Failure of Neoliberal-based Management Controls: Duality of the Traditional (Feudal-Patrimonial) and the Modern (Rational-Neoliberal) in a Sri Lankan Liberalised State Owned Entity

ABSTRACT

This paper argues that the failure of the neoliberal-based management controls in Sri Lankan liberalised State Owned Enterprises (SOEs) can be attributed to the tension created by the duality of the traditional and the modern elements. It is argued that there is a duality of traditional (feudal–patrimonial) and modern (rational–neoliberal) control elements, and that this duality can better explain management control issues of developing countries such as Sri Lanka than existing approaches. It theorises this duality by using an integrative social theory framework. The study uses adaptive theory research methodology, an improved version of the grounded theory, to empirically validate the theoretical arguments advanced in the study.

Keywords: State Owned Entities, Management Control, Duality, Rational-Neoliberal, Feudal-Patrimonial

Management control is not universal. It can take different forms in different organisational and social contexts. The mainstream management control theory, which is rooted in an accounting-based approach, is problematic, at least in the case of developing economies such as Sri Lanka. This is because the theory was originally formed by referring to large conglomerates in advanced western nations, and it was heavily influenced by the accounting discipline (Hofstede, 1978; Lowe & Puxty, 1989; Otley, 1994; Parker, 1986; Whitley, 1999). It first introduced the concept of responsibility centres such as revenue, cost and profit to achieve management control. The main focus of this theory was on the regulation of principal–agent relationship (relationship between owners and managers) to achieve management control. The influence of accounting on control theory has led to it being strongly criticised. A main criticism was that this theory tended to neglect important power relations among managers and employees, and that it did not suffice to investigate the deep-rooted socio-cultural and political underpinnings of the control problems (Chua, Lowe, & Puxty, 1989; Whitley, 1999). Specifically, much criticism was concerned with the theory’s inability to explain the complex social relations that underpinned management control issues in developing countries (Chenhall, 2003;
Cowton & Dopson, 2002). As such, there have been calls for alternative theoretical approaches to study management control issues stemming from non-western contexts (Bhimani, 1999; Wickramasinghe & Hopper, 2005; Wickramasinghe, Hopper, & Rathnasiri, 2004). Also, it has been argued that management controls need to be studied with the context in which they originate (Otley, 1994; Otley, Broadbent, & Berry, 1995; Whitley, 1999). Responding to these concerns, the current paper examines management controls within the wider social, cultural, political and anthropological contexts of Sri Lanka.

It has been argued that the ways in which management controls operate in developing countries are different from their operation in developed countries due to unique social, economic, cultural, historical and anthropological factors (Bhimani, 1999; Hoque & Hopper, 1997; Uddin & Hopper, 2001; Wickramasinghe et al., 2004). For example, factors such as the transition from traditional to modern, and the primacy of the state in socioeconomic activities are some salient features that render the developing country situation unique. A major implication is that in developing countries management control mechanisms such as business planning, budgeting, performance controls and personnel controls tend to produce results that often deviate from generally accepted norms (and can thus be described as dysfunctional). In the case of Sri Lanka, the focus of this paper, this is mainly caused by country-specific socioeconomic and cultural factors that are attributed to values and behaviours emanating from the traditional (feudal–patrimonial) society, colonial interventions and neoliberal economic practices (Alam, Lawrence, & Nandan, 2004; Gault, 2000; Hewege, 2006; Hewege, 2007; Hewege, Teicher, Van Gramberg, & Alam, 2008; Wijewardena & Yapa, 1998). It is argued that management control issues emanating from the developing country situation require broader theoretical frameworks to explain the causes interwoven with multi-faceted antecedents (Efferin & Hopper, 2006). The rest of the paper is organised in five sections comprising a literature review, theoretical framework, discussion of findings and concluding comments.
LITERATURE REVIEW

Management Controls in Liberalised State Owned Entities in Sri Lanka

As in many other developing countries, the socioeconomic impact of SOEs on Sri Lankan society is pivotal. Since 1977, an aggressive privatisation program coupled with an agenda of economic liberalisation has changed the ownership and management of most of the SOEs in Sri Lanka. As a result, their management controls have undergone significant changes, often with adverse consequences. Sri Lanka is significant for two things as far as SOEs and economic liberalisation is concerned. First, the dominance of the SOE sector in the national economy during the 1970s was among the highest in the world at 24 percent of gross domestic product (GDP) (Kikeri & Shirley, 1994). Second, Sri Lanka pioneered economic liberalisation in the Asian region, beginning in 1977 (Knight-John & Athukorala, 2005). Both before and after economic liberalisation, SOEs continued to play a dominant role in the socioeconomic fabric of the country. During the state controlled economic management era (1948–77), SOEs were engaged in the production and distribution of most of the country’s products and services. After economic liberalisation, the privatisation of SOEs created major economic, social and political problems (Balasooriya, Alam, & Coghill, 2008; Kelegama, 1993; Knight-John & Athukorala, 2005). For these reasons, the SOE sector (including partially and fully privatised entities) continues to be a critical socioeconomic phenomenon concerning Sri Lanka in the present-day context.

Since the late 1980s, the failures of liberalised SOEs have been causing numerous socio-political problems in the country (Balasooriya et al., 2008). The presence of these problems is evidenced by the fact that all the election manifestos of every political party in Sri Lanka since the 1980s have addressed the SOE issue as one of the critical economic and social problems. These failures can broadly be identified under two categories: the privatisation process and the management of SOEs. This study focuses on the second category, management failure of SOEs. Previous research highlighted factors such as excessive political interference, inefficient bureaucracy, indulgent work behaviours of managers and workers, and undesirable practices of trade unions as salient factors of
managerial failures (Balasooriya, Alam, & Coghill, 2006; Hewege, 2007; Hewege et al., 2008; Kelegama, 1993; Knight-John & Athukorala, 2005; Wickramasinghe & Hopper, 2005; Wickramasinghe et al., 2004). However, research into what causes these problems is scarce. It was found that the management controls of Sri Lankan SOEs were dysfunctional and that this affected the overall efficiency and effectiveness of the entities (Wickramasinghe & Hopper, 2005; Wickramasinghe et al., 2004). After Sri Lanka gained independence, SOEs continued to apply control systems that were used by the colonial bureaucratic administration. The Public Service Commission (PSC) of the post-independence government assumed the bureaucratic functions of the colonial administration. In addition, the transformation of rational–legal bureaucracy to a patrimonial–feudal bureaucracy due to the duality of traditional and modern elements had significant implications concerning how this bureaucracy operated in the post-independent period. SOEs were managed by the civil servants from this bureaucracy. The outcomes of these reforms were problematic for SOE management controls.

The main sources of these bureaucratic controls were the political authority originating from the relevant ministry under which the SOEs were operating and the Establishment Code and the Financial Regulations (the blueprint for civil administration – a comprehensive code of ethics for civil service adapted from the colonial administration and later revised as the Establishment Code of 1985). Accountability of civil servants (bureaucrats) was under the scrutiny of the Auditor General. After privatisation of the SOEs, these government bureaucratic controls were abolished fully or partly and a hierarchical managerial authority, derived from the terms of the privatisation agreement, replaced them. More market oriented, private sector management controls were introduced. However, these controls did not function as expected due to their underlying assumption of rationally purposive behaviour (Chenhall, 2003; Hopper & Powell, 1985). It is worth exploring as to why these modern, rational management controls did not operate as expected.
THEORETICAL FRAMEWORK: DUALITY OF THE TRADITIONAL AND THE MODERN

Many developing countries in Asia, Africa and Latin America are transitional societies where traditional (feudal–patrimonial) and colonial elements interact with modern elements (rational–legal bureaucracy and neoliberal economic principles) (Gault, 2000). Sri Lankan society manifests a composite of factors such as a hydraulic civilisation, a kingship-based mode of production, a feudal–patrimonial social and political order, colonial intervention, post-independent politics and neoliberal economic practices.

Political Economy of the Genesis of Traditional Controls

During the period of Sinhalese kings (from 6th century BC to 1815 AD), the societal and the political order was based on the feudal-based agricultural production, primarily paddy (rice) cultivation (Gunawardana, 1971; Gunewardene, 2007; Leach, 1959). The ancient Sri Lanka (Ceylon) was unique due to the remarkable ingenuity of its sophisticated system of man-made reservoirs. Civilisations in which agriculture was dependent upon large-scale waterworks for irrigation and flood control were called hydraulic civilisations (Wittfogel, 1957). It was argued that the roots of the traditional controls resided in the control of the irrigation system and the related economic and social actions of the people, such as caste-based social and religious obligations to the king, Buddhist monasteries and king’s representatives. Wittfogel (1957) asserted that the reservoirs were the work of a centralised bureaucracy and therefore, it was argued, the abandonment or destruction of the large reservoirs could be explained by the collapse of the kingdoms in ancient Sri Lanka. Leach (1959) counter argued that, although the large reservoirs may have been the work of a bureaucracy, the small village reservoirs certainly were not. There was no evidence from historical records that ancient Sri Lankans had a centralised bureaucracy to manage these small village reservoirs, which were about 20,000 in number. The archaeological records such as Mahawamsa and Chulawansa on monarchical activities in Sri Lanka did not provide evidence of the king’s obligation to maintain small reservoirs. This suggests that small reservoirs were maintained and managed by the villagers. The necessary maintenance work was organised by the villagers themselves. It can be argued that there was never a centralised bureaucracy to direct such work or to ensure that it was carried out (Leach, 1959).
The Sri Lankan villagers maintained their own irrigation system independently from the state and they continued it even after the collapse of kingdoms. The importance of communal ties among villagers was observed by many anthropologists (e.g. Tennent, 1860). *Concord and union* 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 and caste-based social relations. Thus, the traditional Sri Lankans were not governed by a centralised bureaucratic control structure. It can be argued that the control came from the common agreement between village seniors, tradition based on religious and caste-based rituals. Parallel to the kingship-based mode of production, monasteries or religious institutions in medieval Sri Lanka played a significant role in forming the mode of production and related social organisation (Evers, 1969). Monasteries managed by Buddhist monks held large portions of land and the corvée labour tied to them. The triadic relationship between the reservoir (*vewe*), village (*gama*) and temple (*dagaba*) was very significant in the traditional society. Enduring religious beliefs and caste-based duties formed the foundation of the social structure in Sri Lanka and the habits of thinking of the people.

**Colonial Intervention to Traditional Mode of Production**

The society that relied upon concord and union began to undergo significant changes as a result of the British colonial interventions. The colonial capitalist reforms were able to dismantle the traditional communal mode of production (Jayewardene, 2000). The setting up of the central irrigation department, the confiscation of land from the peasants and the commencement of capitalist plantation agriculture began to pervade the entire socio-economic, ideological and cultural fabric. The plantation economy representing the modern sector and the subsistence village agriculture signifying traditional sector gradually gave rise to the phenomenon of a ‘dual economy’ (Chandraprema, 1989; Hettige, 2000; Moore, 1989). The plantation sector thrived on the capitalist mode of production, with paid free labour along with a clearly distinguishable capitalist class and working (proletariat) class (Jayewardene, 1972, 2000). A trade-based money economy based on commercial plantation agriculture started to gain ground in the predominantly traditional society. Thus, the well-developed
commercial, plantation-based, capitalist economy along with subsistence, farming-based rural sector created the economic duality. Though large-scale plantations and the destruction of village communal farming forced people to abandon farming, the rituals, values and beliefs associated with the peasantry of the kingship-based traditional hydraulic society appear to prevail in the minds of the people in modern-day Sri Lanka. The implications of these rituals are that the traditional social relations rooted in the hydraulic civilisation of ancient Sri Lanka and the subsequent influences by the colonial regime are continued in the day-to-day practices of modern Sri Lankans.

Assimilation of Feudal–Patrimonial Factors into State Bureaucracy

Jayewardene (2000) stated that bureaucracy in post-colonial Sri Lanka was reciprocally interrelated with feudal patrimonies. The development of the capitalist plantation economy by the British was seen as instrumental in introducing rational thinking into traditional Sri Lankan society. Both capitalism and bureaucratisation can be considered as two revolutionary forces working to challenge traditional practices (Mommsen, 1980). The colonial and post-colonial influences in Sri Lanka apparently transformed the bureaucracy into a tool for patronage and political advantage rather than executing rational ends (Wickramasinghe et al., 2004). The colonial administration introduced a legal–rational bureaucracy on top of the patrimonial power. The politico-administrative system introduced by the colonial administration changed social relationships, creating various groups under state patronage. Thus, traditional feudal and patrimonial elements were not totally dormant under the colonial regime but were blended together (Wickramasinghe et al., 2004). The colonial bureaucracy had to operate within the feudal and patrimonial context, not in all quarters but in selected sectors.

Modern Elements: Foundation of Rational and Efficient Behaviour

The introduction of the modern elements is assumed to have occurred in two stages. Firstly, it was the introduction of colonial bureaucracy and related rational–legal aspects by the British colonial government and secondly, it was the introduction of neoliberal economic directives through aid-related structural adjustment programs by the World Bank and the IMF. In the first stage, the pressure
on the traditional system stemmed from the colonial administration, whereas in the second stage, the pressure emanated from the changes in market and regulation triggered by neoliberal ideology. The patrimonial power and control found in the feudal social system was viewed as irrational and arbitrary, and rational–legal authority and control was considered to be a sound alternative to this arbitrariness (Bijlsma-Frankema & Koopman, 2004) in organisational decisions. The motives behind employee and manager behaviour related to controls can be either rational (instrumental) or irrational (value, emotional or traditional). While modern controls promote rational behaviour, traditional controls support non-rational behaviour.

**Neoliberalism and its implications for modern controls**

Although neoliberal thinking encompasses a large spectrum of social and political aspects of the modern society, its economic application is intense. For the purpose of this paper, it is important to highlight what it does, rather than what it is. Neoliberalism is a pervasive economic phenomenon that emerged after the economic ideology of active state regulation (intervention) for the management of economies, often referred to as Keynesian economics. The propagation of the neoliberal ideology to most of the developing countries occurred through financial institutions such as the World Bank and the IMF (Balasooriya et al., 2008; Haque, 2000; Hoque & Hopper, 1994; Uddin & Hopper, 2003). Many Third World countries have been under pressure to implement radical neoliberal reforms in their traditional societies. These reforms were normally tied to a package of development finance in the form of development aid. It was argued that privatisation is a key instrument through which neoliberal reforms are introduced to developing countries by the World Bank and the IMF (Haque, 2000). The post-independence era of Sri Lanka saw the advent of neoliberal-driven management control practices coupled with an economic liberalisation agenda that was mainly imposed by donor agencies such as the IMF, ADB, USAID and the World Bank. For example, privatised SOEs started to apply private sector control mechanisms such as business planning, budgeting, performance control, task control and personnel control.
METHODOLOGY

This research used a qualitative research approach, adaptive theory (Layder, 1994, 1997, 1998). Adaptive theory was selected because it is particularly suited to building theories. It enables researchers to use extant social theories (social structure) to inform the theories emerging from in-depth interview data (human subjectivity). Adaptive theory applied in this thesis required consultation of extant social theories to make sense out of interview data. In-depth interviews were conducted to collect primary data. A set of unstructured questions was used to interview key stakeholders who were involved in policy formulation, and implementation at different levels. A total of 33 interviews were conducted, including with the chairman (1), board members (3), treasury officers (2), senior managers (4), employees (10), supervisors (managers) (8), trade union officers (2) and Trade union members (3). Line by line thematic analysis was performed to identify main themes which were subsequently grouped into concepts.

DISCUSSION OF THE FINDINGS

Background

The case company (MC) was established in 1956 as a state corporation and by 1978 it became a state monopoly in collection, processing and distribution of milk in Sri Lanka. During 1986, the MC was privatised through the sale of 51 percent of the government stake to a local private investor. The rest (49 percent) of the shares was offered to farmers (30 percent), workers (10 percent) and to the government Treasury (9 percent). Since then, MC has gone through three privatisations and three reacquisitions, a sound evidence for intense turbulence at the MC. At present, MC is functioning as a fully government owned company.

Evidence of Duality in the Post-liberalisation MC

The presence of this duality in relation to MC management controls was gauged from four aspects (Table 1). They were:
1. Politicians’ interference to MC controls to receive patronage-based favours jeopardising profit motive and the efficient functioning of the MC

It was found that the politicians initially supported liberalisation and privatisation efforts and later, in an attempt to continue the feudal–patrimonial practices of the traditional society, they interfered with management controls through manipulating regulatory bodies and appointing representatives to the board of management. Those politicians, who belonged to a political culture that evolved from the roots of kingship-based feudal–patrimonial society, continued to expect fealty from the party supporters by offering patronages (from MC) such as appointing directors to the governing board of the MC to form a loyal clan or clique to exercise personal power that rivalled rational–legal bureaucratic authority, resisting impersonal and rational business decisions if those decisions undermined their personal power and prestige, manipulating the civil service by using political hegemony to develop collusive relations with civil servants to exercise personal power, engaging in clan or clique fights inside the MC administration to secure and maintain political power and manipulating trade union leaders to exercise politician’s personal power over MC. These behaviours of politicians were found to be dualist.

2. Transformation of the civil service and the behaviour of the civil servants from rational–legal (impersonal) to patrimonial–feudal (traditional)

The empirical evidence showed that most civil servants initially supported the liberalisation of the MC and the resultant privatisation, but later behaved in a manner that affected the efficient functioning of the entity. It was found that instead of promoting rational–legal and impersonal aspects of the bureaucratic controls, they supported feudal–patrimonial actions of the politicians. These civil servants belonged to a civil service that evolved from the roots of the kingship-based, feudal–patrimonial society. The traditional social relations were embedded into the civil service when the colonial administrators recruited the kinsmen of the aristocrats of the feudal society to the colonial bureaucracy. These civil servants pioneered the post-independence civil service of Sri Lanka and consequently the feudal practices were reproduced while they performed their jobs in the bureaucratic
administration. They continued feudal–patrimonial practices of the traditional society in the modern bureaucracy that was based on the Weberian rational–legal bureaucratic principles. The specific traditional behaviours of these civil servants indicating the duality were: they considered caste, religion and political party affiliation as bases for decision making; used regulatory control power granted to them by the law to harass the private investors of the MC if these investors’ actions affected the civil servants’ personal power and prestige; colluded with the politicians to improve and maintain social power derived from the ability to influence the MC investors; resisted modern management controls, namely performance-based pay, business planning, personnel controls and merit-based promotions, in order to continue with the old controls enabling them to indulge in patronage-based favours; and favoured those investors in the MC who would collude to perpetuate the civil servants’ traditional behaviours.

3. Managerial behaviour characterising both modern and traditional elements

The assumption of utility maximising behaviour of human beings is the basis of neoliberal economic policies concerning individual economic behaviour and this behaviour is termed as rational economic behaviour. However, the empirical findings showed that, despite substantial material gains from modern controls, typically non-civil servant managers attempted to bring back old controls; formed personal power-based cliques and clans to counter rational–legal authority; acted against modern controls, namely performance controls, budgeting and business planning. These behaviours of managers were due to their predilection for the social relations, beliefs and values rooted in the traditional society. These predilections of the managers could be attributed to the phenomenon that modern elements have not fully substituted for traditional elements. The specific dualist behaviours of the managers were: they rated employee performance considering the loyalty of the employees to a particular clique or clan that the managers belonged to; set budget targets to favour those workers who loyally supported them and who belonged to the respective caste or the political party; approved overtime work in such a way that it benefited those workers who belonged to their favoured clan or clique and the political party; and formed informal power centres based on personal power within the rational–legal system to exercise personal power to offer patronage-based favours.
4. Employees’ predilection for feudal–patrimonial favours and practices while operating within a modern organisational environment based on neoliberal and rational–legal bureaucratic principles.

It was found that the employees preferred to indulge in social practices that prevailed in the traditional society. These behaviours provided evidence of the duality in their work approaches. The analysis of data revealed the following specific behaviours of employees: they formed into informal power-based clans or cliques within the formal bureaucracy to receive special favours from the superiors with a view to enhancing their social prestige; preferred to continue with the tradition of respecting seniority to receive higher grades from performance ratings and thereby rejecting competitive goal seeking actions; rejected performance-based pay as it disrupted social relations based on concord and union rooted in the traditional society; fought for job title changes to receive high social prestige based on feudal–patrimonial beliefs prevailing among the people; and supported trade unions to oppose modern controls that could disrupt traditional social relations.

CONCLUDING COMMENTS

The paper illustrated that the duality of traditional and modern elements tend to cause management control dysfunctions in SOEs. The context within which the management controls of the MC were studied was turbulent (when compared with the TC case) characterised by a series of privatisations and reacquisitions. This turbulence was partly caused by the intermittent disappearance and reappearance of both traditional and modern controls and the simultaneous presence of both traditional and modern controls. It showed that the MC’s liberalisation process was dragged into a politically as well as a socially turbulent state due to the effects of the duality. The findings revealed that the management controls of the MC were dysfunctional due to the effects of the duality of traditional and modern elements. The three privatisation regimes at the MC could not implement modern controls such as competency-based performance ratings, business planning, personnel and task controls due to a resurgence of traditional elements that resisted any significant changes to the
traditional work behaviour. This problem was further aggravated by the politicians, and civil servants’
predilection for continuing patronage-based favours rooted in the traditional socio-political practices
of the people. It was not possible for any privatisation regime to fully subjugate the traditional control
elements and institute neoliberal-based modern controls. The simultaneous presence of old
bureaucratic rules and the modern private sector-based controls at the MC fuelled the duality. As a
result, management controls such as regulatory controls, business planning, budgeting, performance
controls and personnel controls were not fully functional. It can be concluded from the findings that
the resurgence of traditional elements formed a duality of controls as evident from the dysfunctional
effects on the management controls such as business planning and performance controls.

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<th>Key Constructs for evidence of the Duality</th>
<th>Themes Emerged from In-depth Interviews</th>
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| Politicians’ interference to MC controls to receive patronage-based favours jeopardising profit motive and efficient functioning of the entity | • Initially facilitated the liberalisation and privatisation efforts  
• Through the appointment of working directors and treasury representatives to the board attempted to get cooperation from the private investor to raise political campaign funds and provide jobs for party supporters  
• Brought political rivalry into the organisation to create power struggle jeopardising controls  
• From time to time behaved pro-modern (neoliberal) and anti-modern (traditional) ways resulting in three privatisations and three reacquisitions  
Used price controls to offer patronage to voters |
| Transformation of the civil service and the behaviour of the civil servants from rational-legal, impersonal to patrimonial-feudal | • Supported feudal–patrimonial actions of politicians to receive favours by pushing politically based decisions in the board  
• As treasury representatives, without rationally supporting affairs of business, ratified political interference for feudal-patrimonial favours  
• As civil servants supported formation of traditional power centres to receive patrimonial favours  
• Resisted rational cost cutting actions of the management  
• Budgets were manipulated to grant patrimonial favours  
• Rejected performance controls to bring back seniority based traditional system  
Supported illogical and irrational overtime claims of the workers to offer and receive patrimonial favours |
| Managerial behaviour characterising both modern and traditional elements | Attempted to bring back the traditional controls despite substantial benefits derived from privatisation  
Formed personal power based control centres resembling feudal-patrimonial power  
Supported illogical and irrational claim for overtime work by workers  
Rational targets of the business plan were not supported  
Supported the power struggle of politicians and hindered the budgetary controls  
Performance controls were rejected and wanted establish seniority based system  
Supported trade union agitations that hindered personnel controls  
Granted patrimonial favours to workers in allocating overtime work |
| Employees’ predilection for feudal–patrimonial favours and practices while operating within a modern organisational setup based on neoliberal | • Rallyed around informal personal power bases centred around senior managers for receiving patrimonial favours |
| and rational–legal bureaucratic principles | • Resort to patrimonial favours based on seniority  
• Supported the trade unions to disrupt rational business actions of the company  
• Fought for illogical and irrational overtime work  
Brought political ideologies based on traditional values into the organisation and supported trade unions to challenge controls |