problematic. These social and organisational practices made it difficult for the new controls to produce intended results for SLT.

**DISCUSSION & CONCLUSION**

The paper illustrates the intricate nature of issues that emerge when management control regime of a privatised entity was changed. It is notable that substantive commercial success has resulted with the establishment of the new management control system. Rule bound, bureaucratic, rigid and centralised controls that had existed in pre-privatisation era were changed to more market responsive set of controls. These changes improved the performance of SLT. The Japanese management leadership and strategy played a key role in bringing about changes to the controls. However, multifaceted dysfunctional forces stemmed from endogenous and exogenous environment began to hamper the positive results of the new control system. This case captured a ‘slice’ of the continuum of incidents that had been taking place in SLT and subsequently there were more serious repercussions threatening the commercial success.

The CEO acted as the controlling node or the nucleus of all the diverse forces that challenged the transition process in SLT. He had to balance competing forces such as investor’s interest from the NTT head office, local government regulations, political pressure, regulatory measures and forces, typical work culture of employees and managers and trade union pressure. The SLT is a partial privatisation and therefore government and political interference are inevitable. The widely held view about privatisation is that transfer of ownership would curtail or completely wipe out the
government bureaucracy and related non-commercial interventions. This is well in line with one of the neo-liberal arguments for privatisation. The case illustrates as to how these non-commercial interventions of the political and government actors hamper rational expectations of management controls and the privatisation. This finding is in line with some of the findings of the previous case study research.

In this case, one of the main challenges for the new CEO was to set up a control system that could change the behaviour and work attitudes of workers and managers. The chief instrument of controls, the PES, was aimed at controlling the behaviour of employees and managers toward the achievement of privatisation aims of SLT. The fact that Trade unionism in developing countries like Sri Lanka is distinct from that of developed countries did have a profound effect on the new controls and the results. Traditional and indigenous work ethic of employees was quite distant from the neo-liberal expectations and as a result control dysfunctions occurred.

The fact that the CEO and several other senior managers are Japanese appointed by NTT did not amount to bring about the variable of ‘Japanese Management’ in to the forefront of analysis. Moreover, neither CEO nor his team did not introduce ‘Japanese Management Techniques’. CEO was a typical international manager who applied universal management principles. However, the ‘Japanese factor’ had influenced favourably the transition process. Normally, there has been anti-privatisation sentiment among the Sri Lankan people, especially with regard to the idea that national assets are sold to ‘capitalist’ or ‘imperialist’ West and the notion of neo-colonization in terms of acquisition of indigenous assets by ‘western’ capitalist is often used as a slogan by anti-privatisation propagandists in Sri Lanka. Interestingly, ‘Japanese’ were not ‘capitalists’ or ‘imperialists’ for many Sri Lankan people. This may be attributed to factors such as religion (Buddhism in both countries) and Asian culture. In effect, natural resistance to ‘foreign management’ was curtailed to a minimum level.

In conclusion, the case provides empirical evidence to support the argument that the way management controls operate in developing countries significantly differs from that of developed countries. Moreover, management controls based on neo-liberal assumptions are often in conflict with the traditional controls that are unique to developing countries such as Sri Lanka.

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