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Lanka

Siriyama Kanthi Herath
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Herath, Siriyama Kanthi, Patterns of management control in a family managed business in an emerging economy: the case of Dilmah tea in Sri Lanka, Doctor of Philosophy thesis, Department of Accounting and Finance, University of Wollongong, 2001. <http://ro.uow.edu.au/theses/1024>

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**PATTERNS OF MANAGEMENT CONTROL IN A FAMILY
MANAGED BUSINESS IN AN EMERGING ECONOMY:
THE CASE OF DILMAH TEA IN SRI LANKA**

A Thesis submitted in fulfilment of the requirements for the award of the
degree:

DOCTOR OF PHILOSOPHY

from the



UNIVERSITY OF WOLLONGONG
Department of Accounting and Finance
New South Wales
Australia

By

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October, 2001

Certificate

I, Siriyama Kanthi Herath, certify that this thesis has not been submitted previously as part of the requirements of another degree and that it is the product of my own independent research.

Dedication

To my husband, Anushka and our children, Laksitha and Dinushka for the devotion and encouragement given during this research project

and

To my father William Kalupahana and my mother Wimala Kalupahana for their never-ending love and financial support.

Acknowledgments

I would like to express my sincere gratitude to Associate Professor Robert Williams, my supervisor, whose invaluable suggestions and advice helped me direct and focus the research. I am indebted for his friendly guidance on the improvement of the content and presentation of the dissertation.

Special appreciation is also extended to Dr. Sudhir Lodh, my former co-supervisor, whose kind guidance and suggestions gave me valuable insights into the research in its early stage.

I am also appreciative of Professor Michael Gaffikin, Head of Department of Accounting and Finance, University of Wollongong, Professor Warwick Funnel, and Associate Professor Hema Wijewardena, who provided a considerable number of valuable comments and suggestions and gave me the opportunity to work as a part time teacher within the Department. Sincere appreciation is extended to Professor D. Atapattu (University of Ruhuna), Professor W. M. Jayaratne (University of Colombo), and Professor Jay Rajasekera (International University of Japan) for their encouragement in my academic work.

I am very grateful to Mr. Dilhan C. Fernando, Director of Marketing, Ceylon Tea Services Ltd. who provided invaluable support in conducting the empirical research, for without his support this project would never have been undertaken. I am also appreciative of Merrill J. Fernando (Chairman and Managing Director of Ceylon Tea Services Ltd) for giving me the opportunity to undertake my empirical study of the company. I am also appreciative of a number of senior managers and other employees at the research organisation. Especially, I am thankful to Malik J Fernando (Director of Operations), Jaynithi Wijesekera (Marketing Director's Secretary), Saradha Sosa (Financial Controller) Asoka Bandara (Assistant Production Manager), Mahen Rasaratnam (Tea Consultant), Ronald Rubera (Business Development Manager), S. Ramabadra (Accountant), Vajira Karunaratne (Quality Assurance Manager), Dilrukshi Seneviratna (Food Technologist), Bennet Jayasuriya (Human Resources and Administration Manager), BCF Mandis (Security Manager), Sanjaya Perera (Shipping Manager), Dilshan Boteju (Marketing Operations Manager), Regional Marketing Manager (Australia and NZ), and Rohini Disanayaka (Lady Security Officer) who gave assistance to me in the conduct of the empirical research. Many of them were kind enough to provide information through emails for more than two years.

A very special thank you to C. Smark who generously helped me in conducting my literature review. Many thanks to Justin Norris, Administrative Assistant to the Sub Deans and Dean Trifunovich, Computer Systems Officer for giving their best support for my study.

The moral support I received from my husband, Anushka, and our daughter, Laksitha and our son, Dinushka, is inexpressible. Their patience and cooperation helped me to complete the thesis. It is hard to express in words the encouragement and support I received from my parents, my brother, Sarath and my two sisters, Asoka and Nalika towards the completion of this thesis. Their support helped me overcome my financial problems enormously.

Abstract

This study is concerned with the patterns of management control existing in a family controlled tea exporting company in Sri Lanka, Ceylon Tea Services Ltd (Dilmah). The focus of the research is on the procedures and processes of control operated in the researched organisation. The study begins with a detailed discussion of the theory of management control. It examines both traditional and contemporary views of management control. A review of the basic concepts of control precedes the detailed review of literature on management control. A model of management control is developed as a guide to the study based on the literature reviewed. Several formal and informal control mechanisms, which affect organisational effectiveness, are identified. The case findings are then presented and an integrative model of management control for studying family controlled businesses is presented based on the evidence obtained in the study.

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CHAPTER ONE

STATEMENT OF THE ISSUE

History does not happen but is caused to happen by people going about their daily lives, often with no plan, yet at the distance of time it is possible to discern patterns and reasons why they did what they did (Williams, 1997, p.5).

1.1 INTRODUCTION

The entrepreneurs of the late twentieth century and early twenty-first century have to be very alert to what is happening in and around their businesses. They have the problem of not only developing specific products with specific requirements for specific customers with a unique knowledge of the market but also marketing them in a very competitive environment. Especially, those entrepreneurs who are producing and marketing globally have to spend their waking life thinking and caring for their businesses to ensure their survival and growth. With the advent of sophisticated computing technologies, these entrepreneurs have to seek new ways of getting the cooperation of their managers and employees to carry out their business strategies and achieve business objectives. This case study adds to the history of management accounting by exploring, describing, and interpreting the approaches to managing a business, taken by a very successful entrepreneur from a developing country. This man has developed his business into a successful enterprise and together with his managers developed systems to control their business activities.

This case study is specifically about the patterns of management control that are implemented and used by Merrill J Fernando, the founder of “Dilmah Tea” at his

company Ceylon Tea Services Ltd. The research shows that the secrets behind the success of this entrepreneur are his dedication and passion towards his business as well as his pattern of leadership and managerial style. It suggests that the management control practices used by this entrepreneur are a combination of attitudes and beliefs from both scientific materialism and rationalistic approaches. Further, the management control practices used in this organisation can be described as a combination of both western and Japanese approaches. It further suggests that the use of computer-based management information systems plays a very important role in the effectiveness of both the control system and the business as a whole.

1.2 RESEARCH FOCUS

The focus of this research is on the procedures and processes of control operated in the researched organisation. This particular area of study, management control, has received growing interest from academics and researchers in a variety of academic disciplines in recent years. In this study, the following theme of management control was pursued in the data collection process.

Management control refers to the formal and informal processes taken to gain the cooperation of its participants and subunits to achieve the organisational objectives (Marginson, 1999; Flamholtz, 1983; Otley and Berry, 1980; Ouchi, 1979). Under this theme, the nature of the organisation structure in relation to the location of strategic, managerial and operational decision making; the nature of budgeting and reporting procedures; the manner of performance evaluation and employee development; the nature of managerial and employee behaviour; employee and manager perceptions of

various processes of control and information flow; and the role of various other formal and informal control mechanisms are observed (Marginson, 1999; Berry et al, 1991).

The ultimate objective of any system of management control is achieving organisational effectiveness. Organisations devote vast amounts of funds and effort to designing and implementing control systems in order to improve organisational effectiveness. In this study, organisational effectiveness is not given a major emphasis. The study, however, studies organisational effectiveness because of the close relationship between management control and organisational effectiveness. The study measures organisational effectiveness in terms of employee job satisfaction, productivity, profitability, quality, and value added.

Theories of management control have become an important part of the knowledge gaining process of the two disciplines. As is true with many fields of study, this study area has also progressed from a highly theoretical perspective towards a more practical perspective as more and more academics and researchers recognise the potential utility of management control to impact today's organisations. There are few published case studies which present valuable insights on the design and operation of management control systems (see Marginson, 1999; Berry et al, 1991; and Archer and Otley, 1991).

Despite the growing attempts to report empirical procedures, academic understanding of the practical use of the discipline is still limited in scope as well as in depth. Similarly, although previous studies have empirically investigated different aspects of the discipline relating to developed economies, the understanding of the patterns of

management control in emerging economies is very limited and remains unclear. The current study attempts to explore the approaches to management control that operate across different levels of the research organisation.

1.3 THE PURPOSE OF THE STUDY

This case study describes the control practices observed in the operation of a world-class tea exporting company in an emerging economy. The purpose of this research is to explore and describe the actual management control processes observed as operating in and across various functional departments of the organisation during a specific period and to interpret these observations using an a priori theoretical model. The system of management control is observed using both organisational and departmental level analyses. In this analysis, the views presented by the human actors, both managers and employees, are very important sources of data. Thus, as with Archer and Otley (1991), “The description and analysis are ... interpretative as it would not have been possible to comprehend the significance of the actions and events described without relying heavily upon the interpretations placed on these by the managers involved” (p.263).

This case study seeks to contribute to the knowledge of management accounting, management control, management science, organisational effectiveness and performance and leadership theory. In the study, the state of the design and operation of control systems across different sub-units of the organisation and through different hierarchical levels of the organisation is explored. The effect of these systems on effectiveness is also observed. More specifically, the patterns of management control and their effect on organisational effectiveness are the central focus of the study. The

study is both a descriptive and interpretative analysis of the practices used to control an organisation and its sub-units and their impact on organisational effectiveness.

More specifically, the current study explores the nature, design and operation of management control systems in a medium-sized Sri Lankan organisation, Ceylon Tea Services Ltd (CTS). This company which is a wholly owned subsidiary of the MJF Group, produces and markets a whole range of tea products to wholesalers and food services under the proprietary name “**Dilmah**” to 90 countries throughout the world. It is the largest value added tea exporter in the tea-growing world. The company’s founder has spent more than 48 years in shaping and reshaping the patterns of control and leadership as well as ways of providing information for such patterns. The study:

- a) explores what particular patterns of management control did exist in Ceylon Tea Services Ltd;
- b) explores how these particular patterns of control are used by managers;
- c) explores how the patterns of management control have changed in recent years;
- d) explores how organisational effectiveness has changed in recent years;
- e) observes who is behind the whole scenario of control at the Ceylon Tea Services Ltd;
- f) observes what control system type best describes a family controlled businesses; and
- g) provides interpretations and as a result a better theoretical model of the nature of management control in family controlled businesses was developed using the preliminary theoretical model as a benchmark, comparing research data against the model using analytic induction as suggested by Yin (1994).

This case study research has several objectives. The main objective of this research is to observe and analyse current practices of management control in a selected private-sector-manufacturing organisation in a developing country and develop a theoretical explanation of management control in family controlled organisations in emerging economies. For this purpose, the design and operation of management control

procedures in Ceylon Tea Services Ltd were thoroughly studied. The study aimed to observe whether the systems of management control lead to organisational effectiveness. Thus, this case study is intended to add to the few studies in the literature, which aim to demonstrate the extent to which management control systems lead to greater organisational effectiveness.

The objectives of this research included the development of a more complete theoretical explanation of the data collected through the case study. Following Yin (1994) and Berry et al (1991), the current research begins with a review of the existing literature on the subject areas covered. This leads to the development of a theoretical model, which guides the data collection procedures. Then, the findings of the case are compared against the initial theoretical model and a more complete theoretical model is developed which, is able to better describe the phenomena that have been explored.

The uttermost objective of the research study is to contribute to the knowledge of theories of management control. This research is an attempt to contribute to the knowledge of management accounting using alternative theoretical stances. The last two decades of the twentieth century saw an increasing interest among accounting researchers and academics towards conducting research using alternative theoretical stances (see Lodh and Gaffikin, 1996). The nature of the research questions addressed by this study lead the researcher to select a case study approach in conducting the research. This research is expected to add to the list of case studies because it attempts to explore the patterns of management control in the researched organisation.

Limitations with previous research in the area also warrant further empirical study. Previous studies do not address management control as an integrated system. For example, although there are several empirical investigations of management control, there is very little or no research available on the combined effects of integrated systems of management control. As Flamholtz points out, “behavioral research in accounting has tended to be focused upon what are admittedly important aspects of the accounting process in isolation of the organizational context in which the accounting function operates” (1983, p.153). Accordingly, those researchers have failed to explore the richness and complexity of the organisational practices in their natural settings. Hopwood (1978) claims that very little attempts have been made to understand the complex interrelationships between organisational processes and procedures and accounting systems. This case is an attempt to study the state of management control and its impact on organisational effectiveness in a complex business organisation. Moreover, most control research is about the experiences of developed countries and the views of developing countries are very rare. Likewise, there is absolutely no research available on the subjects covered by this case study relating to Sri Lanka, a transformational economy (an economy in transition from government control to market orientation). Thus, this research will enrich the literature with this Sri Lankan experience. Above all, this case will add to the history of management accounting by exploring and describing the patterns of management control and leadership by a third world entrepreneur who turned his family business into a world class enterprise. The findings will be a guide to both academics and practitioners of management. The results of this study should enlighten the management accounting profession as to what the relationships between management control and organisational effectiveness are in

emerging economies.

1.4 STATEMENT OF RESEARCH QUESTIONS

A number of research questions about the state of management control, management information, and organisational effectiveness are addressed in this study. The six basic research questions investigated by the study are:

- a) What particular patterns of management control did exist in Ceylon Tea Services Ltd?
- b) How were these particular patterns of control used by managers?
- c) How the patterns of management control have changed in recent years.
- d) How has organisational effectiveness changed in recent years?
- e) Who is behind the whole scenario of control at the Ceylon Tea Services Ltd?
- f) What control system type best describes a family controlled businesses?

The above questions were answered through the analysis of the data collected from the case study. The procedures used to answer each research question are described in detail in Chapter Eleven.

1.5 BACKGROUND OF RESEARCH QUESTIONS

The intent of this research has been to study in detail the approaches taken by managers in a private sector manufacturing and exporting company to control their organisational activities (systems of management control). A review of the relevant literature has formed the background for this study. This review was carried out using the relevant academic texts and journal articles. The subject area covered by this study, “management control” is considered to be of particular importance to any organisation, in either the private or the public sector.

1.5.1 THE CONCEPT OF MANAGEMENT CONTROL

The recent ideas of management control originated with the seminal theoretical work of Robert Anthony who drew boundaries between management control, strategic planning and operational control. Anthony (1965, p.17) defines management control as “the processes by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization’s objectives”. He points out that the managerial activities of an organisation consist of planning and control systems and management control is supposed to be a linking process between strategic planning and operational control. This view takes a functionalist approach to the study of management control.

Planning and control systems have become an inherent part of modern complex organisations. Managers use them “as they seek to bring unity of purpose out of the diverse efforts of organizational participants to steer the organization toward its goals and objectives” (Maciariello, 1980, p.xiii). Thus, management control is primarily concerned with the managerial functions of planning and control in order to coordinate the actions of organisational participants and sub-units.

Management control, thus, can be seen as a process through which long-run organisational objectives are broken down into short-run specific tasks for each organisational sub-unit. They influence both organisational and managerial performance. Thus, the formal and informal control infrastructure provides the context within which individuals translate strategic intent and policy into the day-to-day activities by which objectives are operationalized (Vagneur et al, 1996, p.iii). From this

point of view, management control is concerned mainly with the activities of individual managers rather than the structures and strategies of systems of control. In either way, it is considered an essential link in achieving corporate goals and objectives (Anthony and Govindarajan, 1995; Otley, 1996).

Recent debates have given rise to alternative views of management control. One such view sees “management control as a social and political process in which power, interests, and conflicts are brought to the forefront in understanding the complex pattern of interaction in organisations, and organisational change” (Nandan, 1996a, pp. 347-348). This view assumes that organisational members are a plurality of groups or coalitions that often compete over decisions regarding allocation of resources, performance evaluation and reward systems and find themselves in conflicting situations. In organisations there may also be a dominant coalition built around key actors i.e. the higher echelon (chief executive and senior managers) who control important policy matters to further consolidate their power (Nandan, 1996a, p.348). In such situations, the balance between contributions and rewards play a key role in sustaining the long-term membership. Under this theme, Lowe and Chua (1983, p.286) provide a definition of management control as follows:

management control is concerned with ensuring the achievement of a negotiated level of welfare for any organisation and its contributors consistent with maintaining boundary conditions for that enterprise, in relation to its environment, such that its long run survival is provided for.

Pluralistic views of management control emphasise actions rather than structures and strategies of control as suggested by the conventional functionalist view. Irrespective of these contrasting theoretical perspectives, the focus of management control is mainly on

the processes of resource allocation and the accomplishment of organisational objectives. In the achievement of organisational objectives, it is essential that both individual and group objectives of organisational participants be achieved in order to survive in the long-term.

Management controls are intended to guide, motivate, coordinate and constrain the activities of individuals within an organizational system (Vagneur et al 1996, p.iii). Throughout this dissertation, the term, “management control systems,” is used to refer to the various stages of design, development, installation, and operation of management planning and control systems. The purpose of a management control system is to “assist management in the allocation of its resources so as to facilitate the attainment of the goals and the objectives of an organization” (Maciariello, 1980, p.1).

Practically, a management control system operates at three different levels within an organisation in order to accomplish diversified corporate objectives. First, it is concerned with the formulation of goals and objectives upon which resource allocation decisions can be made. Second, it is concerned with the allocation of organisational resources in a way that will ensure the achievement of goals and objectives. Finally, it is concerned with the measurement of performance and taking corrective actions to ensure that the entire organisation operates smoothly towards the accomplishment of corporate objectives. Thus, the management control system knits the organization together so that each part, by exercising the autonomy given to it, fulfils a purpose that is consistent with and contributes to the fulfilment of the overall purpose of the organization (Maciariello, 1980, p.2). To achieve the organisational objectives through systems of

management control, Anthony's framework of control (1965) focuses largely on the informational requirements of management control systems.

Initially, the information for management control meant accounting information (Marginson, 1999; Otley, 1996; Otley, 1994) – a notion that still holds true for many present day organisations. With the broader understanding that some managerial activities are difficult or unable to be measured and controlled in accounting terms, in recent years, alternative means of control such as action, results and personnel have been put forward by several academics and researchers (see Marginson, 1999; Merchant, 1986). Particularly, in the case where meaningful measurement of effectiveness of activities cannot be done using the output generated the value of accounting information tends to be very limited. Thus, “the focus on the accounting information system became generalized into a focus on the management information system (Otley, 1996, p.1)”.

Change has been an inevitable process throughout the history of management. The rate of change in the business world during the 1990s has been dramatically fast and we can expect it to become even faster in the twenty-first century due to the easy access and wider adaptation to sophisticated information technology. To survive in this changing environment, organisations must learn to be flexible and responsive to their customers' needs. Organisational change, which takes diverse forms, is the “process of implementing an innovation and/or altering the behaviour, structures, procedures, or output of some unit within an organization” (Hanson, 1979, p.291). Manufacturing and exporting companies whose existence is thought to be guaranteed by society are no

exception. They should go hand in hand with the changing environments.

Indeed, in many of today's business enterprises technological as well as managerial changes, which increase the organisations' ability to face huge competition and improve organisational effectiveness and efficiency, have become important issues. The reason for these changes is simple. Quality, flexibility and responsiveness are of profound importance for success in business, "and these abilities of course depend on information – the way it is collected, processed and acted upon" (Wilson, 1993, p.13). Thus, ultimately, success in business in part depends on information because "without information decisions are impossible, and profitability depends upon good decision making throughout the organization" (Wilson, 1993, p.3).

Throughout this dissertation, the term, "management control system," is used to refer to the systems designed and implemented to control organisational resources and to gain the participants' cooperation towards achieving organisational goals and objectives. This study observes those systems and their changes in recent years. As observed by the researcher, one significant change in the system of management control by the subject organisation was the implementation of a fully integrated management information system in 1997. The management information system in the Ceylon Tea Services Ltd is fully computerised and integrated. Management information systems have become inseparable from modern management and are increasingly becoming essential in meeting the information needs of organisations. As such, they can be used by organizations to obtain a competitive advantage or to keep up with the competition to survive or retain market share (Chandler and Holzer, 1988, p.2).

It has already been pointed out that the role played by information is vital in any control system. As Anthony, (1965) discusses, control is the managerial process of reducing the variance in a system. Simply, because a management control system is “concerned with the coordination, information processing, and resource allocation dimensions of the management process” (Maciariello, 1980, p.2), information plays an important role in decision making relating to these managerial functions.

The current study explores the existing systems of management control at the Ceylon Tea Services Ltd and the role they play in organisational effectiveness. The findings are revealed in several chapters in accordance with the theoretical framework used in analysing research findings.

1.6 THE CONCEPTUAL FRAMEWORK

The researcher began her field observations mindful of several theoretical perspectives of management control. Initially, a basic framework was developed which was used as a “guiding perspective” to the data collection process from the relevant literature reviewed. Due to the lack of a complete model, which would have covered the subject areas studied by the current research, it was decided to develop a model to guide the data collection procedures. In developing this guiding model, the views and ideas of a number of researchers’ and authors’ were synthesised. Especially, the basic model was a synthesis of the management control frameworks developed by Otley, et al (1996), and Whitley (1999). This framework was very helpful in developing the interview guide and questionnaires used to gather evidence of the operations of the organisation.

1.7 RESEARCH STRATEGY

This research focused on the nature, design and use of control mechanisms in the research organisation. The case study approach was considered the best due to the exploratory and evaluatory nature of the study. This was partially in accordance with the recommendation of Berry and Otley (1980) that research on management control systems would be more likely to benefit from research approaches which “concentrate on the structured and intensive observation of the operation of the whole range of control activities undertaken by specific organizations” (p.243). Thus, the current case study of patterns of management control is supposed to be a detailed one in order to capture the important aspects of the design, operation and use of the management control systems. Proving that case study is the best strategy for the type of research questions addressed by the current study, the researcher has gathered a lot of very useful information through interviews and discussions with managers and employees.

The current study uses both exploratory and evaluation research methods. As with Archer and Otley (1991), this research can be considered exploratory, in the sense that it is a part of a program of ongoing research into management control systems. It is evaluatory in the sense that it reveals the management and leadership style of the chief executive officer of the company and the effect of his control approach on the overall effectiveness of the company. Furthermore, the research reveals the implementation of a computerised management information system and its impact on management control and organisational effectiveness. The research methods used in this study consist of:

- a) semi-structured interviews;
- b) reference to the documentary evidence including annual reports, performance evaluation forms and performance reviews etc.;

- c) non-participant observation;
- d) employee and manager opinion surveys;
- e) data from the “Dilmah Tea” internet web pages; and
- f) electronic mail contacts with managers and customers.

The research uses both qualitative and quantitative data as well as primary and secondary data sources to gather evidence. The case study relies primarily on field research methods to collect data. A detailed description of the methods in use is presented in Chapter Four.

1.8 ORGANISATION OF THE RESEARCH REPORT

The final product of the current research consists of a documentation of the patterns of management control extant at the research organisation. This documentation, which consists of Twelve chapters, answers the six research questions of this case study.

Chapter One introduces the study. It broadly states the issues of concern and why they are important. The general lack of established empirical knowledge in the subject area covered is discussed. The objectives of the study are given and the significance of the research for management control systems is discussed. Further, it discusses the research design and methodology, and finally, gives an outline of the organisation of the study.

Chapter Two is concerned with the basic knowledge of management control. It takes a wider view of control and provides some valuable insights into management control. The chapter also provides several definitions of control together with a discussion of the need for management control. In addition, it discusses the evolution of management control systems. It is also concerned with the theoretical frameworks of management control. It attempts to develop the foundation for a tentative theoretical framework of

management control, which can be used as a guiding perspective. Initially, the chapter discusses broadly a number of different ways of organising human actors in order to control their behaviour in organisations. The chapter, then, elaborates on several specific underlying theoretical models of management control. Finally, the chapter discusses several issues recognised as particularly relevant to the empirical study of the extant patterns of management control.

Chapter Three presents a tentative theoretical framework that synthesises past research on management control, and how this is used as a guiding perspective in data collection and analysis for this case study. The chapter, first, identifies two guiding perspectives as pertinent to the development of the conceptual framework based on the issues recognised as relevant to the current study. Then, it develops a tentative theoretical framework that will be used only as a benchmark rather than a firm theoretical foundation in the analysis of the research findings.

Chapter Four provides a comprehensive discussion of the research methodology used to collect and analyse research data. It describes in detail the research methodologies used in management accounting research. The chapter also presents a discussion of the nature of case study research and case study designs. The instruments used to collect data and the procedures used to analyse research data are discussed in the chapter.

Chapter Five provides discussion of the setting for the case study. The chapter attempts to provide a description of the context of the subject organisation and its parent company. The chapter also reviews the history of the Ceylon tea industry, the economic situation in Sri Lanka and the importance of the tea export industry to the economy.

Chapter Six presents a detailed description of the strategic and structural situation of the research organisation. It presents a discussion on the functional organisation of the company (eg. production, marketing, financial and so on). The chapter also discusses various growth strategies used by the parent company, MJF Group as an introduction to a detailed strategic situation of significant functional areas of the Company.

Chapter Seven is concerned with the functional implementation of corporate strategy at the research organisation. It discusses in detail how strategic managers in the three strategic business units, namely operations, marketing, and operating, implement strategies. In the chapter, a discussion of functional strategies applied by these strategic business units in order to achieve business strategy is also presented.

Chapter Eight examines the cultural components of the research organisation. It attempts to describe how senior managers control organisational participants and their activities by managing corporate culture. The chapter also analyses the importance of culture as a component of management control.

Chapter Nine attempts to analyse the systems of management information of the company. It presents a discussion of overall systems of management information. The chapter also discusses the formal accounting information system of the company, which is an important component of the company's management control system. This includes an analysis of the technical sophistication, format, emphasis, and the use of the accounting information system of the research organisation.

Chapter Ten concludes the description and analysis of the patterns of management control through a discussion of the core control practices of the extant management control system of the research organisation. The chapter identifies several major mechanisms of management control known as the ‘package of core control’ used by the company. It provides a detailed analysis of these control mechanisms.

Chapter Eleven attempts to develop an integrative theoretical framework of management control for a family managed business in emerging economies. In this attempt, the chapter evaluates and analyses findings of the current research based on the six research questions. It also presents an assessment of the extant system of management control and develops a model with the aim of contributing to the knowledge of management control in understanding the patterns of management control in family managed business in emerging economies.

Finally, in Chapter Twelve, the project is summarised and research findings are presented. It discusses the strengths and weaknesses of the current research. This research report ends with a discussion of the directions for further research in management control.

CHAPTER TWO

MANAGEMENT CONTROL AND MODELS OF ORGANISATION

2.1 INTRODUCTION

Chapter One introduced the research objectives of the current study. It discussed the lack of established knowledge in the form of empirical evidence on the patterns of management control in successful business organisations in emerging economies. It stated the research questions and discussed the research foci: (a) to explore the existing patterns of management control in a tea manufacturing and exporting company in Sri Lanka and (b) to contribute to the existing knowledge of management control by way of providing a theoretical explanation of the practices of management control in family controlled businesses in developing countries.

In order to expand the frontiers of knowledge, gain acceptance for research findings, and develop a framework that can be used as a guiding perspective, the current research must be related to the existing theories and research. Many researchers have identified the importance of gaining a fairly explicit theoretical motivation of the issues before doing a piece of research (eg. Archer and Otley, 1991; Archer, 1988; Yin, 1984).

For this reason, Chapter Two reviews the literature on the subject area of management control. The chapter attempts to develop the foundation for a tentative theoretical framework into the subject area of management control. Then in order to elaborate on the theoretical framework, several specific underlying theoretical concepts of management control are discussed in detail. Based on this discussion, several issues are

recognised as particularly relevant to the empirical study of the patterns of management control in the subject organisation. The discussion in the current chapter will be the basis of the research framework developed in Chapter Three.

2.2 MANAGEMENT CONTROL

This part of the chapter discusses the literature relevant to management control. A review of the basic concepts of control precedes the detailed review of literature on management control. In the literature, the concept of management control has been discussed in a very broad sense representing different ideologies and practices – from Taylorism to Team-based Control - (eg. Marginson, 1999; Otley, 1999; Berry et al, 1998; Otley, 1996; Otley et al, 1995; Vagueur et al, 1996; Otley et al, 1996; Simons, 1995; Macintosh, 1994; Otley, 1994; Overman and Loraine 1994; Yan and Gray, 1994; Teall, 1992; Berry et al, 1991; Merchant, 1985a; Sayles, 1972; Anthony, 1965).

The term ‘control’ as a social variable has different levels of pressure and impact on individuals and organisations. It may be in the forms of coercion, compliance and cooperation and it is a very common everyday-use term as Macintosh explains:

Control may be the most contentious word of our time. Half the world thinks of control as coercion and oppression protesting that we should have less of it. The rest believe society is pretty much out of control and that we need more of it. Either way, and regardless of one’s political stance, control is a phenomenon that requires careful study if we are to make sense out of our world (1994, p.1).

Everybody in society is woven into ‘control’ in some way or the other. Even in day-to-day life, there may not be a single person who has not encountered the word ‘control’ at least once in his/her lifetime. In recent years, there have been many widely noted examples of inappropriate or inadequate control in scholarly literature and the media:

- a) Are you in control of your e-commerce strategy? (Czuchry, 2001, p.6);
- b) The effect of capital controls on interest rate differentials (Herrera, 2001, p.385);

- c) Control of LNG reserves is the real issue (Australian Financial Review 08 Mar 2001, p.);
- d) QBE nabs control of HIH venture (Sydney Morning Herald 07 Mar 2001);
- e) Control and chaos (Newcastle Herald 24 Feb 2001); and
- f) Warlords' deadly battle for control of heroin highway (Sydney Morning Herald 24 Feb 2001).

It is accepted that management control is an area in which society as a whole and organisational participants in particular have an interest in. As with Otley and Berry (1992, p.29), “control is a central and inescapable feature of all human organizations”, and in modern complex business organisations, control is the fundamental activity that guides organisations towards accomplishment of objectives. In that sense, “(o)rganization can itself be viewed as a control process, occurring when groups of people feel the need to co-operate in order to achieve purposes which require their joint action” (Otley and Berry, 1992, p.29). Thus, the current research attempts to observe:

- a) What particular patterns of management control did exist in Ceylon Tea Services Ltd?
- b) How were these particular patterns of control used by managers?
- c) How the patterns of management control have changed in recent years.
- d) How has organisational effectiveness changed in recent years?
- e) Who is behind the whole scenario of control at the Ceylon Tea Services Ltd?
- f) What control system type best describes a family controlled businesses?

A key task of any manager in any organisation is to insure that his/her organisation is moving towards the achievement of the objectives set forth for it. This general area of activity is called control (Anthony et al 1984, p.10). The concepts management control are discussed in the following sections.

2.2.1 DEFINITION OF CONTROL

Control can be defined as “keeping things on track” (Merchant, 1985a, p.1) and it has been identified as “the final function in the management process” (Merchant, 1985a, p.2). This is following the early management theorists’ analysis of managerial tasks along a management process continuum, which classified control as the ultimate

function in that process. It is also considered “one of the critical functions of management” (Merchant, 1985a, p.1), because control involves influencing human behaviour, which is essential in implementing and carrying out organisational strategies that lead to the goal attainment. Anthony et al (1989) provided a definition of control, which emphasised command and control:

Control is the process of guiding a set of variables to attain a preconceived goal or objective. It is a broad concept applicable to people, things, situations and organizations. In organizations, it includes various planning and controlling processes (p.5).

This definition of control implies that control is a mechanism and a strategy for organisational survival and success. Anthony and Dearden (1980, pp. 3-5) further explained how control of an organisation is much more complicated than the control of things and situations. One reason for this complication is that “control involves managers taking steps to help ensure that human beings do what is best for the organization” (Merchant, 1985a, p. 4). Traditional views of control necessarily consisted of at least four elements:

- a) a measuring device;
- b) a device for assessing the significance of what is happening;
- c) a device for altering behaviour if necessary; and
- d) a means of transmitting information between these devices (see Anthony et al, 1980, pp. 3-4).

Otley (1992, p.99) put forward a somewhat similar view of the process of control consisting of four characteristics:

- (a) the specification of an objective;
- (b) a measure of the degree of attainment of that objective;
- (c) a predictive model of the likely outcomes of control actions; and
- (d) the ability and motivation to act.

These four interrelated elements are supposed to constitute a control system aimed at attaining a desired state or condition. The traditional definitions of control essentially

took a command-and-control rhetoric, which included top-down strategic formulation, standardisation, comparison of results with plans and organisational efficiency (Simons, 1995). Simons (1995) who maintains that command-and-control techniques are no longer sufficient in competitive environments where creativity and employee initiative are critical for success in business put forward the necessity of developing a new theory of control that recognised the need to balance competing demands. According to Simons (1995, p.29), “(c)ontrol implies managing the inherent tension between creative innovation, on the one hand, and predictable goal achievement, on the other, so that both are transformed into profitable growth”. This view is more practicable for an organisation in which features such as increasing competition, rapidly changing markets, new forms of organisations and customer orientation are more visible than in other organisations. Simons’s (1995) definition is based on the notion that:

... organisations are multifaceted. They are also social systems, collections of individuals bound together to meet personal and social needs. Group norms and patterns of power and influence affect internal decision processes. Organizations are also sets of relationships among self-interested participants, each of whom is balancing personal well-being and organizational needs (p. 13).

Control in organizations is achieved in many ways, ranging from direct surveillance to feedback systems to social and cultural control (Simons, 1995, p.5). Similarly, in the management literature, many definitions of control with differing theoretical perspectives can be found. Many researchers accepted that control means different things to different people. Chua et al for example, (1989, p.4) articulated three distinct meanings of control as follows:

- a) one as a means of steering or regulation, which is the classical cybernetic meaning;
- b) a second as a means of domination of one or more people or groups of people by other people or groups, which has more sociological and political overtones; and
- c) a third, as a process of the management control and power.

Thus, control can be viewed from many different perspectives. As Otley et al (1996, p.6) explain “(c)ontrol' is itself a highly ambiguous term as evidenced by the difficulty of translating it into many European languages”. Throughout this dissertation, the terms control and control systems are used to mean management control and management control systems.

2.2.2 PROCESS OF CONTROL

In the literature of management, the term ‘control’ is often used in a comparative sense. Control means a comparison between the planned and actual performance together with identifying possible corrective actions. For example, according to Stoner and Wankei (1986, p.17), the control process consists of:

- a) defining desired results;
- b) establishing predictors of results;
- c) establishing standards for predictors and results;
- d) establishing information and feedback network; and
- e) evaluating information and taking corrective action.

Such a control process requires the listing of steps consisting of very specific goals and objectives and the measure of how well those goals and objectives are achieved. Many academics and researchers have argued in favour of such a control process. According to Merchant (1982, p. 43), “(a)fter strategies are set and plans are made, management’s primary task is to take steps to ensure that these plans are carried out, or, if conditions warrant, that the plans are modified”. Thus, the function of control is to take measures to increase goal congruence or prevent organisational participants from behaving in ways where goal incongruence exists.

Control is also discussed in the literature as part of the strategic implementation process. The argument for this is that without control proper execution of strategy may be impossible. Anthony (1988, p.10), for example, defines management control as “the

process by which managers influence other members of the organization to implement the organization's strategies". An assumption implicit in the work of Anthony (1965) is "that the strategic objectives of the organization have been established and clearly understood by the organization's members" (Carroll, 1987, p.14). This work though "emphasizes the behavioural aspects of control more strongly, still takes strategy as given" (Berry et al, 1998, p. xvi). Anthony (1988, pp. 30-34) further defines strategic planning as a means of formulating strategies. Merchant (1985a, p.3) holds the view that "(s)trategy is seen as related to, but usually separable from, control" (original emphasis). Literature reveals that control is considered a principle of management too; the others include planning, organizing, staffing, directing and coordination.

2.2.3 THE NEED FOR CONTROL

It is assumed that a certain degree of control is necessary to keep things on track in any organisation. Control is used as a means of ensuring that participants will do what the organisation wants to do and they will not do something that the organisation does not want to do. In the words of Merchant (1985a, p.4):

Control, as the word applies to a function of management, involves influencing human behavior, because it is people who make things happen in an organization. In other words, control involves managers taking steps to help ensure that human beings do what is best for the organization (original emphasis).

Otley (1989, p.32) said that "... a great amount of management activity seems to be concerned with influencing the behaviour of others with the object of producing desired outcomes". Organisational participants sometimes fail to act in the organisation's best interest so that a set of controls has to be implemented to protect their behaviour from undesirable behaviour and ensure desirable actions. To establish control over organisational participants' behaviour, adequate measures for both expected and actual behaviour should be taken into account. Merchant (1985a) held the view that:

Control is seen as having one basic function: to help ensure the proper behaviours of the people in the organization. These behaviours should be consistent with the organization's strategy, if one exists, which, in turn, should have been selected as the best path to take toward achievement of the organization's objectives (p.4, original emphasis).

The literature suggests several causes of the need for control: lack of direction, motivational problems, and personal limitations (Merchant, 1985a). When there is a control problem managers sometimes can avoid it by using particular strategies such as elimination, automation, and risk sharing. Perfect control would require complete assurance that all individuals on whom the organization must rely always act in the best way possible, or at least in a way that is consistent with the organization's strategy (Merchant, 1985a, p.10). Thus, the literature suggests that good control is reasonable and achievable. As with Merchant, "(g)ood control means that an informed person can be reasonably confident that no major, unpleasant surprises will occur" (1985a, p.10).

The absence of adequate control can have many harmful organisational consequences. Problems such as defective products, unsatisfied customers and workers, inability to compete successfully in the marketplace and weak coordination within the hierarchy levels of the organisation might be the results of poor control. On the contrary, too much control can also be harmful for effective and efficient organisational performance. On one hand, tight control may reduce the organisation's flexibility and innovation. On the other hand, it may increase the operational cost and employee pressure. Control being a supportive activity will not directly contribute to the value added. Accordingly, too much control may create unwanted financial as well as behavioural consequences. Therefore, maintaining an optimal balance between stability and flexibility through control is very important and has always been a major challenge for organisations. With the changes in the way organisations observe, measure and

evaluate them, however, an obvious change in both control mechanisms can be seen. The following sections are devoted to a brief discussion of control systems.

2.2.4 MANAGEMENT CONTROL SYSTEMS

Management control systems, as the name suggests, include three concepts: management, control and systems. Many theorists agree that the term “management control systems” has numerous meanings and it gives different ideas and meanings to different people depending on the context in which it is applied or discussed. If these three words are taken separately, each has a problem of defining itself because they all belong to a wide discipline, which has developed over the last 40-45 years. This is explained by Machin (1983, p.24):

Management was a subset of those things which went on in an organisation. *Control* was a subset of the total range of managerial activity (planning, motivating, coordinating, staffing, directing, controlling etc., the precise number of discrete subjects depending on the author). *Systems* was the subset of organisational systems which included only formal, systematically developed, data-handling system (original emphasis).

The notion of “management control systems” which is a combination of those three concepts, thus, lacks a definitive explanation (Nandan, 1996a). The word “management” represents one of the activities carried out by managers in an organisation. The variables involved in the activity of management seem to be increasing in modern complex organisations. Equally, it is becoming clear that management as an activity is not restricted solely to ‘what managers do’ (Machin, 1983, p.36). In the management literature, the activities performed by managers have been broken down into many categories. Common among these categories are objective setting, strategy formulation and implementation, performance measurement, and control (Fayol, 1967; Anthony, 1965; Mintzberg, 1973a; Merchant, 1985a). As already pointed out, although the functions of managers cannot be separated with distinct

demarcation lines, both theorists and practitioners agree that control is the final function in the process of management.

The ideas of management control originated with the seminal theoretical work of Robert Anthony, who drew boundaries between management control, strategic planning and operational control. Anthony (1965) defines management control as “the processes by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization’s objectives” (p. 17). Thus, management control was supposed to be a linking process between strategic planning and operational control activities.

The uttermost focus of the approaches to traditional management control systems is on the goals, and the co-ordination and evaluation of the processes used to achieve the established goals. Anthony (1965) sets boundaries between three types of planning and control decisions in an organisation. Traditional management control theorists hold the view that management control is internal to the organisation and structures and strategies play important roles in control. Anthony et al (1989) clarified the nature of management control:

Management control is a tool for managers, who use it in their interaction with one another and with subordinates. It is a people-oriented process. Line managers are the focal points in management control. They make the plans for implementing strategies and attaining goals, and they are the people who must influence others and whose performance is evaluated (p.12).

Anthony’s approach means that management control is contrasted with the ideas of strategic planning, concerned with setting goals and objectives for the whole organization over the long term, and operational control, concerned with ensuring that immediate tasks are carried out (Berry et al, 1998, p. xv). Anthony and Dearden (1980) maintain the view that management control is “the process by which management

assures that the organisation carries out its strategies effectively and efficiently” (p.7). Thus, the process of management control expects to ensure that the daily tasks performed by those involved in the activities of the organisation are coordinated. Similarly, the traditional view maintains that resource allocation has a prominent position in the control system (Anthony, 1980; Maciariello, 1980).

This rational approach to control “concentrates on the structural mechanisms dominated by systems thinking, to secure order and effective co-ordination and control in organisational interaction” (Nandan, 1996a, p.346). It implies that optimal control systems can be designed and operated for any circumstance in any organisation given the ability to control its inherent complexity (Hopper and Powell, 1985). Traditional viewers of control systems have focused on the constraint aspect of control practices.

Until recently, traditional views of management control have been considered fundamental principles of management control among academics and practitioners. The basic means of achieving control were through the systematic use of rules and regulations designed for different managerial and functional levels of the organisation. As Whitley (1999, p.507) notes, “(m)uch of traditional literature on management accounting and management control was founded on the belief that economic activities in the developed industrial societies were organized into clearly distinct and well-bounded corporations in which managers coordinated work and sub-units through systematic rules and procedures”. The traditional approach to management control focused on providing information, more specifically accounting information, to keep things on track. Mainstream work in management control has set off down a path which is characterized by its emphasis on accounting information, individual responses to that

information, and defensive strategies designed to cope with the situations in which it was used (Otley, 1996, p.1).

Many researchers have criticised the conventional aspects of management control for being more restrictive and less concerned with the behavioural aspects of the organisational participants (Whitley, 1999; Berry et al, 1995, Macintosh, 1994; Nandan, 1996a; Otley, et al, 1996; Chua et al, 1989; Lowe and Puxty, 1989; Lowe and Machin, 1983; Hofstede, 1978). For example, Whitley (1999, p.508) explains:

In the past few decades, however, the traditional management control approach has been severely criticised for being too narrow, for assuming managerial consensus over objectives, for taking worker acquiescence and passivity for granted, and for generating universal – or at least highly general – recipes when it has become increasingly clear that patterns of work organization differ greatly across sectors, regions, and countries.

Otley et al, (1996, p.6) justify their criticisms of Anthony's approach as follows:

The first problem is concerned with defining strategies, goals and objectives. Such procedures are typically complex and ill defined, with strategies being produced as much by accident as by design. It is clear that Anthony was aware of these problems of ambiguity and uncertainty when he located them in the domain of strategy but he then avoided their further consideration. The second problem concerns the methods used to control the production (or service delivery) process, which are highly dependent upon the technology in use, and which differ markedly from one type of organisation to the next. Anthony conveniently relegates these control issues to the realm of operational control! An important oversight which may have affected both practice and theory.

Traditional management control emphasised internal processes only or actions taken within organisations. Lowe and Puxty (1989) articulate the nature and effect of this emphasis:

It is of course true that these actions will affect the relationship of the organisation to its environment, but this relationship is not made explicit and the specific ways in which it should be governed are not discussed. The result is an inward-looking philosophy of control which, by concentrating on a small part of the control process, ignores the most important part (p.18). As a result, control is seen as a feedback process only (p.19).

Dissatisfied with the traditional theory and practice of management control, Machin and Lowe (1983, p.3) are convinced of the necessity of developing new perspectives in management control:

Now is an appropriate time to review the myths and traditions of management control systems design and practice, because the subject is rapidly approaching a theoretical and practical watershed. The key elements in the study of such systems are all facing profound changes simultaneously.

One focal point of these differing views of control is that when the actual performance does not match with the standard, a system is said to be out of control. In this case, measures are taken to bring the system under control either by changing the actual outcome or by revising the standard. From an organisational point of view, control promotes coordination both across functional departments and among managerial levels. On the one hand, the process of control helps to align individuals' incentives with those of the organisation. On the other hand, it reduces risk by offering warnings of potential problems and damages in advance and providing the opportunity for corrective action. In this modern information driven world, it is imperative that social and behavioural aspects of control be taken into account in managing complex organisations and their participants. The traditional views of management control have failed to pay due attention to these aspects.

The debate over the nature of control systems needed by the future managers and organisations has reached to a crucial point. The monograph edited by Lowe and Machin (1983) turn the attention of researchers and practitioners of control in a new direction (Chua et al, 1989; Otley, 1996). More and more researchers have been actively engaged in this debate. For example, Chua et al (1989) in their monograph "Critical Perspectives in Management Control" emphasises the need to consider the broader social and/or moral conditions, which affect the design and practice of control

systems. The work of Chua et al (1989) “concentrated heavily on the application of critical theory to control” (Otley, 1996, p.3). Further, Otley (1996, p.3) maintain:

The central concept of management control is perhaps that of accountability, both between individuals in a managerial hierarchy and at a higher level of analysis between people in a society attempting to regulate the institutions they have created, perhaps better termed *governance*” (original emphasis).

Awakened by rising debate on management control, many researchers have paid increased attention to different aspects of control. Robson and Cooper, for example, have contrasted the functionalist and subjectivists approaches to control as follows:

Management control is conventionally regarded as a set of practices designed to ensure that individuals, organisations and societies satisfy their goals (Robson and Cooper, 1989, p.79). Whereas the subjectivist approach focuses on the exercise of power, the integration approach to power is concerned with the ‘power to do’ (1989, p.87).

The conventional literature on management control has no consideration of politics and conflicts among organisational participants and treats organisations as well established and well defined unitary entities, which have agreed purposes. The management control practices under the subjectivist approach emphasise legitimate authority and deterministic managerial activities. Robson and Cooper (1989, p.89) point out the nature of the integration approach:

The tendency is to regard power as enabling; the exercise of managerial power results in the right things being done. Management control is seen in systems terms, the environment being an important source (perhaps even a determinant) of managerial actions.

Thus, because of the debate over the limitations of traditional management control, academics as well as practitioners have started to look at new ways of designing and deploying patterns of management control. This is evident by Otley’s (1996) statement. Otley (1996, p.2) suggests that the focus of management control has changed in recent years because ...

... the emphasis has moved from a concentration on the individual to a more socially-oriented perspective that is concerned with social systems and their properties, in addition to their impact on individuals. The approach has led to a broadening of concern from the provision of information for regulation (the original meaning of control in many languages) to a concern with the exercise of power, authority and domination, whereby one group can impose its will upon others.

2.2.5 THE ROLE OF MANAGEMENT CONTROL SYSTEMS

Under the traditional views of management control, the overall purpose of a management control system is to assist management in the allocation of its scarce resources to facilitate the achievement of the organisational goals and objectives. To achieve this purpose organisations should always be alert and learn from the changing environment. A number of researchers see management control as a concept associated with resource allocation (Maciariello, 1984; Anthony et al, 1989; Anthony and Govindarajan, 1995). For example, Maciariello explains the tasks of a control system at three different stages of the resource allocation process:

- a) First, it is concerned with the formulation of *expectations* upon which resource allocation decisions are to be made;
- b) Second, it is concerned with *the allocation* of an organization's resources so as to ensure that goals and objectives are met; and
- c) Finally, it is concerned with *monitoring performance* and taking corrective action to ensure that the organization remains on track in pursuit of its overall purposes (1984, p.2).

Thus, the management control system is expected to link different parts of the organisation so that each part contributes to the overall attainment of goals and objectives. To achieve the organisational objectives through systems of management control, Anthony (1965) focuses on the informational requirements of control systems.

Nandan (1996a, pp. 347-348) views "management control as a social and political process in which power, interests, and conflicts are brought to the forefront in understanding the complex pattern of interaction in organisations, and organisational

change”. This view assumes that organisational members are a plurality of groups or coalitions that often compete over decisions regarding allocation of resources, performance evaluation and rewards systems and find themselves in conflicting situations. In organisations there may also be a dominant coalition built around key actors i.e. the higher echelon (chief executive and senior managers) who control important policy matters to further consolidate their power (Nandan, 1996a, p.348). In such situations, the balance between contributions and rewards play a key role in sustaining the long-term membership. Under this theme, Lowe and Chua (1983, p.286) provide a definition of management control as follows:

Management control is concerned with ensuring the achievement of a negotiated level of welfare for any organisation and its contributors consistent with maintaining boundary conditions for that enterprise, in relation to its environment, such that its long run survival is provided for.

According to this definition, a management control system has a wide range of application and it is concerned with the activities of the organisation as a whole. Therefore, management control should be for all the processes of the organisation and it should not be viewed as separate and distinct from the whole organisation. The management control system can “be extended to include the whole of human society itself as an ‘organisation’” (Lowe and Chua 1983, p.286). Lowe and Chua (1983) maintain that organisations do not have fixed objectives rather they have negotiated action plans, which are valid until the conditions upon which they are agreed change. In general, organizations will not have agreed objectives but may have negotiated plans of action which remain valid in the short term until a further round of negotiation occurs (Emmanuel et al, 1992, p.3). The definition provided by Lowe and Chua (1983) covers a wide range of application. According to, Lowe and Chua (1983, p.286), management control “must be concerned with the organisation as a whole”. Thus, management control was not viewed as a separate and distinct process in the organisational control

process but an integrated process, which covered every aspect of the organisation and its environment. The “changes in social, economic political, legal and technological aspects of an organisation’s environment leads to possible changes in the feasible set of alternatives” (Lowe and Chua, 1983, p.287). Thus, they recommend a holistic analysis of the organisation and its environment.

According to these views, control can be considered the process of managing inherent tension between creative innovation and predictable goal achievement. Such a control system is expected to assure that individuals work productively towards predefined goals and objectives. Thus, ultimately, a control system necessarily involves people and the actions and reactions of people. In the literature, many theorists have discussed this aspect of control systems. For example, Lawler and Rhode (1976) observe that:

the crucial aspect of any control system is its effect on behavior The system needs to be designed in a way that assists, guides, and motivates management to make decisions and act in ways that are consistent with the overall objectives of the organization (p.6).

Flamholtz (1979, p.290) defined an organisational control system as “a set of mechanisms which are designed to increase the probability that people will behave in ways that lead to the attainment of organizational objectives”. He notes that control included any actions or activities taken to influence people’s behaviour. This view is based on the theme that “(t)he organizational concern for control arises because of the incompatibility of goals among people and the corresponding need to channel human efforts toward a specified set of institutional goals” (p.154). Many control system theorists have observed the importance of human behaviour in organisational settings. For example, Horngren (1982, p.318) notes that:

(control) systems exist primarily to improve the collective decisions within an organization. Because most decisions entail human behavior, our emphasis rightly belongs on human rather than technical considerations.

Teall (1992, p.30) defines management control as “the means by which senior managers ensure that subordinate managers, efficiently and effectively, strive to attain the company's strategy”. As with Teall, a key task of the control system is the control of human behaviour. Such a control system contains four important aspects – “corporate strategy, corporate structure, responsibility centers, and information systems - which should be viewed as an integrated system” (Teall, 1992, p.30).

Pluralistic views of management control emphasise actions rather than structures and strategies of control as suggested by conventional functionalist view. Irrespective of these contrasting theoretical perspectives, the focus of management control is mainly on the processes of resource allocation and the accomplishment of organisational objectives. To achieve organisational objectives, it is essential that both individual and group objectives of organisational participants be achieved.

Management control, thus, can be seen as a process through which long-run organisational objectives are broken down into short-run specific tasks for each organisational sub-unit. They influence both organisational and managerial performance. Thus, the formal and informal control infrastructure provides the context within which individuals translate strategic intent and policy into the day-to-day activities by which objectives are operationalized (Vagneur et al, 1996, p. iii). From this point of view, management control is concerned mainly with the activities of individual managers rather than the structures and strategies of systems of control. In either way, control is considered an essential link in achieving corporate goals and objectives (Anthony and Govindarajan, 1995; Otley, 1996). Lowe provides a broader definition of management control when he says that it was ...

... a system of organizational information seeking and gathering, accountability, and feedback designed to ensure that the enterprise adapts to changes in its substantial environment and that the work behaviour of its employees is measured by reference to a set of operational sub-goals (which conform with overall objectives) so that the discrepancy between the two can be reconciled and corrected for (1971, p. 5).

Thus, decision-making has a prominent place in the management control system and decisions and their informational requirements provide a sound basis for the study or design of a management control system. The definitions provided by Simons, (1995), Lowe and Chua (1983) and Lowe (1971) are more relevant for the current study than those of Anthony's (1965) and Anthony and Dearden (1980). The current views of management control hold the view that a management control system should consider not only the structures, strategies but also the wider social interactions of the organisational participants with its environment. Machin (1983, p.39) notes that the "structure is just a formal organisational influence attempt, so it could be treated as part of the new concept of management control systems". Machin (1983, p.39) points out three choices, which are useful in designing and developing control systems:

- a) Structure-dependent systems;
- b) Structure-linked systems; and
- c) Systems independent of structure.

Thus, the modern approaches to management control systems view "an organisation as a controlled system, open to and interacting with a wider environment" (Otley, 1989, p.33). The modern views of management control identify the importance of integrating the wide environmental and social interactions into the management control system. The overall management control systems in the organisation may help or hinder organisational effectiveness and efficiency. The objective of any management control system is to ensure that problems of environmental fit, which prevent the achievement of organisational efficiency and effectiveness, are detected and corrected.

From the above discussion, it is obvious that “(m)anagement controls are intended to guide, motivate, coordinate and constrain the activities of individuals within an organizational system” (Vagneur et al 1996, p. iii). Throughout this dissertation, the term, “management control systems,” will be used to refer to the various patterns, procedures and tools of planning and control.

2.2.6 EFFECTIVE MANAGEMENT CONTROL SYSTEMS

In the literature, the question “what is the purpose of management control systems?” has been raised by many theorists and practitioners. To answer this question, an understanding of the demands placed on the design of management control systems is essential. Traditionally, emphasis, has been placed upon the demand for efficient management control systems; that is, systems which were simply designed to ensure the efficiency of use of resources without questioning the goals or objectives of the organisation (Machin and Lowe, 1983, p.3). However, this view has been challenged. The primary concern for effective management control systems is not really on the effective use of resources but on the achievement of the purpose of management control systems. As Machin (1983, p. 41) notes there are two important issues to be cleared in designing and developing a control system, whether:

- a) Management control systems are there to achieve goal congruence, or
- b) Management control systems are there to prevent individuals from wasting organisational resources.

While an organisation should have a clearer view of these two ideas, the design of the most efficient system of control depends on the purpose of the particular system (Machin, 1983; Machin and Lowe, 1983). The purpose of such a system should be examined at three important resolution levels of human interaction in organisations:

- a) at individual levels;

- b) at organisational levels; and
- c) at societal level (Machin and Lowe, 1983).

According to Lowe and McInnes (1971), a management control system should be designed so that it treats an organisation's environmental interactions in exactly the same way as it treats the individuals' interactions with his/her environment. The idea of 'effectiveness' is not easy to define. However, Machin (1983, p.23) points out three possible areas a researcher can base his/her research regarding effectiveness:

- a) Managerial effectiveness;
- b) Individual managers' level; and
- c) Organisational level.

Many researchers agree that management control mechanisms and patterns are relevant to managers and employees to the extent to which they have an impact on the effectiveness of their organisations (Scott, 1992, Carlos, 1988; Fry and Smith, 1987; Cheng and McKinley, 1983). As Buckley and McKenna (1972, p.138) point out "(m)ost management control systems are assumed to operate as part of a series of devices designed to enable the company to achieve its corporate objective". As such, the effectiveness of a management control system depends on the achievement of organisational goals and objectives. In organisations there may be different criteria of effectiveness and it is possible to operate several types of management control systems for achieving different objectives.

2.3 TYPOLOGIES OF MANAGEMENT CONTROL

In the literature of control, many different organisational typologies of control have been suggested. Organisational theorists have attempted to study the evolution and nature of organisations using a number of classifications or frameworks of organisations. For example, some viewed the organisation in terms of a rational entity, which resembled a machine (Fayol, 1949; Weber, 1947; Taylor, 1911). The perspective

of rationality created another aspect of organisations, which viewed the organisation as a closed system. Some described the organisation as an organism (Burns and Stalker, 1961). In order to gain a broader theoretical understanding of those typologies of control, the next section discusses a popular approach to studying control theories.

2.3.1 CONTROL RESEARCH UNDER DIFFERENT PARADIGMS

The models or frameworks of control have been presented using a mixture of subjectivist and objectivist positions such as contingency, cybernetics, agency, labour process, behavioural, classical, psychological, radical and so on. As Merchant and Simons (1986) points out, the literature on control is very vast and disparate. Otley et al (1996) also maintain that research in control covered a wide range of issues and was incomplete and biased. These researches have been organised along a number of different bands or paradigms. For example, Macintosh (1994) outlines about twenty frameworks of control systems under five distinctive paradigms of organisations and society: structuralist, functionalist, interpretivist, radical structuralist, radical humanist and postmodernist. Macintosh maintained that an organisational sociology approach to the study of control would give better understanding of the behavioural and social aspects of control systems rather than that of technical and procedural approaches.

Researchers have offered different classifications of multiple control systems (Abernethy and Chua (1996, p.573). Simons (1995) discussed how top management use formal control systems as “levers” in implementing business strategy. Simons (1990) indicated that management control systems are important for both strategy implementation and strategy formation. Simons (1990) observed that management control systems are more than devices of constraint and monitoring and defined management control systems as “the formalized procedures and systems that use

information to maintain or alter patterns in organizational activity” (p.128). Based on extensive field research Simons (1990) introduced a dynamic process model consisting of four concepts to describe the use of management control systems at the top level of the firm. The four concepts of Simons’ interactive management control model are limited attention of managers, strategic uncertainties, interactive management control, and organisational learning. This model departed from the traditional analysis of “fit” between formal control system devices and critical success factors and showed how interactive management control systems focus on top managers’ attention on strategic uncertainties. Simons (1990) illustrated the relationship between formal process and strategy: competitive strategic positioning, management control and process of strategy making. This model provided insights in explaining the types of interactive management controls used by managers in different organisations and whether patterns exist among firms with similar strategies.

Flamholtz et al (1985) developed an integrative organisational control model which synthesised views of the administrative management school, organisational sociology and organisational psychology. This model consisted of a core control system embedded in the context of organisational structure, organisational culture and external environment. Flamholtz et al (1985) defined control as “attempts by the organization to increase the probability that individuals will behave in ways that will lead to the attainment of organizational objectives (p.35). They viewed processes and techniques as control system mechanisms. Those mechanisms that appeared to directly influence individual or group behaviour towards the achievement of organisational goals were included in the “core control mechanisms”. The core control system contained of six elements: planning, operational subsystem, outcome, measurement, feedback, and

evaluation-reward. Four of the above six elements; planning, measurement, feedback, and evaluation-reward comprised the core control mechanisms. Factors such as structure and culture, which have an indirect influence, were categorised as the “control context factors”. The focus of this theoretical framework is on human systems within and organization, at the individual, group and organizational levels of analysis (Flamholtz et al, 1985, p.38).

Hopwood (1987) made an invaluable contribution to accounting literature through his critique of the accounting research “The Archaeology of Accounting Systems”. He was particularly concerned about the little understanding of the change of accounting (an administrative control mechanism) over time. Hopwood (1987) pointed out:

(u)nfortunately, ... very little is known of the processes of accounting change. As of now we have only a limited understanding of the conditions which provide the possibility for particular conceptions of the accounting craft, the forces that put accounting into motion, the processes accompanying accounting elaboration and diffusion, and the varied human, organisational and social consequences that can stem from changing accounting regimes (p.207).
 (r)elatively little consideration has been given to the ways in which accounting has become implicated in, and, in turn, shaped by, the emergence of processes of organisational governance and management (p.208).

Thus, Hopwood (1987) studied the changing nature of accounting in its social and organisational contexts. As Hopwood (1987) observed, “(a)ccounting is seen as been implicated in processes of direction, planning, decision making, co-ordination, control and the management of motivation, amongst other things” (p.210). Hopwood (1987), through a discussion of three cases, developed a number of theoretical issues relating to the understanding of the process of accounting change. These cases illustrated how accounting can be conceived as being in motion and how such a perspective can provide a rich insight into the organisational practice of accounting and its consequences for action. He observed how what conventionally had been seen to be the statics of the

accounting craft have been seen to be in the process of changing, becoming thereby, what they were not:

The concepts of manager and the management were actively constructed in a particular way at a particular socio-historical juncture and are separable from the practical means of administration and calculation which were, and still are, implicated in their emergence and functioning. And, in similar terms, accounting practice needs to be seen as playing a more active role in creating rather than merely enabling organised endeavour. Accounting change is as much a history of organisational construction as organisation realization and enablement (p.211).

As pointed out by Hopwood, although there have been a number of attempts to confront the specifics of accounting in action, little has been done to uncover the precise mechanisms of accounting change. Regarding accounting in action, Hopwood (1987) further perceived:

... accounting at least is being shown as a craft that is embedded in the functioning of the organisation, co-existing and interdependent with such other aspects of the organisation as its strategy, structure, approaches to the segmentation of work and other organisational technologies and practices. Not existing as an isolated craft, accounting is shown as being an organisational practice that is constructed and used amidst the configuration of a specific culture, be it organisational or national ... a specific organisational environment and a specific set of approaches to the management of the organisational task (p.212).

Accounting is seen as having its origins within the problems created by the need to co-ordinate and manage a complex process of transformation within the context of a particular regime of organisational constraints and objectives (Hopwood, 1987, p.213). His critique showed how the construction and functioning of accounting have been organisational and social rather than purely technical. Hopwood illustrated how some of the factors that are implicated in the processes by which organisational accounting system became what they were not. For example, in his discussion of the eighteenth century English potter, Josiah Wedgwood, Hopwood (1987) explained how the potter who made little use of accounting turned his accounting system into a major management process with tremendous impacts on control. Here, Wedgwood is faced

with the problem of falling profit margins in a time of economic decline, which he addresses by experimenting with cost estimation procedures (Napier, 2001, p.24).

Quoting McKendrick (1973), Hopwood explained:

Wedgwood's costing "had other more permanent repercussions on his business management". In often unanticipated ways, the organisation was changed in the name of the knowledge of it. For "by his own persistence, by an unfailing attention to detail, by founding, if not creating, the traditions of a foreman class and equipping it with rules and regulations, he transformed a collection of what in 1765 he called, 'dilatory, drunken, idle, worthless workmen' into what ten years later he allowed to be 'a very good sett of hands'". What is more, Wedgwood's observations could now be conducted indirectly. No longer did he have to rely solely on walking around the pottery constantly on the lookout for "unhandiness", scolding those individuals who did not follow his instructions. Such personal observation and supervision could start to be complemented by the exercising of control at a distance, both in time and space. Wedgwood now had available to him the basis of a more anonymous and continuous means of surveillance. ... The newly established accounting system enabled a different set of dynamics to be set into motion. ... The organisation could be observed and managed in terms different from those in which it functioned (1987, p.218).

Similarly, Hopwood in his second case described the changing nature of accounting of 'M', an industrial component manufacturer. M grew rapidly and profitably and was established as an international enterprise until 1960. After 1960 M was in the middle of heavy competition. M's accounting system operated under the assumption of steady state of production and operational flexibility or inflexibility did not enter into the accounting system. Soon the situation had to be changed. M was in the process of becoming more information dependent. The accounting system began to not only to be reflective of M but also constitutive of its operations and policy decisions. Hopwood (1987) described the change in accounting of M as follows:

In the midst of such organisational changes it was recognised that the previous rudimentary controls were no longer adequate. Consideration had to be given to a more frequent, more disaggregated reporting system. Budgeting became a more iterative and time consuming process. Even when arrived at, the budget was updated by a regular series of quarterly plans. ... Local performance, ... in turn, was assessed monthly with the previous summary financial information now being replace by an extremely detailed reporting of financial, marketing, operating and even personnel results. And in such a newly centralised enterprise, even local performance was now conditioned by centrally mediated

and much contested accounting policies for transfer prices and the allocation of costs (1987, p.222).

As such, the quite specific properties of M's accounting system played an active role in mediating the apparent need for organisational change (Hopwood, 1987). Accounting by becoming more embedded in the organisation, shaped other important aspects of the organisation, and in turn, was influenced by them overtime playing an important role in creating the potentials and conditions for its conversion.

Hopwood's third illustrative case was Q, a major manufacturing enterprise which had to face huge market turbulence and change because of increasing competition, changing consumer expectations and a narrowing profit margin. Q was a very information intensive enterprise with a large investment in formal information and control systems. Standards, budgets and plans played a major role in co-ordination and integration of functionally specialised and geographically dispersed enterprise. With increasing uncertainty, however, Q was in extreme need for information that was not collected. Q paid much attention to this. Hopwood (1987) reported:

... important features of organisational life had become intertwined with the functioning of an accounting system. Accounting had developed such that embedded it was embedded in the organisational fabric, both reflecting and creating the contexts in which it operated. In Q, however, this process had gone much further. ... accounting in Q had become a phenomenon that could not be regarded as being in any sense separable from the enterprise as a whole (p.224).

As such accounting in Q played a very significant role in the functioning of the enterprise. Accounting and other control systems became the dominant means of visibility in the enterprise. As Hopwood went on to explain:

The organisation was seen and managed through an accounting eye. The selective patterns of accounting visibility had provided a means for mobilising and changing the organisation such that it not only was depended upon but also almost synonymous with particular flows of information which had become

intertwined with its development and current mode of functioning (1987, p.226).

Of particular importance is that Hopwood's (1987) historical analysis of accounting change did not reflect any simple, linear pattern of accounting development. The accounting systems in subject enterprises had different visibilities, shifted insights of organisational functioning. They mediated the recognition of problems and the options available for their resolution. They presented different degrees of control as an administrative control mechanism. For the current research Hopwood's (1987) analysis of historical change of accounting is very important because it attempts to explore what particular patterns of management control exists at the research institute.

Napier (2001) in his analysis of "Accounting history and accounting progress" discussed how "accounting has become an object of study less as a technical and more as a social phenomenon" (p.7). From the perspective that accounting is a socially oriented craft as Hopwood (1987) pointed out, progress in accounting systems is not easy to understand. Accounting as an administrative control mechanism should be studied in its social, economic and institutional contexts. Referring to Hopwood's (1987) story of Wedgwood, Napier (2001, p.24) argued, "(t)here is more ironic tone to this: Wedgwood's innovations may have solved one set of problems from his personal point of view, but they change, not necessarily for the better, how others in the organization are affected by the new practices". Thus, the notion of progression in accounting should not be taken into account in isolation of its social, economic and institutional contexts.

Miller and O'Leary (1987) studied the history of accounting, especially, the construction of theories of standard costing and budgeting in the first three decades of the twentieth century and the way it could be related to other social practices. Their analysis of emergence of these two accounting control provided significant implications for the understanding of contemporary accounting practices which enabled them to develop a theoretical understanding of accounting as a social and organisational practice. They attempted to illustrate how these accounting control mechanisms could be used in the construction of a governable individual. As put forward by Miller and O'Leary:

Instead of an interpretation of standard costing and budgeting as one stage in the advance in accuracy and refinement of accounting concepts and techniques, it is viewed as an important calculative practice which is part of a much wider modern apparatus of power which emerges conspicuously in the early years of this century. The concern of this form of is seen to be the construction of the individual person as a more manageable and efficient entity (1987, p. 235).

Miller and O'Leary (1987) analysed the history of these mechanisms following Michael Foucault's work of histories of the emergence of the human sciences. Miller and O'Leary (1987) raised three issues relating to Foucault's work: on a genealogical question about the role of historical investigation, an archaeological question regarding the way one goes about doing history, and a theory concerning the interdependence of bodies of knowledge and associations of power. The third aspect of Foucault's work knowledge and power means that the modern societies could be understood in terms of power and the shift in its form of exercise. Miller and O'Leary (1987) elaborated this:

The shift he identifies from sovereign power to disciplinary power is intimately connected with changes in our forms of knowledge. His argument is expressed in the formula "power/knowledge" and the constitutive interdependence of the two terms of the equation – the operation of the human sciences should be understood in relation to the elaboration of a range of techniques for the supervision, administration and disciplining of populations of human individuals (p.238).

Miller and O'Leary (1987) observed how accounting assisted in rendering visible some important aspects of the functioning of the firm and the individual person rather than viewing accounting as unbiased tool of observation. Through the use of a series of norms and standards the inefficiencies of the individual were made clearly visible.

Miller and O'Leary (1987) explained the transformation of the discipline overtime:

In the nineteenth century discipline within the enterprise took the form of direct confrontations between the worker and the boss. In the early twentieth century, and through the changes ..., the employee comes to be surrounded by calculative norms and standards interposing between him and the boss a whole range of intermediary mechanisms. With this shift discipline comes to be seen to reside not in the will of the boss but in the economic machine itself, in the norms and standards from which the worker can be seen to depart (p.239).

Accounting as such developed a wide range of calculative programs and techniques designed to regulate the lives of individuals at work functioning as an organisational and social practice. Thus:

(a)ccounting can no longer be regarded as a neutral and objective practice. It comes rather to be viewed as an important part of a network of power relations which are built into the very fabric of organisational and social life. It is a constitutive element in a form of normalizing socio-political management whose concern is with rendering visible all forms of activity of the individual in view of their contribution to the efficient operation of the enterprise and of society (Miller and O'Leary , 1987, p. 240).

Standard costing and budgeting as such provided an informed mechanism which served to provide visible the inefficiencies of the individual within the firm. It raised routine questions concerning waste and inefficiency in the employment of human, financial and material resources supplementing traditional means of accounting with the fidelity or honesty of the individual. As a result, an allocation of responsibility could be attached to the individual person. In the twentieth century the views of a rationally administered and managed social order and the notion of the nature of the social relations which linked the individual to the society provided a broad rationale of efficiency. These views introduced a notion of social bond by individuals within the firm.

As such Miller and O'Leary (1987) provided a rich discussion of the notion of the "construction of the governable person" within the firm. Miller and O'Leary (1987), however, explained:

We would not want to imply an image of a totally obedient individual. We wanted rather to examine the programmatic frameworks and power relations in terms of which the lives of individuals are viewed, measured and supervised. In gesturing towards recent developments within accounting we wanted to suggest ways of interpreting the construction of the notion of the complex person as a rationale for a series of practical interventions. ... one could say that what is at issue in these more recent developments is a form of power which operates through freedom: a freedom for the individual to have an informal life within the organization, to deviate from criteria of rationality, to brood on personal problems, and to be influenced by the environment outside the firm (p.263).

According to Miller and O'Leary (1987), in modern organisations a considerably modified form of power is exercised as a result of the recent developments in accounting.

2.3.2 OTHER TYPOLOGIES: THE RATIONAL-NATURAL AND CLOSED-OPEN PERSPECTIVES OF ORGANISATIONS

As discussed earlier, the ultimate purpose of any system of management control is to achieve organisational effectiveness. Thus, many theorists of management control have presented their views in the context of organisational effectiveness. In other words, many theories of management control have been based around the notion of organisational effectiveness.

Since the purpose of this research is to study what patterns of management control already existed in the subject organisation and how and why the managers used such control patterns, in controlling their operations and achieving organisational effectiveness, it is essential to review the theoretical models of both management control and organisational effectiveness. The previous section discussed a typology of

organising management control research and this section will briefly discuss the theory of organisational effectiveness in order to provide the basis for understanding a useful classification of management control research.

2.3.2.1 ORGANISATIONAL EFFECTIVENESS

In the late 20th century, effectiveness has been a widely discussed topic among organisational analysts although it was neglected in the 1950s and early 1960s (Scott, 1992; Cameron, 1986). The theory of organisational effectiveness is very complex and diverse and has a long history and it “may be summarized as the development of alternatives to or modifications of what has been called the goal model of effectiveness” (Herman and Renz, 1998, p.25). The following section is devoted to a brief discussion of theoretical perspectives of effectiveness because management control and organisational effectiveness are closely related concepts.

2.3.2.2 THEORETICAL PERSPECTIVES OF EFFECTIVENESS

A number of theoretical explanations of the term “effectiveness” can be found in the literature. Different organisational analysts have defined effectiveness based on different perspectives. Barnard (1938, p.55), who viewed an organisation as a cooperative system, defines effectiveness as follows:

What we mean by “effectiveness” of cooperation is the accomplishment of the recognized objectives of corporate action. The degree of accomplishment indicates the degree of effectiveness.

Price (1972, p.101) defines organisational effectiveness as the degree to which an organisation achieves its goals. An organisation’s goal is defined as “a desired state of affairs which the organization attempts to realize” (Etzioni, 1964, p.6). So, effectiveness, essentially, is related to the accomplishment of goals and objectives of an organisation. Effectiveness is necessarily related to the measurement of performance.

Used primarily as a tool of control performance measurement “plays a vital role in organizations, signalling to participants where effort is desired, and where it is not” (Euske et al, 1993, p.276). Otley (1999, p.364) explains that “(m)anagement control systems provide information that is intended to be useful to managers in performing their jobs and to assist organizations in developing and maintaining viable patterns of behaviour”. However, there is much controversy over the terms, effectiveness and performance resulting from the lack of definitions. It is recognised that ‘performance’ is itself an ambiguous term, and capable of no simple definition (Otley, 1999, p.364). An effective organisation is “one that is successfully attaining its objectives” (Otley, 1999, p.364).

In the popular literature of control and organisational theory, the typology of rational-natural and closed-open perspectives is considered a useful way of conducting research in management control. The Otley et al (1996) framework, which partly provides the foundation for the current research is based on the notions of rational-natural and closed-open systems perspectives. Before elaborating the theoretical perspectives upon which this study is based, the main properties of the rational, natural and open systems models of organisations are summarised in Exhibit 2-1. organisational objectives. Based on those control mechanisms, organisational managers and academics in management control can derive different systems of management control. The next section briefly lists those control mechanisms discussed in the literature.

2.3.3 TYPES OF CONTROL MECHANISMS FOUND IN THE LITERATURE

To help gain control over the behavior of people, most enterprises use a combination of mechanisms including personal supervision, rules, job descriptions, standard operating procedures, budgets, and performance systems (Flamholtz, 1983, p.154).

EXHIBIT 2-1: ORGANISATIONAL MODELS AND THEIR DIMENSIONS OF REALITY

Dimensions of Reality	Rational Systems Model	Natural Systems Model	Open Systems Model
Organisation is seen as:	a whole of causes and effects an instrument a closed system	a whole which has 'input' and 'output' relations with its environment a collectivity of social units	a whole where organisational actors meet a self-maintaining system
Organisational Criteria:	efficient turning of means and ends	survival and growth	meaningfulness ability to exploit its environment
Effectiveness criteria:	productivity and efficiency	satisfaction, morale, interpersonal skills, survival	adaptability, flexibility, and maximisation of bargaining position
Organisational member seen as:	a machine part	a purposive organ	a purposeful actor
Dominant organisational theories:	Scientific Management Decision Making Theory Bureaucratic Theory Administrative Theory	Human Relations School Cooperative Systems Functionalism Contingency Theory Agency Theory	Modern Systems Theory Organisational Learning Theory Organising Theories Marxist Theory Postmodernism

Source: Adapted from Scott, 1992, p.102 and Trompenaars, 1985, p.80.

It is accepted that the control system in any organisation should be tailored in relation to the organisational and environmental attributes. Therefore, the tools or mechanisms of control differ significantly from one system to another. Traditionally, most management control systems designers believed in very formal rules and procedures to keep the human actors under control. It was believed that management control began with governance "that the top level of the organization can control everything" (Tongren, 1995). Accounting control mechanisms traditionally played a vital role in management control. Accounting control tools of course are used in today's management control systems also in combination with other mechanisms. For example, Amigoni (1992) suggests the use of following control tools:

- a) Financial accounting;
- b) Ratio analysis;
- c) Financial models;
- d) Inflation accounting;
- e) Actual full costing;
- f) Actual direct costing;
- g) Standard costing;
- h) Flexible budgeting;
- i) Operational budgets;

- j) Capital budgets; and
- k) Long range plans.

Amigoni (1992, p.182) further suggests that “(m)anagement control systems assume a certain set of distinctive features in relation to: i) the tools from which they are composed, and ii) the way in which these tools are employed”. Therefore, the contribution of these tools can vary significantly depending upon the features of the control system. Otley (1992, p.98) also presented a list of formal control tools given by Westerlund and Sjostrand (1979), shown in Exhibit 2-2.

EXHIBIT 2-2: EXAMPLES OF FORMALISED CONTROL MECHANISMS

Means of Control for Long Range Activity	Means of Control for Short Range Activity
<ul style="list-style-type: none"> • Laws, rules and regulations; • Collective agreements; • Product and Market planning and research and development; • Plans for recruitment and training; • Personnel selection and promotion plans; • Economic planning; • Investments plans; • Job descriptions; • Raw materials planning; • Housing plans; • Reward systems; and; • Inventory control. 	<ul style="list-style-type: none"> • Delegation of decision; • Regulations; • Accounting system; • Budgets; • Resource allocation; • Directions and instructions; • Check lists; • Standards; • Work flow plans; • Work resources; • Job descriptions; and • Reward systems.

Source: Adapted from Otley, 1992, p.98.

With the changes in management practices in recent years, however, control mechanisms have also tended to change. Command and control hierarchies are being replaced by flat organizations (Tongren, 1995, p.42). In this scenario new control tools such as self-directed work teams, employee empowerment, and discussion groups are expected to be vitally important. In organisations, these control mechanisms are used simultaneously and they serve different purposes depending upon the control system characteristics and the environment.

The simultaneous use of a wide range of control mechanisms serving multiple purposes makes it difficult, if not possible, to isolate the effect of any specific means of control (Otley, 1992, p.98). Our discussion is next directed towards the Otley et al (1996) and Whitley (1999) frameworks of management control.

2.4 INTRODUCTION TO THE RESEARCH FRAMEWORK: THE OTLEY ET AL (1996) AND THE WHITLEY (1999) FRAMEWORKS

Literature reviewed in this chapter covered a very wide area of management control. Most of the management control theories found in the literature have been generated in developed-western countries. One wonders If business organisations in developing countries, especially family owned and controlled enterprises, practice similar patterns of management control as those in developed countries. One objective of the current research is to attempt to study the effects of family ownership in management control. This area is poorly understood in western research despite its centrality in many countries, especially developing ones. Due to the lack of a complete theoretical framework, a tentative theoretical framework is developed in this research as a guide to data collection and analysis. In this attempt, Otley et al (1996) and Whitley (1999) frameworks are seen of particular importance.

Literature reviewed in this part of the chapter forms the basis for the development of a research framework to be used in the current study. This review is based on the classifications of management control research by Otley et al (1996) and Whitley (1999) with further additions and modifications suggested by the literature reviewed (especially Flamholtz, 1983). A section is devoted to a discussion of organisations according to the Otley et al (1996) classification. Otley et al (1996) classified the approaches to management control using the classification of organisations by Scott

(1981): closed-open and rational-natural systems views of organisations. A further section discusses the management control framework presented by Whitley (1999).

The Otley et al (1996) framework has been selected as a foundation framework for the prospective theoretical framework because it covers control in an organisational effectiveness context. A closely related classification of organisations by Whitley (1999), which identifies four types of organisations, was also deemed useful in the current study. This framework has been selected because of its relevancy in analysing the existing patterns of management control in the researched organisation, the Ceylon Tea Services Ltd. In the final section of this chapter, several issues of research interest are identified with the aim of developing a research framework of control.

2.4.1 THE OPEN-CLOSED AND RATIONAL-NATURAL PERSPECTIVES

Otley et al (1996) classify management control research under the perspectives of closed rational, open rational, closed natural and open natural following the systems views of organisations by Scott (1981) who categorises organisations into four dimensions: closed rational systems, open rational systems, closed natural systems and open natural systems.

The theme behind the closed systems view is that organisations consist of internally designed processes and events that can be studied independent of their environments. Such organisations “try to protect (or buffer) themselves as much as possible from environmental disturbances” (Macintosh, 1994, p.126). Contrary to this idea, the open systems view recognises that organisations are highly dependent on their environments and their structures and boundaries are constantly changing.

In the rational systems view, the organisation has been seen as a deliberately designed system similar to a mechanical device aimed at efficient and rational allocation of means to ends. Rational systems emphasise the normative structures of the organisation. In contrast, the natural view of organisations viewed the organisation as having “no purpose of its own, but to be an instrument for use by its creators/owners in pursuit of their techno-economical objectives” (Trompennars, 1985, p.78). These systems place more emphasis upon the behavioural structure of the organisation (Scott, 1992).

The open-closed and rational-natural classification can be viewed as a way of reacting to the nature of uncertainty involved in the activities carried out by organisations, parts of organisations and organisational participants. Further, it is a classification of the patterns of uncertainty and ways of handling such uncertainty by organisations. Justifying their approach to categorisation of management control research under these perspectives, Otley et al (1996) claimed that they:

... use these categories to summarise work in management control systems although we recognise that such categorisation is not necessarily "neat". Organisations can be viewed as being both rational and natural (Thompson, 1967, Boland and Pondy, 1983), they are often intentionally designed to achieve specific purposes, yet also display emergent properties. It can be argued that each successive theoretical development provides an additional perspective which is helpful in understanding organisational processes, and which is likely to be additional and complementary to those which have preceded it (p.10).

The current research, following the Otley et al (1996) recommendation, will make additions to the Otley et al (1996) framework to provide a more useful way in understanding the patterns of management control in the research organisation. When there is certainty involved in the activities done by the organisations and their participants and the relationships between them are comprehended and predictable, the rules of rationality can be applied as a means of control (Macintosh, 1994). In contrast,


a natural system is always confronted with the forces and changes in the external environment. Uncertainty is the order of the day and the system must adapt to environmental perturbations in order to survive (Macintosh, 1994, p.126). Otley et al (1996) used the notions of closed-open and rational-natural to summarise the research in management control systems. As Otley et al (1996, p.10) explained:

The rational systems model assumes that organisations are purposefully designed for the pursuit of explicit objectives, whereas the natural systems model emphasises the importance of unplanned and spontaneous processes, with organically emerging informal structures supplementing or subduing rationally designed frameworks. The distinction between rational and natural systems is applicable to both sides of the closed-open system divide, resulting in the definition of the four approaches.

The four control systems resulting from this classification shown in Exhibit 2-3 are discussed in the following sections.

EXHIBIT 2-3: CONTROL RESEARCH UNDER DIFFERENT PERSPECTIVES

Please see print copy for image



Source: Adapted from Otley et al, 1996, p.12.

2.4.1.1 THE CLOSED RATIONAL PERSPECTIVE

The research under this perspective “is characterised by both being universal in orientation and systematic in approach” (Otley et al, 1996, p.10). The emphasis of the approaches under this perspective is on universalistic and rational solutions, which assume a closed systems model of organisations. As Macintosh explains:

The premise that components should behave rationally is reasonable enough when

organizational goals are known, the necessary resources are available, tasks are understood (explicitly or intuitively), and output is absorbed automatically. Organizations go out of their way to operate their basic core technologies as closed systems by buffering them from environmental turbulence and then treating them as rational systems (1994, p.126).

A number of conventional approaches that prescribe the way on how to do things and to identify the best way to operate a control system (see, Hopper and Powel, 1985; Hofstede, 1968; Anthony, 1965; Woodward, 1965; Weber, 1947) belong to this perspective. The well-known scientific management approach (Taylor, 1911), bureaucratic controls (Weber, 1947) which prescribe hierarchies, rules and records, agency theory, mechanistic and organic control systems (Burns and Stalker, 1961) and the technical views of Anthony (1965) are typical examples of the approaches under the closed-rational perspective. According to the Anthony approach, “(t)he process of management control is intended to ensure that the day-to-day tasks performed by all those involved in the organisation come together in a coordinated set of actions which assist overall goal attainment (Otley, et al, 1996, p.6). Thus, the control is focused on finding rational solutions using functional aspects of management.

These approaches concentrate on deterministic and well-defined structures and technologies “dominated by systems thinking, to secure order and effective co-ordination and control in organisational interaction” (Nandan, 1996a, p.346). These control systems are structured in a way in which the effects of external environment on key organisational components are limited. One of the prominent features of these approaches is the consideration of organisations as independent of their participants’ cognitive behaviours. The deterministic views of these approaches consider only the organisation’s goals rather than those of its participants. They view that once the inherent complexities of the control entity are managed, the optimal control systems

can be designed for any given situation (Nandan, 1996a; Hopper and Powel, 1985). Thus, the advocates of these approaches focus heavily on the determination of goals together with constraints on achieving them, coordination of processes and evaluation of performance using many devices, particularly, accounting controls.

2.4.1.2 THE CLOSED NATURAL PERSPECTIVE

The closed natural approach is centred around an increasing interest in the behavioural consequences of control systems operation (Otley et al, 1996, p.10). The behavioural research in control is concerned with the diversified cognitive behaviours of organisational participants. Under this approach, the organisations are viewed “as coalitions of decision-making individuals, each of whom has distinct aspirations, expectations, and personal feelings apart from the interacting with the larger organizational entity” (Merchant and Simons, 1986, p.189). Individual behaviour in organisations has been discussed in the literature as a function of individual psychological patterns as well as individual information processing abilities (Merchant and Simons, 1986). The literature on behavioural research can be discussed under two dimensions. The first dimension looks into decision accuracy of individuals while the second dimension concentrates on the measurement of individual psychological patterns. The distinguishing feature of this research is the dominance of one individual over another through the systems of rewards and punishments (Carroll, 1987). Some researchers have discussed power as similar to behavioural control because through rewards and punishments an organisation can implement control over its participants. Tannebaum and Kahn (1957) identified four types of control systems according to the degree of control exercised by the superiors on subordinates:

- a) democratic - high rank control and limited superior control;
- b) autocratic - high superior control and low subordinate control;
- c) laissez-faire - low control at all levels; and

d) polyarchic - high control at all levels (see Carroll, 1987).

Some research has been centred on individual job satisfaction, role conflicts, and stress and information manipulation. Argyris (1952) researched on the effect of the budgets on employee satisfaction, which led two other researchers (Schiff and Lewin, 1970) to research on the effect of people on budgets. Several other studies have been conducted relating to the effects of budgeting on employee satisfaction in organisations, which have identified important dimensions of the organisational participant behaviour (Brownell, 1981; Buckley and McKenna, 1972; Lowe and Shaw, 1968). Lowe and Shaw (1968) illustrated how managers manipulate budget estimates that have been used for assessing their own performance. Brownell, (1981) and Buckley and McKenna (1972) conducted reviews of the research on the relationship between budgetary control and managerial behaviour in the early 1970s.

In recent years, there has been a trend to incorporate an organisational context in behavioural research. This is evidenced by a ... tendency to use real decision-makers (e.g., practicing managers and auditors) in experiments rather than students (Ashton, 1982, p.185). The trend to incorporate organisational context emphasised conducting research in real organisational settings (Cooper, 1982). For example, Mintzberg (1973a) carried out his study of the nature of managerial activity in real organisational settings. There was thus a growing awareness of the human consequences of control systems use and operation beginning to emerge in the early 1970s (Otley, et al, 1996, p.10). During this period, behavioural considerations were considered in evaluating managerial performance. Hopwood's (1974, 1972) studies find several managerial styles according to their use of accounting information. Further, these studies observed the impact of existing managerial styles in organisations on individual's organisational behaviour and

performance. It should be noted, however, that Otley (1978) revealed some contrasting evidence regarding managerial styles and organisational participants' behaviour through his research carried out with theoretically different features.

2.4.1.3 THE OPEN RATIONAL PERSPECTIVE

This perspective is characterised by an open systems approach and rational decision-making. Thus, the structure and design as well as the external environmental factors play important roles in controlling the organisation. The recognition of the external environment, particularly, the external uncertainty, opened the doors to direct control research towards a new approach in management control, the open rational perspective. Otley et al (1996) include contingency and cybernetic research under this category. This perspective was originated with the work of two prominent researchers in the field, Lowe and Machin (1983). Lowe and Machin (1983) well illustrate this approach through "the collection of readings in the monograph *New Perspectives in Management Control*" (Otley et al, 1996, p.11). They clearly identify the multi-disciplinary nature of management control and point out the need to incorporate the external environmental factors in control mechanisms.

The contingency theory shows the importance of considering the external environment in designing control systems. The contingency approach is based on the assumption that there is no universally appropriate single best approach that applies equally to all situations. Instead, it suggests that particular features of the control system depend on the specific situation or contingencies. The contingent variables such as size, technology, corporate culture, organisational structure, corporate strategy, and environmental uncertainty have tremendous impacts on the control system structures

and processes (Woodward, 1965; Burns and Stalker, 1961). Although there are several significant contingent variables, the external environment in general, and particularly the external uncertainty, have led researchers to adopt the system perspective (Otley et al, 1996). The overall consensus is that the design and use of control systems and procedures clearly is (and should be) contingent upon the context of the organizational setting in which these controls operate (Merchant and Simons, 1986, p.190).

The cybernetic control systems rely upon information flows about organisational performance and comparison of organisational performance with a predetermined standard level of performance. Lawrence and Lorch (1967) developed a contingency model of organisational design, which has useful implications for management control. Many researchers including Otley (1983), Otley and Berry (1980) and Willmer (1983) suggest that the cybernetic model of control is very useful in studying human behaviour in organisations. One of the basic messages of cybernetics and general systems theory is that control depends on an organisation's ability to control its interactions with its environment (Lowe and Puxty, 1989; Lowe, 1971; Lowe and McInnes, 1971).

Similarly, cybernetic theory has become a powerful practice of organisational control (Overman and Loraine, 1994; Weiner, 1948) and it has become more powerful in information and management control systems than in any other area of study (Stout, 1980). Teall (1992) identifies a number of elements, which need to be considered in evaluating the effectiveness of strategic management control system based on cybernetic approach. Otley (1983, p.62) quoted Ashby (1956, pp. 4-6):

the virtue of cybernetics is that it offers a method for the scientific treatment of the system in which complexity is outstanding and too important to be ignored ... Cybernetics offers the hope of providing effective methods for the study, and control, of systems that are intrinsically extremely complex.

Organizations using structural control are characterized by the existence of carefully defined organizational components that deal with specific external influences (Carroll, 1987, p.25). In the literature, Ouchi's (1979) market mechanism, Burns and Stalker's (1961) environmental uncertainty, and Woodward's (1965) manufacturing technology are all concerned with technologies, which minimise the external influence on the control system. The organisational designs and structures are expected to play an important role in achieving control. The structure of the control system handles the environmental influences (Chandler, 1962) and maintains equilibrium in the changing environment (Child, 1974).

2.4.1.4 THE OPEN NATURAL PERSPECTIVE

Control mechanisms under this perspective are characterised by open systems views and unplanned and spontaneous processes and events resulting from external environmental influence. The radical, interpretive and critical views of society and organisations can be grouped under this perspective. Radical social theorists view society and organisations as being composed of contradictory elements and pervaded by systems of power that lead to inequalities and alienation in all aspects of life (Nandan, 1996a, p.349). This perspective is clearly illustrated in "Critical Perspectives in Management Control" by Chua et al, 1989. According to Otley et al (1996), two factors lead the management control theorists towards this perspective:

First, there is recognition that contingent variables are not to be seen as deterministic drivers of control systems design. In particular, the environment is not to be seen only as a factor to be adapted to, but also something which can itself be manipulated and managed. Second, there is the recognition of the political nature of organizational activity (p.12).

The social relations under this perspective are viewed as consisting of struggles of opposing ideas which give rise to contradictions. In this way conflicts and tensions are

seen as a permanent feature of organisation life, arising as a result of contradictions, which is drawn upon and reproduced (Nandan, 1996a, p.349). The radical theorists believe that power and politics have tremendous influence over organisational control systems. For example, Preston et al (1992) used a post-modern perspective to examine the reforms of the National Health Service in the United Kingdom. Critical researchers such as Laughlin and Broadbent (1993) examined the impact of law in controlling particular organisations. Lodh and Gaffikin (1996) discussed the need for methodological change in control research. Several other works in this area have been conducted using interpretive or anthropological approaches. They have examined the effect of values or cultures in shaping the extent of control of organisational members. Important among them are the works of Ansari and Bell (1991), Broadbent (1992) and Dent (1991), which illustrate the effect of divergent organisational cultures on control. Otley et al (1996) further suggest, "that the practice and researching of management control needs to recognise the environment in which organisations exist and to loosen the boundaries around the areas of concern" (p.16).

The literature reviewed in this part forms the basis for the development of a research framework to be used in the current study. This review is based on the classifications of management control research by Otley et al (1996) and Whitely (1999) with further additions and modifications suggested by the literature reviewed. Otley et al (1996) classify approaches to management control using the perspectives of closed-open and rational-natural systems views of organisations. Justifying their approach to categorisation of research, Otley et al (1996) claim that:

We use these categories to summarise work in management control systems although we recognise that such categorisation is not necessarily "neat". Organisations can be viewed as being both rational and natural (Thompson, 1967, Boland and Pondy, 1983), they are often intentionally designed to achieve specific purposes, yet also display emergent properties. It can be argued that each

successive theoretical development provides an additional perspective which is helpful in understanding organisational processes, and which is likely to be additional and complementary to those which have preceded it (p.10).

The Otley et al (1996) framework presents a valuable way of organising management control research. The current research, following Otley et al (1996) recommendation, will make additions to the Otley et al (1996) framework in a more useful way in understanding the patterns of management control in the research organisation. As already noted, in developing the theoretical framework for the current research the control framework presented by Whitley (1999) is also used as a foundation.

2.4.2 THE WHITLEY FRAMEWORK OF CONTROL

In his analysis of firms, institutions and management control, Whitley (1999) develops a typology of control that consists of four distinct types of control systems: bureaucratic, output, delegated, and patriarchal. His analysis is based on the premise that practices and systems of management accounting and control are very divergent between organisations, sectors and societies. Whitley discusses the criticisms raised against the inadequacy of traditional management control theory “for generating universal - or at least highly general - recipes when it has become increasingly clear that patterns of work organization differ greatly across sectors, regions and countries, as does the nature of firms and economic actors more generally, (and) in ways that have significant consequences for how economic activities are coordinated and controlled” (1999, p.508). Thus, Whitley (1999, p.508) argues for generating different procedures and systems of control for different types of firms in different sectors of the society when he states that

(i)n the light of the varieties of capitalism which have become institutionalized in the twentieth century, and the consequent limited role of the “Fordist” mode of economic organization, it is clear that models of management control premised upon the ubiquity and superiority of this form of capitalism need replacing with

broader approaches to deal with the considerable differences in systems of economic coordination and control across market economies.

Changes in the structure and capabilities of worker organisations and the degree of government involvement in business have created problems in adopting traditional principles of scientific management. In Whitley's opinion the scientific management approach has rarely become the dominant mode of control in the twentieth century. The study of management control therefore needs to take account of variations in forms of economic organization and interest groups, as well as in the societal institutions and agencies that help to structure them, in order to understand how and why different coordination and control systems become established and widely diffused in different institutional contexts (Whitley, 1999, p.509). This framework depicts how social and organisational factors guide and constrain the development and use of different management control systems. The next section is devoted to a discussion of the characteristics and types of control systems identified in the model.

2.4.2.1 DIMENSIONS OF MANAGEMENT CONTROL SYSTEMS

Whitley (1999) suggests four dimensions along with different attributes of management control systems, which apply at organisational, divisional, and work group levels, can be recognised. These dimensions are:

- a) The degree of formalization of control practices;
- b) The extent to which individual group and organisational unit behaviour tightly prescribe and controlled;
- c) The extent of employee or subunit involvement in target setting, monitoring and evaluation of performance; and
- d) The scope and immediacy of feedback and control mechanism (Whitley, 1999, pp. 509-510).

Whitley compares the management control system characteristics along with these four dimensions. These dimensions are discussed in the following sections.

2.4.2.1.1 THE DEGREE OF FORMALISATION

This is the most widely discussed attribute of management control systems in the traditional literature and perhaps the most commonly used. Whitley (1999, p.509) articulates the essential characteristics of this dimension:

This is typically understood in terms of quantified, often financial, indicators and measures and extensive reliance on codified rules and procedures. Often implicitly contrasted with direct personal control over work activities and reliance on personal, *ad hoc*, diffuse and tacit evaluations of performance, this dimension is, of course, a standard component of bureaucratization indices in comparative organizational analysis which reflects the degree to which formal rules and procedures for coordinating activities and ensuring compliance are generally relied upon in a society (original emphasis).

At the organisational level, this dimension is applied in terms of reliance on formal and systematic procedures for planning, implementation, and performance measurement and taking corrective measures. Personal and or situational variables are not considered very important. Rules and procedures are given great attention and emphasis. At the individual, work group and subunit levels, formalisation necessarily means a reliance on formal written instructions and guidelines about definition and performance of activities and tasks including the task allocation, the selection and recruitment of staff, the measurement and evaluation of outcomes, and the rewarding procedures. Formal procedures and programs typically “reduce the supervisor discretion and flexibility in favour of general procedures and relatively abstract rules” (Whitley, 1999, p. 510).

In contrast, low adherence to formal rules and regulations means “greater personal discretion and a tendency to take more features of the specific situation into account in monitoring and evaluating performance” (Whitley, 1999, p. 510). In such a situation, both formal rules and regulations and informal norms and personal views may exist and be used in carrying out day-to-day activities. Unwritten norms and beliefs are also considered as important as written rules and procedures. Standard setting, performance

monitoring and evaluation, and subsequent actions are not dominated by formal procedures remote from the specific circumstances and relationships involved (Whitley, 1999, p. 510).

2.4.2.1.2 THE EXTENT OF CONTROL

The degree of formalisation, an important attribute of management control systems, which arises out of bureaucratic control systems, gives rise to another distinguishing characteristic of control systems. This characteristic is “the extent to which individual group and organizational unit behaviour is tightly prescribed and controlled” (Whitley, 1999, p. 510). This may be either in the form of formal and/or informal rules and procedures. The formal rules and procedures may either prescribe highly detailed practices for monitoring actual work processes or they may not specify detailed instructions in carrying out work processes. While scientific management prescriptions implied both a heavy dependence on formal procedures for monitoring and controlling work with precise, detailed instructions for carrying it out, many formal measures of outputs do not specify how tasks are to be conducted, or, in some areas of professional work, what the nature of the tasks is to be (Whitley, 1999, p. 510). Similarly, the adherence of informal means of control does not mean that extensive supervision over work and centralised control patterns do not exist in organisations (see for example, Whitley, 1992, 1997; Redding, 1990; Silin, 1976).

2.4.2.1.3 THE EXTENT OF SUBORDINATE INFLUENCE IN CONTROL SYSTEM

The extent of employee or subordinate involvement in control activities differs from system to system. The level of employee involvement in target setting, monitoring and performance evaluation will have tremendous influence on the nature and type of

management control. Employee participation in decisions affecting them will decide the nature of control mechanisms to be employed and the scope of control. Some systems may not allow subordinates to decide on any important things, which affect them while some others may give subordinates ample power and authority to decide on policies and procedures for carrying out their activities. While this would normally be associated negatively with the extent of tight control over subordinate behaviour in that low discretion control systems are unlikely to encourage much employee involvement, it does help to distinguish two types of control system where detailed prescriptions of task performance are rather limited and open ended (Whitley, 1999, p. 510). Thus, the extent of subordinate influence is a determinant factor of the nature and type of management control systems.

2.4.2.1.4 THE SCOPE OF CONTROL SYSTEM

Another important dimension of control systems is the scope of feedback and control mechanisms. Some systems may emphasise short-term performance of daily tasks with narrowly specified performance measures while the others emphasise long-term structures of careers with broadly specified performance measures. Similarly, performance measurement and reward mechanisms may vary significantly between hierarchical levels and between activities of divergent complexity and uncertainty from within organisations. The stereotypical U.S. corporation, for example, tends to focus on relatively short term and narrowly specific indicators of performance in making career decisions and allocating rewards whereas many large Japanese companies evaluate blue and white collar staff over a number of years and in a number of roles (Whitley, 1999, p.510). Likewise, Japanese companies consider specific aspects of task performance than simple highly codified indicators such as overall measures of contribution and commitment of employees (Inohara, 1990, Aoki, 1988; Dore, 1973).

Whitley (1999) explains how these four dimensions of control systems differ from each other depending upon the distinguishing attributes of each dimension. Based on the distinct control system characteristics, four types of management control systems which frequently empirically occur, have been identified: the bureaucratic, the output, the delegated, and the patriarchal. These four types of management control systems together with their major characteristics are shown in Exhibit 2-4.

EXHIBIT 2-4: CONTROL SYSTEM TYPES

Please see print copy for image



Source: Adapted from Whitley, 1999, p.511.

2.4.2.2 CONTROL SYSTEM TYPES

The four dimensions of control systems apply at different levels in organisations such as at work group levels, divisional levels and organisational levels in different ways. Whitley (1999) further points out that other aspects of management control systems, “such as the relative importance of group or individual performance and the extent to which the interaction of subunits is systematically coordinated and controlled, are often applicable to one of these levels more than the other (p.511). The four management control systems vary significantly in terms of the distinct characteristics of them.

2.4.2.2.1 BUREAUCRATIC CONTROL SYSTEMS

Bureaucratic control systems have been the most extensively discussed form of control in the traditional literature. The typical characteristics of bureaucratic control systems

are high levels of formalisation and adherence to written and specified rules and regulations. Very limited personal and formal relationships can be seen in these types of control systems. Detailed, highly specific and systematic instructions about how tasks are to be carried out are established in the very beginning of the control process. The extent of control over task performance is very high. The well-known “scientific management movement” has prescribed such a type of control systems. This type of control system focuses on much specified information and performance indicators based on formal procedures of control. Therefore, such a system has a relatively narrow scope of control. Whitley (1999, p.512) explains the nature of organisations where this sort of control exist:

Bureaucratic control systems ... tend to be associated with quite rigid and specialized divisions of tasks which are usually decided by senior managers who have considerable discretion over how work is to be organized. ... organizations that establish these kinds of control systems do not rely on the initiative and commitment of their workforce and have few, if any, commitments to their continued employment. Labour management in these firms is typically short term and heavily reliant on external labour markets. Such control systems are usually developed in large companies which are often vertically integrated and not highly diversified across industrial sectors since this would limit the ability of top managers to control how economic activities were to be carried out.

In organisations where such control systems exist, very remote and distant superior-subordination relations can be observed.

2.4.2.2.2 OUTPUT BASED CONTROL SYSTEMS

A distinguishing attribute of the output based management control system is the low specification about how various activities are to be carried out. They also rely extensively on formal procedures and rules in conducting economic activities. Informal relations do not play a key role and extreme reliance on financial performance indicators means “a lack of knowledge about how they are performed and consequently rather limited ability to assess technical competence and the potential for improving

work processes” (Whitley, 1999, p.511). The subordinate groups and subunit involvement in standard setting and performance measurement is very limited in this control system and the scope of the control system is very narrow.

2.4.2.2.3 DELEGATED CONTROL SYSTEMS

As the name suggests, delegated control systems grant substantial autonomy to subordinates and subunits over the performance of tasks and may get their involvement in standard setting and performance measuring. Both formal and informal patterns of control exist in delegated control systems. This sort of control system is characterised by a relatively high scope of control mechanisms and is characterised by bottom up control relationships. According to Whitley (1999, p.513), “delegated control systems are often associated with much broader job specifications and more flexible use of skills, closer ties between supervisors and subordinates based on common expertise and training and greater employer reliance on maintaining a highly skilled workforce and commitment to high task performance”.

2.4.2.2.4 PATRIARCHAL CONTROL SYSTEMS

The distinguishing attribute of patriarchal control systems is the great reliance on “personal and informal relations between controllers and controlled” (Whitley, 1999, p. 512). They typically combine with low levels of formalisation and reliance on detailed written rules and procedures on how tasks are to be carried out. Whitley (1999, p. 512) emphasises this view when he says

(t)his need not, of course, mean that these do not exist but rather that managers, especially the owner-manager at the top, prefer to rely on direct supervision and personal contacts in monitoring and controlling subunit activities, and retain considerable personal discretion in making decisions, by passing established routines and channels, as in many Chinese family business (Redding, 1990; Silin, 1976).

Thus, the extent of control over work performance is relatively very high in patriarchal control systems compared to delegated control systems. This kind of control system grants very limited autonomy to subordinates over work performance and the subordinate and subunit involvement in target setting and monitoring is very low. Therefore, patriarchal control systems are highly centralised and top-level direction in work is extremely high as in Korean firms as reported by Janeli (1993). In organisations in which owner control is very high, the owner will retain substantial discretion over decision-making and will not be subjected to formal rules and procedures. This type of control system is, of course, strongly connected to particular kinds of authority relations, broadly summarized as paternalist, that are widely institutionalized in many industrializing societies (Whitley, 1999, p.512). In contrast, the owner may prefer to exercise tight control over subordinate and subunit performance and directly supervise subordinate performance.

Such control systems involve broad and diffuse indicators of performance and commitment where personal connections are involved, but it should be borne in mind that many employees in such organizations are often relatively unskilled and work only for a short time there, especially females in labour intensive industries (Whitley, 1999, 512). The focus of the control system is short term and highly specific. As argued by Whitley (1999, p.513) “the extent of direct owner control of managerial decisions and involvement in day to day activities usually has quite strong connections with how they control them, especially in institutional contexts where trust in formal procedures is low and authority relations are rather more paternalist than contractarian”.

As the above discussion reveals, the adoption of particular patterns of control reflects the managerial choices “about work organization and labour management policies, as

well as the nature of the managerial elite itself, its relations to major owners and lenders, and its dependence on the success of individual enterprises and industries” (Whitley, 1999, p.512). It is observed that it is possible for an organisation to have different types of control systems at different levels of the organisation. These different control systems are attributed with a variety of control styles, control mechanisms and leadership styles. They operate in diverse organisational cultures. The management control patterns cannot be expected to stay stable over time. As with any open system, the organisations also have to adapt to the changes in their environments. In this change process, the existing patterns of management control are shaped and reshaped and new patterns will emerge. This will result in new organisational structures, organisational cultures, management styles and leadership patterns. These changes ultimately will affect the organisational effectiveness in different manners. The current research attempts to understand those patterns of management control.

2.5 CASE STUDIES IN MANAGEMENT CONTROL

Theories of management control have become an important part of the knowledge gaining process of management control. As is true with many fields of study, this study area has also progressed from a highly theoretical perspective towards a more practical perspective as more and more academics and researchers have recognised the potential utility of management control in achieving organisational goals and objectives. There are few published case studies which present valuable insights of the design and operation of management control systems. They continue to search for more empirical evidence in the disciplines.

Archer and Otley (1991) conducted research, which aimed at observing the planning and control procedures operated in a British company in the 1980s. Their case study,

“Strategy, structure, planning and control systems and performance evaluation-Rumenco Ltd”, focuses on exploring the processes of management control and the links among corporate strategy, management control, and performance. This study has provided researchers in control with valuable guidance in doing empirical research.

Many of the case studies published in recent years have been on different aspects of management control. For example, Berry et al (1991) conducted a case study on the processes of management control operated in a branch organisation of a bank-owned financial services company engaged in providing industrial and retail loans. Their research “Control in a financial services company (RIF): a case study”, was based on four perspectives: management control, cybernetic, organisational behaviour, and contingency theory. These four perspectives have been used as means of exploring the practices of control in the organisation. This case study provides valuable insights in the patterns of management control operated in a real world setting. It further more, is an invaluable guide on conducting empirical research in management control and is exploratory, descriptive and inductive in nature.

Following Berry et al (1991), Marginson (1999) conducted a case study using the same theoretical perspectives as guiding perspectives. This research “Beyond the budgetary control system: Towards a two-tiered process of management control observed the patterns of management control that existed within a major British organisation, Telco Ltd., engages in providing a range of communications and information services to business and private customers. This research takes an exploratory and inductive approach. Based on the study's evidence, Marginson (1999) has developed a 2-tiered model of management control.

Abernethy and Chua (1996) studied the role of an organisation's accounting control

system (ACS) as part of an interrelated control “package” through a case study of a large public hospital in Australia. They sought to develop an understanding of the design and operation of accounting control systems by studying how accounting controls operated as part of an organisational control mix and analysed how the strategic choice of the control mix was influenced by the organisation's institutional environment. This study focused mainly on three elements of a control system: the governance structure, the role of accounting controls, and the processes associated with the development of a different management culture. They defined an organisational control system as “a system that comprises a combination of control mechanisms designed and implemented by management to increase the probability that organizational actors will behave in ways consistent with the objectives of the dominant organizational coalition (1996, p. 573). They explained that a control system can be a portfolio of mechanisms including “(d)iverse formal administrative mechanisms ... such as standard operating procedures, position, descriptions, personal supervision, budgets, performance measurement, reward systems and internal governance, and accountability arrangements” (Abernethy and Chua, 1996, p. 573). Their study provided some interesting insights of the role of accounting controls in the control system package. The case suggested that organisations may not need to rely on highly sophisticated accounting systems to meet stakeholder demands for legitimacy and efficiency. Abernethy and Chua (1996) concluded, “that accounting control systems do not serve a particularly important role in the planning and control function, but rather are used to rationalize and supplement other more visible elements of the control package” (p.599).

Williams (1995) has contributed to the knowledge of management accounting by exploring historically important practices of accounting. He has observed the use of

management accounting in two businesses operated in the late eighteenth century in England. These two case studies, in particular, concentrated on the activities of two men who control very different businesses but find similarities in the use of knowledge gained through accounting. The research reveals that accounting assisted both businesses in managing day-to-day operations.

Abernethy and Stoelwinder (1995) studied the role of professional control in the management of complex organisations. Their study, undertaken in a large public teaching hospital in Australia adopting a functionalist perspective of control, provided some valuable insights into the nature of control systems in complex organisations dominated by professionals and illustrated how the conflicting cultures associated with professionals and bureaucratic organisations can be effectively controlled. This research examined the implications when formal administrative controls such as accounting controls, which attempt to either control individual behaviour by specifying desired actions or achieve desired behaviour by specifying targets and measuring performance, are implemented in organisations dominated by professionals. The researchers pointed out:

... (w)hen formal administrative controls cannot cater to the unpredictability of complex work demands, one strategy is to employ “professionals” who have been trained to cope with these demands and whose behaviour is primarily controlled through social and self-control mechanisms. There is some question, however, as to the effectiveness of this strategy. There is evidence that integrating professionals into bureaucratic organizations creates the potential for a “clash of cultures”. Conflict emerges when salaried professionals engage in behaviour directed towards increasing their own autonomy (or in some cases maintaining it) and management implement control systems designed to control that behaviour (p.1).

The authors argued that the degree of conflict experienced depended on the individual role orientation of the professional and the extent to which management confronted professionals with bureaucratic administrative control systems which restricted their

self-regulatory activities.

Hoque and Hopper (1994) have made another valuable contribution to management control research through their case research “Rationality, accounting and politics: a case study of management control in a Bangladeshi jute mill”. This research focuses on the practices operated in a large nationalised jute mill in Bangladesh. Their investigations reveal that bureaucratic control systems have been less effective in the face of managerial complexity and uncertainty and budgeting has not been considered the dominant mode of control in the mill. Rather social and personal controls have been more effective than official control systems. They point out, that “(m)anagement control in the mill was ultimately a social and political phenomena rather than a computational strategy of rational decision-making process” (Hoque and Hopper, 1994, p.25). Thus, the research concludes that wider social, economic, political and institutional contexts govern the practices of management control in the organisation.

Roberts (1989) explores the conditions and consequences of two bases of control relationships: authority and dominance. This research observes the nature of the power relations involved with a female employee in the PYT Ltd. The study focuses on the social process of domination, and one woman’s gradual withdrawal of belief in the legitimacy of the way others sought to exercise control (Roberts, 1989, p.289). It shows how authority and domination can be viewed as radically alternative conditions and consequences of the way management control is exercised.

Wickramasinghe (1996) in his doctoral thesis, “Rationales of Accounting Controls and Ownership Change in a development Context: A Mode of Production Theory Analysis of Two Sri Lankan Case Studies” analyses the management accounting practices in a

developing country from a development theory perspective. Wickramasinghe's thesis argues that accounting interacts with the articulation of various modes of production i.e., capitalist and non-capitalist ones. His study tries to articulate that when capitalist penetration comes to be subsumed in the traditional feudalistic society, non-capitalist forms of production react to dislocate it and such subsumptions and dislocations are implicated in management accounting control systems at organisational levels.

Wickramasinghe and Hopper (2001) have sought to establish the benefits of alternative ways of studying culture and management accounting and applied a longitudinal case study strategy to study management controls in a Mill in a traditional village of Sri Lanka. As the study reveals the culture of the traditional village was under pressure to modernise and the poor performance of the Mill led to privatisation. They examine how attempts to impose conventional management accounting control failed due to worker resistance and how performance improved after privatisation partly because of the commercial budget practices. Their study shows why and how cultures change and how they affect accounting control practices.

Despite the growing attempts to report empirical procedures, academic understanding of the practical use of the two disciplines is still limited in scope as well as in depth. As Otley et al (1996) report there is "very little research addressing the problems of control in ... international organisations, in either the private or the public sectors" (p.16). Similarly, although previous studies have empirically investigated different aspects of the two disciplines, the joint effect of the two disciplines remains unclear.

The current study attempts to explore the nature and use of the approaches of management control, which operate across different levels of Ceylon Tea Services Ltd.

The published case studies are helpful in beginning to build a base of knowledge, which theorists and practitioners of management control “can use to gain more understanding of the realities of applying theory to practice” (Dearstone, 1989, p.50). While no case study can provide conclusive evidence regarding (Dearstone, 1989, p.50) the patterns of management control, the evidence case studies provide can be added to the base knowledge for the development of better theories and concepts. Thus, the current case study is expected to contribute to management accounting by providing real world evidence of the practices of management control in an emerging economy.

2.6 THE RELATIONSHIP OF THE LITERATURE TO THE STUDY

The literature review discussed above has examined a variety of typologies under which research in management control can be undertaken. The current research will observe the overall model of control in an excellent tea exporting company in an emerging economy, Sri Lanka. It will observe the nature of management control practices operated at different levels of the research organisation.

The literature review discovered little research in which the patterns of management control in emerging economies were observed using in depth case study strategy. Only one single study, Hoque and Hopper (1994), was found to have valuable contribution to management control research through a case research. This study “Rationality, accounting and politics: a case study of management control in a Bangladeshi jute mill” provided valuable insights into the study of how management control activated in an emerging economy.

The literature review has covered a wide range of multi-disciplinary approaches to management control. It, however, has not suggested a control model, which integrates elements from different theories of control. The current study will develop a tentative

research framework based on the literature reviewed. This will be presented in Chapter Three. The analysis of the findings of the current research will be partially based on the research framework developed by Otley et al (1996) and several important features of the approaches under the four models, closed rational, open rational, closed natural, and open natural will be able to be recognised. They are:

- a) Planning and rational decision making as the mode of management control and continuous comparison of actual and expected outcomes of the system (Closed Rational Systems);
- b) Minimising external impacts on organisational components (Open Rational Systems);
- c) Emphasising organisational participant behaviour through rewards and punishments (Closed Natural Systems); and
- d) Establishing and maintaining group activity norms and external social impacts in achieving negotiated levels of goals and objectives (Open Natural Systems).

Similarly, the current study will partially be based on the framework developed by Whitley (1999). The characteristics of management control systems discussed by Whitley (1999) are used in the current study together with other issues recognised through the literature review in observing and interpreting the existing patterns of management control in the subject organisation. The following issues developed from the control system characteristics identified by Whitley (1999) are used in the collection and analysis of empirical data:

- a) The nature of organisational structure and the extent of reliance on formal rules and procedures;
- b) The extent of control over organisational participants;
- c) The extent of subordinate involvement in control; and
- d) The scope of control system.

Furthermore, following the literature review, especially, Flamholtz et al (1985), the following issues have been recognised as very useful in exploring the patterns of control in the research organisation:

- a) Corporate Strategy;

- b) Organisational Structure;
- c) Organisational Culture;
 - * Values and Norms
- d) Management Information System; and
 - * Planning and Budgeting Process
- e) Core Mechanisms of Control
 - * Departmental Budgets;
 - * Total Quality Management;
 - * Participative Management;
 - i Teamwork; and
 - ii Employee involvement.
 - * Communication Efforts;
 - * Recognition of Achievement; and
 - * Formal Rules and Regulations.

Taking a broader aspect of management control, in order to understand the patterns of management control, the current case study will develop a tentative research framework, which is considered a guiding model in the analysis and interpretation of empirical data. This model is presented in Chapter Three. This model is expected to be modified using theoretical perspectives, which guide the current research. Thus, the framework presented in Chapter Three will necessarily be a tentative model of the patterns of management control in emerging economies.

As Carroll (1987, p.17) argues “Researchers have tended to provide anecdotal evidence on the effects of control and very little on the form or content of the control systems”. The literature review has revealed no single case study on the patterns of management control within the context of Sri Lanka, an emerging economy. Therefore, the current research is expected to uncover the nature of management control prevalent in the family managed enterprises in Sri Lanka. It will observe the factors, which shape and reshape the existing patterns of management control in the Ceylon Tea Services Ltd. The research will also observe the practices of management control in detail.

2.7 SUMMARY

This chapter has discussed the nature and processes of control and provided several definitions of control. The traditional and modern views of management control have been described. The chapter has also reviewed the nature of effective management control systems. It examined several models of management control in detail. It discussed theory of organisations as relevant to the empirical study of patterns of management control. The perspectives of rational, natural, and open systems have been found to be very useful for doing research in management control. The chapter presents a summary of the main attributes of these organisational typologies.

The chapter also describes the frameworks provided by Otley et al (1996) and Whitley (1999), which are used to develop a tentative research framework. The frameworks presented by Otley et al (1996) and Whitley (1999) are presented in tabular forms. It has been found that each model of management control used a different set of control mechanisms. Several important issues based on the frameworks presented by Otley et al (1996) and Whitley (1999) have been identified. As revealed in the chapter, the current study deals with gaining a fuller understanding of the existing patterns of management control in an export oriented family business in Sri Lanka. It has observed the system of management control in the organisation from both theoretical as well practical perspectives.

The chapter also reviewed the existing case study research in the subject area of management control and the relationship of literature review to the current study. The chapter further recognises several variables, which are useful in exploring and analysing the patterns of management control in the research organisation. In Chapter Three a theoretical model of management control will be developed.

CHAPTER THREE

A MODEL OF MANAGEMENT CONTROL FOR A FAMILY CONTROLLED BUSINESS

3.1 INTRODUCTION

This project explores the patterns of management control in an actual organisational context from a theoretical as well as an empirical perspective. More specifically, it will examine the procedures and processes of management control in the Ceylon Tea Services Ltd, a tea exporting company in Sri Lanka.

The management control system in any organisation defines a set of role prescriptions and values for the entire organisation. The expected outcomes of any control system as a whole are the survival and growth of the organisation and the job satisfaction and personal development of organisational participants. This whole necessarily includes managers as well as subordinates and they are normally evaluated in terms of organisational effectiveness. Organisational effectiveness, largely, depends upon the existing control system characteristics. Research reveals that different control systems may be used for the achievement of different types of organisational performance (Carlos, 1988). This project explores the patterns of control used to achieve organisational effectiveness in the subject organisation using the case study approach.

This chapter presents a preliminary conceptual framework that synthesises past research on management control. The chapter identifies two guiding perspectives as pertinent to the development of the conceptual framework. Chapter Two recognised several issues as relevant to the current research. A section of this chapter is devoted to a brief discussion of these issues. The conceptual framework is used only as a benchmark

rather than a firm theoretical foundation in the analysis of the research findings. As such, the approach taken by the current study resembles those employed by Marginson, 1999; Yan and Gray, 1994; Berry et al, 1991; and Yin, 1994. In the final section, the conceptual framework developed is presented and discussed.

3.2 GUIDING PERSPECTIVE: MANAGEMENT CONTROL PERSPECTIVE

This chapter develops a theoretical model of management control to be used in analysing empirical data. The proposed model is based on the literature reviewed in Chapter Two. This research, following Marginson (1999) and Berry et al (1991), adopts as a major theoretical perspective a management control perspective, which is discussed in the following sections.

Chapter Two discussed various perspectives of management control in detail. It examined both the theoretical as well as the empirical aspects of management control using different theoretical foundations. In this thesis the term “management control” will mean any actions, activities, procedures or norms activated in an organisation to influence the probability that organisational participants’ behaviour will lead to the attainment of negotiated levels of objectives.

As with Hoque and Hopper (1994), four main theoretical models of management control (Otley et al, 1996) have been selected as pertinent but not sufficient in themselves in the analysis of empirical findings. Based on the classification provided by Otley et al (1996), ‘control’ in this research is classified into four categories, as it provides:

a) A conceptualisation of control,

- i) as a set of organisational rules, practices and procedures, which limit the variation of participant behaviour; and**
- ii) as a feedback process, which directs the participant actions towards the attainment of established goals and objectives.**

These control models often focus on establishing procedural compliance in controlling participant behaviour. Such models under closed-rational systems often emphasise bureaucracy, hierarchical levels, centralised planning, formal structures, rules and regulations and optimal resource allocation (Wooward, 1970, 1965, 1958; Webber, 1968; Anthony, 1965; Ducker, 1964; Burns and Stalker, 1961). Centralised planning and rational decision-making are regarded as the means of management control and they focus both on process control and on outcome control. Thus, continuous comparison of the actual and expected outcomes of the system plays a vital role in the control system. The models under this approach always tend to 'find one best way' to control organisations and their participants. Further, they attempt to limit the effects of external influence on organisational components and to redirect activities towards planned activities. Efficiency, conformity, and technical competence are the rationale of the control system. Extrinsic rewards for conformity and loyalty play a vital role in motivating employees.

b) A conceptualisation of control as management of contextual factor dependency.

The growing understanding that organisations vary remarkably in different circumstances has led to the development of contingency and systems approaches to control. Especially, contingency theory explains why organisations differ with reference to contextual factors (Otley, 1980; Ouchi, 1979; Beer, 1972). These contextual factors include strategy, technology, size, employees, environment and organisational structure. The existence of organisational variables contingent on contextual factors produces

different forms of organisations, for example, bureaucratic organisations, decentralised organisations, and professional organisations. Open-rational models often focus on the nature and extent of environmental influence on the control system and attempt to minimise external impact on organisational activities. Typically, the strategies under these models have an external focus, involving either reorganisation of control system elements or redefinition of negotiated levels of organisational objectives. The foci of control differ depending on the nature of the organisation. For example, in decentralised and professional organisations, the foci of the control systems are diverse and refer to processes, outcomes and values. The rationale also differs according to the nature of the organisation. For example, in professional organisations professionalism is the rationale while achievement is the rationale in decentralised organisations.

c) A conceptualisation of control as a set of behavioural control mechanisms.

These models often focus on changing participant behaviour through the systems of budgeting and performance measurement. They operate as a set of feedback mechanisms that involve planning, implementing, monitoring and reinforcing. The focus of the control system is mainly on outputs. Greater emphasis is placed on motivating employees through systems of reinforcing rewards and punishments. The reinforcements may be either intrinsic or extrinsic. Information, both feedback and feedforward, on system requirements and actual performance is of profound importance in the control system. Research on information manipulation (Lowe and Shaw, 1968), which generalises “the tendency of managers to bias budgetary estimates” (Otley et al, 1996), shows the consequences for the control mechanisms under this perspective. Control mechanisms often give both negative and positive reinforcements on participant behaviour. Group-based performance rewards are a vital part of the control system,

although individual performance rewards can also be imposed. The emphasis behind the control systems is on the efficiency, conformity, and achievement of objectives and they focus on the behavioural aspects of control system operations (Otley and Berry, 1980; Hopwood, 1972; 1973; 1974).

d) A conceptualisation of control as a set of dynamic cultural values and norms that involves flexibility, group working and commitment.

These models develop behavioural standards for both individuals and groups of individuals within the organisation. The principles of the models under this perspective often incorporate broader social beliefs and norms based on the conformance by organisational participants with the common values and attitudes of the organisation as a group. Incorporating complex political and social relations, control systems under this model attempt to establish and maintain group activity norms in achieving negotiated levels of goals and objectives. In the attempt to deal with complex social and political conflicts, the control system develops techniques such as teamwork and employee participation in decision-making. These models emphasise the notion of quality of working life in the accomplishment of the set goals and objectives. Some control systems reverse the process of division of labour and rely on despecialisation. The models under the open natural perspective can be classified under this category (Laughlin and Broadbent, 1993; Ansari and Bell, 1991; Chua, Lowe and Puxty, 1989). The values and beliefs of the organisational culture play a vital role in the operation of these control systems. The control system focus is divergent depending upon the type of the organisation. For example, in workgroups mutual control over processes and inputs are the foci of the control system while employee participation and mutual control over outputs and processes are emphasised (Hales, 1993). Similarly, the rationale of the organisation depends upon the type of organisation. For example, in despecialised

organisations, quality of working life and achievement are the rationale. In clan-like organisations (Ouchi, 1979) and Japanese- system organisations, in which commitment and performance are focused, the organisation may work as a community or a family with a mission of 'quality' or 'service' (Hales, 1993; and Pascale and Athos, 1981).

In the current case study, to further enrich the management control perspective, the typology developed by Whitley (1999) is also used as an analytical perspective with further additions and amplifications provided by literature reviewed. Whitley (1999) categorised control systems according to their inherent characteristics (Chapter Two). Several issues that have been developed based on the categorisation provided by Whitley (1999, pp. 509-510) are as follows:

- a) **Degree of formalisation:** duties, responsibilities, reporting relationships, and communications may be specified in detail and in writing, or be informal (Hales, 1993, p.149). They may be expressed in quantified, often financial terms with extensive reliance on rules and procedures or in terms of *ad hoc* personal control procedures;
- b) **Degree of standardisation:** some administrative processes may be tightly prescribed and controlled. They may be used as routines, which are predictable often regulated by standard and systematic procedures. Some administrative processes may be *ad hoc* and discretionary;
- c) **Degree of centralisation:** managerial functions, especially planning, decision-making and control functions may be concentric at the top management level or they may be dispersed through the organisational hierarchy allowing subordinates to be involved in control; and
- d) **The scope of control system:** evaluation of employees may be based on highly specific formal procedures, which focus on short-term performance or broad indicators of commitment to the job over a quite long period of time.

Furthermore, following the literature review, several issues (refer to p.71) have been recognised as very useful in exploring the patterns of management control in the subject organisation and an attempt will be made to explore the nature and extent of use of these issues in control. Using these theoretical issues, the following section will develop a research framework to be used in the empirical analysis of research findings.

3.3 THE MODEL OF MANAGEMENT CONTROL

To facilitate the current research it was thought a theoretical framework would be useful. In Exhibit 3-1, a schematic representation of the framework of management control derived from the literature review is shown. As illustrated in Exhibit 3-1, the proposed model consists of two major dimensions, Management Control System and Organisational Effectiveness. These two dimensions are considered to be interacting with each other in a two-way relationship, shaping and reshaping the behaviour and performance of the organisation and its participants.

In Exhibit 3-1, the dimension of the organisational management control system is represented by a series of interacting triangles, which are bounded by a rectangle. The innermost triangle comprises the 'core control package'. The *core control package* represents the core control practices and mechanisms of the organisation. The surrounding three triangles represent the other components of the control system: corporate strategy and structure, corporate culture, and management information systems. *Organisational Structure* consists of the organisational hierarchy, rules and regulations and reporting relationships while *Strategy* represents the organisational goals and objectives and the ways of achieving them. *Corporate Culture* is a collection of values, beliefs, norms, and the patterns of participant behaviour, which characterise the organisation. *Management Information Systems* consist of the formal and informal systems of information for managers. As shown in Exhibit 3.1, the Core Management Control Package is linked with the other three components of the management control system by feedback and feed forward loops. The elements of the control system, namely organisational structure and strategy, corporate culture, management information

systems, and core control package are bounded by the environment of the organisation. The components of the management control model are viewed as an integrated system.

Furthermore, if any of the components are not compatible with the other four, “the result will be an ineffective management control system” (Teall, 1992, p.31). The dimension of organisational effectiveness (Exhibit 3-1) represents the organisational criteria of effectiveness (which is not a major area of concern in the current research). As the overall model depicts, there is a direct relationship between control and organisational effectiveness and they are articulated by both feedback and feed-forward loops.

3.3.1 COMPONENTS OF THE PROPOSED MODEL OF MANAGEMENT CONTROL

This section is devoted to a discussion of each component of the proposed research framework. It will look at the nature of the components as found in the literature.

3.3.1.1 ORGANISATIONAL STRUCTURE AND STRATEGY AS COMPONENTS OF MANAGEMENT CONTROL

As shown in Exhibit 3-1, organisational structure and strategy are considered one component of the proposed model. This is because of the close relationship between these two elements (sub-components). It is accepted that organisational structure is dependent on the strategic situation of an organisation. In other words, strategy determines the role relationships, organisational shape, role assignment, decision-making power and so on, resulting in a unique organisational structure. Thus, organisational structure and strategy are expected to represent a very important component of the overall management control system.

3.3.1.1.1 ORGANISATIONAL STRUCTURE AS A COMPONENT OF MANAGEMENT CONTROL

A very important element of the overall management control system shown in 3-1 is organisational structure. As with Dawson (1996, p.110) organisation “(s)tructure is a social creation of rules, roles and relationships which at best facilitates effective co-ordination and control, as far as corporate governors are concerned”.

Thus, organisational structure is considered a means of co-ordination and control through which organisational actors’ behaviour can be directed towards organisational effectiveness. As Trompenaars (1985, p.93) states: organisation “structure is a product of human interaction, which, in turn, is a product of structure”. Thus, organisational structure is considered a means of co-ordination and control through which organisational actors’ behaviour can be directed towards organisational effectiveness.

Organisational structure is a concept very often used in analysing organisations and a variety of organisational structures can be found in the literature depending upon the type of the organisation. This variety can be accounted for by the various positions scholars take in their conceptualization of social reality in general, and of human organizations in particular (Trompenaars, 1985, p.93). In general terms, “(t)he **structure** of a group of people such as an organization, or a society is the pattern of their relationships with each other and the way their various roles, powers, laws, etc are arranged” (Sinclair, 1994, p.1451) [original emphasis].

EXHIBIT 3-1: THE MODEL OF MANAGEMENT CONTROL

Please see print copy for image



Source: Adapted from Herath, 1996, p.122.

Thus, any structure can be considered a whole consisting of parts. As Gutman (1955, p.7) explains [cited by Trompenaars (1985, p.94)], “(w)hat is common to all structures is (the) fact that their components have a meaningful relationship to the whole either by virtue of their arrangement which produces in the whole certain properties or makes it useful for certain purposes, or by virtue of the role that the parts play in the function of the whole” [original emphasis]. The type of meaningfulness of the relationship between the elements and between the elements and the whole depends on the type of system of which they are a part (Trompenaars (1985, p.94)

In the model of management control and organisational effectiveness (Exhibit 3-1), organisational structure is a two-way communication process. It represents strategic responses to the needs of the organisation and the external environment. The core control package is shaped and reshaped according to the control needs of the organisation. Organisational structure is adjusted accordingly. For many types of organisations in practice, however, the organisational structure has a long-term life cycle. As shown in Exhibit 3-1, it is possible for the core control package to initiate changes according to organisation derived from the organisational structure. Thus, a two-way pattern of communication relationship can be seen between the core control package and organisational structure. In short, the organisational structure represents the organisational strategic response to contextual factors such as the markets, environment, competition, and technology. For example, during the early 1920s, the organisational structures of Ford Motors and General Motors represented different competitive patterns in the form of different organisational structures. Specifically, the choice of an organizational structure represents a managerial strategy on how to adapt the organizational entity to the requirements of its environment (Flamholtz, 1983, p.158).

3.3.1.1.2 ORGANISATIONAL STRATEGY AS A COMPONENT OF MANAGEMENT CONTROL

As illustrated in Exhibit 3-1, organisational strategy represents another significant sub component of the model of a management control system. According to Simons, (1990, p.128), “management control systems are the formalized procedures and systems that use information to maintain or alter patterns in organizational activity”. Simons, further maintains that based on extensive field research, “(m)anagement control systems are used not only to monitor that outcomes are in accordance with plans, but also to motivate the organization to be fully informed concerning the current and expected state

of strategic uncertainties” (1990, p.128). Thus, strategy is a paramount sub component in the overall management control model. The literature provides a number of definitions of the term ‘strategy’. A strategy is a master plan on how an organization intends to compete in its environment and what sort of structure, including coordination and control devices, is required to implement the plan (Macintosh, 1994, p.89). Strategy is mainly concerned with the operative goals of an organisation and the problems of achieving them. Wilson (1991, p.82) defines strategy as “*an integrated set of actions aimed at securing a sustainable competitive advantage*”[original emphasis]. According to this definition, a given strategy in an organisation should support the achievement of goals and objectives relative to its competitors. A much broader definition of strategy has been given by Glueck:

A strategy is a unified, comprehensive, and integrated plan relating the strategic advantages of the firm to the challenges of the environment. It is designed to ensure that the basic objectives of the enterprise are achieved (1980, p.9).

As the above definitions explain, a strategy is expected to provide support in the accomplishment of organisational goals in harmony with the organisational environment, both internal and external. Strategy is believed to be the road map for any organisational effort and, thus, the strategy should be given the utmost priority in designing and maintaining an effective management control system. It is with this understanding that Anthony et al (1984, p.10) gives a semantic definition of management control as “...the processes by which management assures that the organization carries out its strategies”. Following this definition, many research studies “built on Anthony’s work and that of others by attempting to develop the best way to design and use formal systems to help organizations implement their strategies and objectives” (Simons, 1990, p.127) and attempted to describe organisational practices in terms of the extent to which they implemented strategies. For example, Teall (1992, p.

31) maintains, “(a)s the ultimate objective of a management control system is to assist in achieving the company’s strategy, it is imperative that the company’s strategy be explicitly stated”.

The current research focuses on the interrelationships between the patterns of management control and organisational effectiveness and the framework presented in Exhibit 3-1 is used as a guiding perspective. As the model in Exhibit 3-1 shows, there is a two-way relationship between organisational structure and strategy and core management control package. This means once strategies are set they affect the patterns of management control and visa versa. In the analysis of empirical finding, it employs the proposed research framework to observe the subject organisation’s strategic processes, strategic position and patterns in strategic actions. Strategic process describes the managerial activity inherent in shaping expectations and goals and facilitating the work of the organization in achieving these goals (Simons, 1990, p.129). The research also observes how the organisation competes in its markets: the strategic position of the Ceylon Tea Services Ltd.

3.3.1.2 CORPORATE CULTURE AS A COMPONENT OF MANAGEMENT CONTROL

Corporate culture represents another important component of the proposed research model because it has profound influence in the organisational participants’ behaviour. Corporate culture consists of shared values and belief systems held by the organisations and their actors (Dawson, 1996; Ouchi, 1979). For example, according to Dawson (1996, p.141), “(t)he term ‘culture’ in organisational analysis refers to ‘shared values and beliefs’ which are seen to characterise particular organisations”. Corporate culture as an element of the management control system represents relationships and

interactions among the human actors of the organisation derived mainly from beliefs, values, morals, customs, and knowledge. Corporate culture, thus, can be applied in understanding organisations and their members' behaviour.

The term culture as it is used today has developed slowly over the last century (Dearstone, 1989, p.12). Simply, corporate culture is about what organisational members are allowed to do and what is forbidden. Thus, culture is something that can create improved organisational efficiency and effectiveness through organisational participants. Therefore, the culture of an organisation can be considered a guiding perspective, which constrains the actions of organisational members and directs towards accepted behaviour. Hofstede (1990) describes how people develop mental programs, which create patterned ways of thinking, feeling and action. As such, organisational managers can manipulate the behaviour of organisational members in the way they consider desired.

Corporate culture as a component of management control consists of beliefs and attitudes of employees and customers as reflected by organisational policies or top management's practices, the dominant values and norms such as product quality, behaviour patterns such as rituals and language and climate factors such as interaction between managers and subordinates and so on. In the given Model, Exhibit 3-1, the relationships between the core management control package and corporate culture are two-way because once created, they have an impact on the way values are subsequently improved. This means corporate culture is regarded as something manageable although it can be considered as created through the passage of the organisation. In this regard, Johnson and Gill (1993, p.104) point out:

Founders establish organizational culture to a crucial degree, but, it is argued, what we see at this stage is culture being created rather than consciously managed – even though leaders inevitably play a key part in the formative process.

It is believed that the dimension corporate culture has profound influence on the organisational management control system. The organisation's core management control package should be compatible with the organisational culture (Flamholtz, 1983). The dimensions of organisational culture influence the behaviour of organisational actors. "Once the desired culture has been defined, the remaining elements of the organizational control system ... help transmit and reinforce the entity's culture throughout the organization to govern strategic and operational decisions and actions" (Flamholtz, 1983, p.159).

3.3.1.3 MANAGEMENT INFORMATION SYSTEM AS A COMPONENT OF MANAGEMENT CONTROL

As with the other two components of the management control system, there are two-way relationships between the core control package and a management information system as shown in Exhibit 3-1. The management information system facilitates management control by providing information not only about the functioning of the organisation's each and every department but also about environmental and top managerial functioning. Specifically, by providing planning and measurement information, it has become an essential component of the overall control system.

The term 'information' means different things to different people. It is and always has been an elusive but important concept, especially, in the business world. Many attempts have been made to come up with some sensible and intuitively acceptable definition; up to now none of these have succeeded (Van Rijsbergen and Lalmas, 1996, p.385). A management information system is "(a)n integrated structure of data bases and

information flow over all levels and components of an organization, whereby the collection, transfer, and presentation of information is optimized to meet the needs of the organization (Long, 1989, p.547). Management control systems have become inseparable from modern management (Vithal, 1988), and are increasingly becoming essential in meeting the information needs of organisations. As such they can be used by organizations to obtain a competitive advantage or to keep up with the competition to survive or retain market share (Chandler and Holzer, 1988, p.2).

Initially, the information for management control meant accounting information (see Marginson, 1999; Otley, 1996; Otley, 1994) – a notion that still holds true for many of the present day organisations. With the broader understanding that some managerial activities are difficult to measure or unable to be measured and controlled in accounting terms in recent years, alternative means of control such as action, results and personnel have been put forward by several academics and researchers in the area (see Marginson, 1999; Merchant, 1986). Particularly, in the case where the meaningful measurement of the effectiveness of activities cannot be achieved using the output generated, the value of accounting information tends to be very limited. Thus, the focus on the accounting information system (becomes) generalized into a focus on the management information system (Otley, 1996, p.1). Today almost every organisation devotes a large amount of their resources to the area of management information systems. They are likely to include one or more of the following capabilities: report generation, information retrieval from queries, arithmetic calculations, quantitative functions and modeling (Kole, 1979, p.2).

With the development of information technology, the use of computers in information management has been instrumental in many organisations. The use of computerised

management information in managerial decision-making is a critical task. The role it plays in achieving organisational goals and objectives is an even more critical task. Business managers make decisions to solve problems and information is used in making their decisions. As Morrison and Laffin (1995) point out, “(to) facilitate those decisions, it is important that computerised management information systems (MIS) are used to full advantage” (p.26). For example, today many accounting information systems are computerised. An accounting information system performs a firm’s accounting applications. Such a system is supposed to provide information of a financial nature. Organisational managers should make sure that such a system is designed and operated to meet the organisation’s financial information requirements with the highest possible effectiveness and efficiency. A computerised system is expected to provide information efficiently and effectively.

3.3.1.4 CORE CONTROL PACKAGE AS A COMPONENT OF MANAGEMENT CONTROL

The uttermost component of the overall management control system is the core control package. The core control package consists of different patterns of management control used in the organisation. It is elaborated in Exhibit 3-2. In Exhibit 3-2, four types of management control are identified. They represent the four categories of management control patterns discussed in Section 3.2 of the current chapter. These four perspectives are listed again for ease of understanding:

- a) A conceptualisation of control a) as a set of organisational rules, practices and procedures, which limit the variation of participant behaviour and b) as a feedback process, which directs the participant actions towards the attainment of established goals and objectives;
- b) A conceptualisation of control as a management of contextual factor dependency;
- c) A conceptualisation of control as a set of behavioural control mechanisms; and
- d) A conceptualisation of control as a set of dynamic cultural values and norms that involves flexibility, group working and commitment.

The tools and mechanisms used under each perspective differ significantly depending upon the nature of the control system. Therefore, different patterns of control can be seen in the same organisation in different sections or departments. Furthermore, the basic processes of control: planning, operations, measurements, and evaluation, operated in these control systems may be in different configurations as explained by Flamholtz (1983). For example, it is possible to observe a “control system” that consists merely of a planning system with little else (Flamholtz, 1983, p.156). In some instances, the control system may consist of two or three processes of control or it may consist of all the four processes. Similarly, the degree of control under each configuration is expected to be different. The amount of control under each configuration is expected to increase with the addition of processes of control (Flamholtz, 1983).


The core control package is linked directly to the other three components of the Management Control System, organisational structure and strategy, corporate culture and management information systems as a two-way relationship. The current study observes the patterns of management control operated in the Ceylon Tea Services Ltd discusses the nature of each of the components of the management control system. The section to follow briefly discusses Organisational Effectiveness as the remaining component of the proposed model.

3.3.2 ORGANISATIONAL EFFECTIVENESS AS A COMPONENT OF THE PROPOSED MODEL

As a component, organisational effectiveness represents measures taken by the organisation in order to meet the effectiveness criteria. As discussed in Chapter Two, there are a number of ways to interpret organisational effectiveness.

EXHIBIT 3-2: CORE CONTROL PACKAGE

Please see print copy for image



Source: Based on Otley et al, 1996, p.12.

For example, Kilmann and Hernden (1976) categorise four systems of organisational effectiveness:

- a) internal efficiency (productivity);
- b) external efficiency (acquisition of resources and distribution of products and services);
- c) internal effectiveness (individual motivational factors); and
- d) external effectiveness (environmental or societal satisfaction).

In this thesis, the term organisational effectiveness is taken to be internal efficiency and internal effectiveness. As Exhibit 3-1 shows there is a two-way relationship between the management control system and organisational effectiveness. Although only a two-way relationship is discussed between the components of the control system in the proposed model, they interact with each other and can be discussed as mutually interacting

components. The integrated control model is supposed to have a direct effect on organisational effectiveness. Because of the interacting nature of the two dimensions, once the control system is implemented and operated it will shape and reshape organisational effectiveness and visa versa. As illustrated in Exhibit 3-1, meeting organisational effectiveness criteria is the measure of organisational effectiveness.

3.3.3 SUMMARY OF THE PROPOSED MODEL

A summary of the proposed research model is presented in this section in order to gain a precise understanding of it. There are two dimensions of the proposed model:

- Organisational Management Control System; and
- Organisational Effectiveness.

These two dimensions are expected to interact with each other. The Organisational Management Control System consists of four components. They are:

- Organisational Structure and strategy;
- Corporate Culture;
- Management Information Systems; and
- Core Control Package.

The Core Control Package comprises four sub components:

- Rules, regulations, and procedures;
- Contextual factors;
- Behavioural control mechanisms; and
- Dynamic cultural values and norms.

The Organisational Effectiveness dimension consists of a single component:

- Meeting Criteria of Effectiveness (internal efficiency and effectiveness).

As already indicated elsewhere, the model presented in Exhibit 3-1 is only used as a guiding perspective in the empirical analysis of the empirical research findings. Thus, the ultimate result of the research is either acceptance or modification of the model

depending upon the generalised analysis. Thus, the above model is necessarily a tentative one.

3.4 SUMMARY OF THE CHAPTER

This chapter has provided a model of management control. The model is developed based on management control perspective. Four components of the management control system: Organisational Structure and Strategy; Corporate Culture; Management Information Systems; and Core Control Package, are identified and discussed. These four components are consistent with a large body of management control theory. Based on the framework developed by Otley et al (1996) four perspectives of management control, which are considered the elements of the core management control package, are identified and discussed. The chapter also presents several issues, which are subsequently used in the analysis of empirical research findings. These issues are mainly developed from Whitley (1999) framework of types of control systems. Both theoretical and empirical aspects of each of the components of the management control system are presented. It has further briefly discussed the dimension of organisational effectiveness (which is related but not a main concern of the current research). In Chapter Four, the research methodology adopted in this study is discussed.

CHAPTER FOUR

METHODOLOGICAL OUTLINE

4.1 INTRODUCTION

This research focuses on the patterns of management control in a tea exporting company in Sri Lanka. As discussed in the previous chapter, the management control system defines a set of guidelines for the managers in carrying out their activities towards the achievement of established goals and objectives. Thus, the components and patterns of management control in the subject organisation have been studied in order to understand the organisational context in which this management control system has been most likely to achieve organisational goals and objectives. In Chapter Three, a theoretical framework of management control was presented and several issues relevant to the current study were identified. They have been used as guiding perspectives in the current study.

Chapter Four describes the methodology that is used to gain relevant empirical material for this study. It is divided into three parts: research methodologies in management accounting; the case study research; and research design.

4.2 RESEARCH METHODOLOGIES IN MANAGEMENT ACCOUNTING

The objective of doing research in any field of study is to contribute to the knowledge creation process through either developing or testing theory. Eisenhardt maintains that the “(d)evelopment of theory is a central activity in organizational theory” (1989, p.532). In contrast, Yin (1989, 1994) discusses in detail the importance of testing theories. Theories provide guidelines or frameworks, which can be deployed in

practice. On the contrary, practice supports the generation of theories. Much of the empirical research in management accounting has been to either build theories or test theories. The current research is an attempt to provide empirical evidence of the nature of control at the Ceylon Tea Services Ltd. The findings are expected to contribute to building theories relating to the phenomenon addressed.

A number of research approaches are available for empirical studies in accounting and control. In the literature, these approaches are discussed under two broad categories: scientific and naturalistic. The former is frequently labelled as positivistic or mainstream whilst the latter is discussed under several different names such as interpretive, critical, radical humanist, postmodernist and so on (Hopper and Powell, 1985; Chua, 1986; Puxty, 1993). Patton (1980) put forward a continuum of research approaches ranging from a pure hypothetico-deductive approach that consists of experimental designs, quantitative data collection and statistical testing of hypotheses to a pure qualitative approach that consisted of naturalistic inquiry, qualitative data collection, and analysis of content.

Dissatisfaction with mainstream research has led researchers to develop alternative research approaches to accounting research. As Lodh and Gaffikin (1996, p.331) pointed out “(o)ver the last two decades a wide range of studies have been conducted using alternative theoretical stances and strategies to the ‘mainstream accounting research’ (Chua, 1986) which are generally known as critical studies in accounting research”. A number of critical researchers have contributed to the knowledge creation process in accounting using critical research stances (for example, Burchell et al, 1980; Laughlin, 1984 and 1987; Berry et al, 1985; Chua, 1986 &1993; Hopwood 1987; Armstrong, 1991; Booth, 1991; Broadbent et al, 1991; Macintosh and Scapens, 1991;

Barker, 1993; Lodh, 1994; Yan and Gray, 1994). They have revealed the need for understanding accounting in its social context. Chua for example, has made suggestions on how to direct accounting research to understand its social context:

When the current set of assumptions is changed, new insights are possible that can extend accounting knowledge within organizational and societal contexts. The interpretative alternative emphasizes an understanding of accounting in action by providing information about the meanings and roles of accounting data. By requiring researchers to adopt a radically different value position, the critical alternative provides a means of understanding the role of accounting in the private and public economic and policy-making sectors (1986, p.601).

With the increasing understanding that critical research brings more validity to research in accounting, research based on alternative approaches with differing research emphasis has been conducted in recent years. For example, Williams (1997) articulated how two 18th century companies in the cotton and steam industries in England developed management accounting procedures. Lodh (1994) studied the processes involved in fabricating cost management and other systems in a mainframe integrated business system (IBS) environment in Australia based on a critical research stance.

Critical researchers view individuals as acting within a matrix of intersubjective meanings (Chua, 1986, p.621). One of the most remarkable features of critical accounting researchers is that they are critical not only of conventional accounting theory and practice but also of alternative approaches which they have developed by themselves (see Macintosh, 1994, Chua et al, 1989, Lodh and Gaffikin, 1996). Critical theory expects to reveal the informants' world-view as well as "socioeconomic conditions that produce and reinforce asymmetrical structures of control" (Jermier, 1998, p.240). Thus, critical theory denotes a more distinctive approach to analysing and understanding social relations.

Several forms of inquiry into research in real-life situations are available in the literature and field studies are one of the most commonly used. Field research takes place in the 'field', that is, in a natural setting, a setting that is not established for the purpose of conducting research (Sarantakos, 1993, p.256). Case studies are one of the commonly used field study approach in social science. An increasing number of case study researches have been conducted in the area of social sciences; in particular, in accounting and control area in recent years (Marginson, 1999; Williams, 1997; Abernethy and Lillis, 1995; Hoque and Hopper, 1994; Lodh, 1994; Berry et al, 1991; Merchant, 1985b; Brownell, 1981).

The main purpose of the current research study is to observe the patterns of management control in the selected tea exporting company. Due to the nature of the research objective, this study is not concerned with predictions of future performance or statistical testing of hypotheses. Thus, the researcher believes that the mainstream approaches are not appropriate for the current research study because mainstream approaches usually employ model building, statistical analysis and hypothesis testing which lead to predictions of future events. As Gaffikin (1989, p.175) points out "the real aim of a critical theory is not to predict but to provide the knowledge that social agents need to know in order to realise their own best interest in a rational manner". Accordingly, the current research will attempt to understand the existing patterns of management control using the case study research.

Thus, for the type of research purpose such as that of the current research, critical research approaches are more suitable than scientific research approaches due to the need of gaining a natural understanding about the reality of societal and natural perspectives about real world phenomena. The real aim of the current research is not to

forecast but to reveal the reality about the relationship between the phenomena under observation in a rational manner (Gaffikin, 1989, p.175). As Lodh and Gaffikin (1996) maintain, "A key focus of these critical studies in accounting research is striving for a more self-reflexive and contextualised accounting literature which recognises the interconnections between society, history, organisations, accounting theory and practice, to an extent not previously contemplated" (p.331). In recent years, there have been many suggestions for the use of case study research in management accounting (Kaplan, 1984; Hopwood, 1983; Cooper, 1981). Some have justified the use of case study research for its ability in increasing the understanding of accounting in practice (Scapens, 1990; Kaplan, 1986). As Scapens maintains:

Case studies offer us the possibility of understanding the nature of management accounting in practice; both in terms of the techniques, procedures, systems, etc. which are used and the way in which they are used (1990, p.264).

Thus, a case study is considered the most appropriate research approach to address the issues covered by this research. A case research is very different from both experimental and survey researches. Unlike experimental research, case study research is conducted in its natural settings. Similarly, the contexts are not properly handled in experimental and survey researches. In contrast, the case researcher places much premium on an intimate appreciation of context (Brownell, 1995, p.60) and is intended to trace the reality of a research topic in its natural context taking a broad perspective.

One of the objectives of the current research is to contribute to the existing literature of management control systems. As Chua (1978, p.603) maintains "(k)nowledge is produced by people, for people, and is about people and their social and physical environment". Therefore, to produce such knowledge, to the understanding of the researcher, actual human interaction relating to organisational activities in their natural

settings should be observed thoroughly. Several writers on management control have argued that the literature lacks in-depth studies of how organisations function in their social context. For example, Otley (1996, p.2) points out that “significant areas of management control remain to be explored”. It is accepted that the practice of management control is continuously changing. In order to understand the changing nature of management control, individual researchers should contribute to the knowledge. Similarly, there is not much empirical research conducted in management control revealing the experiences of emerging economies. Therefore, an attempt is made in the current study to show that the case study strategy can be used to advance knowledge in the area of management control, which suffers from inadequate knowledge of real world practices.

Yin (1984) has developed a coherent framework for the design and conduct of case study research. According to Yin (1984, p.20), a case study provides more valid data when, “a how or why question is being asked about a contemporary set of events, over which the investigator has little or no control”. Since “how” questions are addressed and the researcher has no control over the issues addressed, case study strategy is more suitable than any other strategies in conducting the current study.

Thus, in this research, the researcher utilises a case study approach to examine the relationships between the patterns of management control in the research organisation. By adopting the in-depth case study approach, the researcher tries to sort out the relationships between the contextual variables and contribute to the control literature.

4.3 CASE STUDY RESEARCH

Case study research has been a prominent form of doing empirical research in the social sciences. Yin has developed a coherent framework for conducting case based field research. According to Yin,

A case study as an empirical inquiry that:

- investigates a contemporary phenomenon within its real-life context; when
- the boundaries between phenomenon and context are not clearly evident; and in which
- multiple sources of evidence are used (1984, p.23) [original emphasis].

A case study is defined for the purpose of the current research as a description or an interpretation of a particular contemporary social issue in its real-life context. Yin (1981, 1984 and 1994) views a case study as a research strategy. According to Dearstone (1989), “(t)he case study examines the ‘how’ and ‘why’ of a phenomenon, a person, group, organization, or other unit” (p.52). It is only one of several strategies for doing empirical research in the social sciences (Yin, 1981 and 1994; Dearstone, 1989; Eisenhardt, 1989, Chetty, 1996). Other strategies include surveys, experiments, histories and archival analysis. According to Yin (1994), each strategy has its own advantages and disadvantages and a different method of collecting empirical evidence. Yin (1994, p.4) further identifies three conditions upon which the choice of a particular strategy depend:

- (a) the type of research question posed;
- (b) the extent of control an investigator has over actual behavioral events; and
- (c) the degree of focus on contemporary as opposed to historical events.

The first condition is about the type of the proposed research question(s). A familiar categorisation of the types of questions is “who”, “what”, “why”, “where”, and “how”. The types of “what”, “where”, and “who” questions and their deviations are more exploratory and are likely to lead to the use of surveys and archival analyses. As pointed out by Yin “(t)hese strategies are advantageous when the research goal is to

describe the incidence or prevalence of a phenomenon or when it is to be *predictive* about certain outcomes” (1994, p.6) [original emphasis]. On the contrary, the ‘why’ and ‘how’ questions are more explanatory and are likely to favour their use in case studies, experiments, and histories. This is because such questions deal with operational links needing to be traced over time, rather than mere frequencies or incidence (Yin, 1994, p.6).

The case study strategy is considered to have no manipulation over the relevant behaviour. However, “in some situations, such as participant-observation, informal manipulation can occur” (Yin, 1994, p.8). Experiments are the preferred strategy when the investigator can manipulate the relevant behaviour precisely, systematically, and directly. It is accepted that a case study can be conducted as stand-alone or combined with another research strategy. As Yin points out, “(i)n general, case studies are the preferred strategy when “how” or “why” questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context” (1994, p.1).

Case studies typically combine data collection methods such as archives, interviews, questionnaires, and observations (Eisenhardt, 1989, p.534). The evidence may come from fieldwork, archival records, verbal reports, observations, or any combination of these (Yin, 1981, p.58). For example, Marginson (1999) in his case study collects data from a range of sources: interviews and re-interviews, telephone conversations, archival records, business press reports, internal company documents, annual company reports, non-participant observation and from generally ‘being around. Hoque and Hopper (1994) use semi-structured interviews, documentary evidence, direct observation, postal

questionnaires, and managers' feedback of findings. Thus, "(t)he case study allows for "flexibility" in data collection" (Stone, 1978, p.137).

According to Yin (1989, 1994), case study researches should start with a priori theoretical propositions. That is "the first step in the case study approach is to develop theory, the second is case selection" (Chetty, 1996, p.76). Yin (1994) maintains that prior development of theoretical propositions always guide data collection and analysis. According to Yin (1989, 1994), case studies should be used to test previously developed theories. This position is in stark contrast "with Eisenhardt's (1989) argument that case studies should start with a clean theoretical slate so that researchers are less likely to be bound by preconceived theoretical notions" (Yan and Gray, 1994, p.1480). Eisenhardt (1989) believes that case studies should be used to develop theories and it is only after conducting the case study that research theories should be developed based on the findings.

Case studies can be either single or multiple cases (Yin, 1984). Regardless of whether it is a single or multiple- case study, the case study strategy is a valuable research tool in conducting research in social sciences. Its major strength is that it measures and records human behaviour in a real organisation. It is widely accepted that a case study should be concerned with the rigorous and fair presentation of empirical data. It can also contribute to the knowledge creation process in a much better way. As Yin (1994, p.2) goes on to maintain:

As a research endeavor, the case study contributes uniquely to our knowledge of individual, organizational, social, and political phenomena. ... In all of these situations, the distinctive need for case studies arises out of the desire to understand complex social phenomena. In brief, the case study allows an investigation to retain the holistic and meaningful characteristics of real-life events – such as individual life cycles, organizational and managerial processes, neighborhood change, international relations, and the maturation of industries.

As already mentioned, because “how” questions about the patterns of contemporary management control in a real-world organisation are addressed in the current study and the researcher’s influence over the phenomena under study is very limited, case study research strategy is chosen as the best suited research strategy.

4.3.1 OVERALL RESEARCH PERSPECTIVE

Following Yin (1984,1994), the current research begins with a broad prior theoretical understanding of the research issues. A theoretical framework of management control is developed as a guiding perspective. Several contextual variables are identified as important for the study. As already mentioned, the research findings are presented and discussed in relation to the initial theoretical framework developed. As with Marginson (1999, p.207), however, “(b)y adopting a number of initial perspectives, it was hoped that the researcher would use them as guiding perspectives, rather than firm theoretical frameworks, and thereby remain open to discovering and developing alternative ways of understanding the phenomena observed”. Thus, despite the fact that the research is analysed using the priori-developed framework, it is exploratory, explanatory and inductive in nature. The study is “therefore exploratory in the sense that it sought to build a theoretical framework that would provide the basis for explanations of other cases” (Marginson, 1999, p.207).

A single case study is conducted due to the researcher’s preference for conducting a thorough study and the restrictions faced by the researcher. The selected research site is the Ceylon Tea Services Ltd, headquartered in Sri Lanka. There is no attempt to apply any specific theoretical pre-conditions as regards the identification of a suitable candidate (Marginson, 1999, p.208). However, as with Marginson (1999, p.208) “there (is) a general desire to seek out a company that appear(s) to be operating within a fast-

moving, dynamic business environment, as a firm faced by such circumstances was considered more likely to provide the researcher with an ‘interesting’ case”. Further, because it was revealed that the Ceylon Tea Services Ltd had earned a name for providing a friendly atmosphere to researchers and visitors, the researcher was interested in contacting the top level managers of the company with the aim of gaining easy access to company data.

Real-life evidence for the study was collected using multiple sources of data collection. These included semi-structured interviews, archival records, non-participant observation, questionnaires, email contacts with company managers and consumers, business press releases, and company annual reports. The analysis is based mainly on organisational level. By using the single-case study approach, the reasons for the particular patterns of management control that exist in the research organisation and how they are used are thoroughly investigated.

The case study presented by this thesis is partly an evaluative case study in the sense that it is a description of an intervention (a change effort in providing information for control) in a context (in a real-life organisation) and an evaluation of the effects of that intervention on the overall management control system and organisational performance. It is based on a naturalistic inquiry design, qualitative as well as quantitative data collection tools, and content analyses. The quantitative data used in this study comprises productivity and profitability measures. The field methods include semi-structured interviews, observations, company annual reports, business press releases and archival analysis. These data collection approaches are discussed in detail in the following section entitled Research Design.

4.4 RESEARCH DESIGN

This part of the chapter describes the design of the current research. As already mentioned, it was Yin (1981, 1984) who developed a comprehensive set of guidelines in the design and conduct of case study research and the current research is heavily dependent on Yin's work for the design and conduct of the empirical investigation. A research design functions as a link between the research questions of the study, the data to be collected, and the conclusions to be drawn.

4.4.1 STUDY QUESTIONS

The initial step in designing the current research study has been to clarify study questions. As already discussed, the case study strategy is most relevant to address "how" and "why" questions. Because of the explanatory, exploratory and evaluative nature of the current study and the researcher's very limited control over the contemporary issues addressed by the study, "how" questions have been considered more appropriate. The set of primary questions identified as study questions were revealed in Chapter One (Section 1.4) and in Chapter Two (Section 2.2). Although the current research attempts to answer these research questions using a case study, they are only used as a guide to understanding the nature and use of management control by the subject organisation rather than firm study questions.

4.4.2 STUDY PROPOSITIONS

A study proposition directs attention to the areas "that should be examined within the scope of the study" (Yin, 1994, p.21). Unlike research questions, a study proposition helps the researcher to move in the right direction in collaboration with the theoretical stance of the study and to collect only the relevant information. As Yin (1994) points out, however, some studies may not have any propositions. Instead, Yin (1994) admits

that explanatory and evaluative studies, like this current study, should state a purpose with some rationale and direction. Accordingly, the purpose of the current study is to gain a fuller and detailed understanding of the nature and use of control at Dilmah.

4.4.3 UNIT OF ANALYSIS

This component is crucial in defining the width of a case study. The researcher should identify the unit of analysis in the form of an individual, group, department or organisational level in the very beginning of the case study research. Propositions play a major part in identifying the relevant information about the individual/s (Yin, 1994). Without such propositions, an investigator might be tempted to collect “everything” which is impossible to do (Yin, 1994, p.22). Propositions always help to narrow down the scope of the research arena and “(t)he more a study contains specific propositions, the more it will stay within feasible limits (Yin, 1994, p.22). Thus, there is a close link between the research questions and the unit of analysis because research questions direct the formation of propositions and therefore define the unit of analysis. In the current study, the units of analysis include several levels, individual level, departmental managerial level and the organisational level.

4.4.4 LINKING THE DATA TO THE PROPOSITIONS AND INTERPRETING

STUDY’S FINDINGS

Linking case study data to the research propositions and interpreting research findings necessarily represents the steps of analysing data and the research design lays the foundation for this analysis (Yin, 1994). As the theoretical framework developed in Chapter Three shows, there are several important issues relating to the current research and research findings are interpreted along these issues.

4.4.5 THE ROLE OF THEORY IN RESEARCH DESIGN

The preceding five components of a research design will necessarily affect a priori theory development relating to the study. According to Yin (1994), “(f)or case studies, theory development as part of the design phase is essential, whether the ensuing case study’s purpose is to develop or to test theory” (p.27). In developing the theoretical framework for the current study, theories of organisations, management control have been considered. The theoretical stance developed in the current research covers the research questions, research proposition and purpose, units of analysis, the way of linking data to the propositions, and criteria for interpreting the findings. The theory development is quite similar to a blueprint for the study, which determines what data should be collected, and how they should be interpreted.

4.4.6 CRITERIA FOR JUDGING THE QUALITY OF RESEARCH DESIGN

Several criteria for evaluating the quality of empirical research are found in the literature. Four such widely used criteria for judging the quality of case study design are construct validity, internal validity, external validity, and reliability. All these criteria are crucial in judging the quality of the current study’s research design. In order to avoid the criticisms that state case studies use subjective judgements in collecting evidence, a researcher should be very much concerned about the construct validity of the case study research. Three tactics are discussed in the literature to increase the construct validity:

- a) Use of multiple sources of evidence during data collection,
- b) Establish chain of evidence during data collection, and
- c) Have the draft case report reviewed by key informants during composition phase.

The researcher is expected to use all three tactics in the current research in order to improve the construct validity of the study. The criterion of internal validity is

considered very important in experimental and quasi-experimental research (see Yin, 1994, Cook and Campbell, 1979). Tactics such as pattern matching, explanation building, and time series analysis during the data analysis phase are suggested in the literature to improve internal validity.

Many involved in case study research question the criterion of external validity. Critics typically state that single cases offer a poor basis for generalizing (Yin, 1994, p.36). Case studies are normally based on analytical generalisations rather than statistical generalisations. The current research is expected to generalise research findings to some broader theory of control. It can be labelled as having a single-case embedded design. As the above discussion reveals, a case study design necessarily leads to decisions such as the nature of data required and the way of collecting such data.

4.4.7 SOURCES OF EVIDENCE

The researcher used a variety of evidence including both quantitative as well as qualitative data to explore the nature of patterns of management control of the subject organisation. Initially, the subject organisation was contacted in mid 1998 through electronic mail. The researcher contacted the Marketing Director of the MJF Group, headquartered in Colombo, Sri Lanka, in order to seek the possibility of conducting an empirical study at the Ceylon Tea Services Ltd, a subsidiary of the MJF Group.

The Marketing Director, Dilhan C. Fernando, accepted the request and promised support, in terms of allowing the conduct of interviews and surveys with the company's employees. Mr. Dilhan C. Fernando, further, confirmed his commitment by providing documentary evidence of company activities. Following this, a continuous flow of communication was made with the Marketing Director and Chief Accountant to finalise

the research area and data sources. Data for the research was collected during a four-month period at the end of 1999.

An introductory letter (see Appendix A) from the researcher's supervisors was offered to the Marketing Director as a polite and formal way of entering the research site. On gaining admission into the research site, the researcher used a range of data sources to enrich the empirical aspects of the current research. A discussion of these data sources is presented below.

4.4.7.1 INTERVIEWS WITH INTERNAL STAFF

A very important source of evidence in the current study is the interview. Interview data are used to substantiate and supplement data collected from documentary evidence, direct observation, and employee surveys. The interviews embrace 14 managers and 6 non-manager employees in the head office of the Ceylon Tea Services Ltd. The managerial-level interviewees were selected from different hierarchical levels of the company. Namely, the interviewees at managerial levels included the Marketing Director, the Group Financial Controller, the Accountant, the Area Manager Marketing (Australia & New Zealand), the Quality Manager, the Tea Consultant, the Assistant Production Manager, the Security Manager, the Business Development Manager, the Shipping Manager, the Food Technologist, and the Site Manager (Information Technology). Non-manager employees interviewed consisted of a female security officer, a factory supervisor, a machine girl, a secretary, a driver and an office assistant. The interviewees interviewed represented various managerial levels, departments and job categories. Employees chosen for interviews were representative of the gender mix as well as the ethnic mix of the organisation.

Two interview guides were used as aids in conducting the interviews with the managers. One designed to give an understanding of the term, 'management control', was given to the interviewees before the interviews. Appendix B presents this interview guide (1) and the introductory letter attached to the interview guide. The other interview guide was used to give a basic understanding of the issues relating to management control. Appendix C presents the interview guide (2) used for this particular purpose. These two interview guides were given about two weeks before the interviews to allow the participant to have a better understanding of the nature of an interview. These guides presented an overall view of an interview and the interviewees were not expected to strictly adhere to them. The topics selected for interviews covered: the organisation structure, nature and mechanisms used in management control, workload, planning and budgeting procedures, marketing strategies, production processes, quality control, performance measurement, accounting and other information systems, work environment, security measures, strategic decision making, employee relationships, participative management, communication and teamwork.

A semi-structured and open-ended, approach was used in interviewing the managers. Descriptive and structural questions were included in the interview. The interviews were designed to be conversational in tone to allow interviewees to (Deartone, 1989, p.65) speak naturally from their own experience. All interviewees were very enthusiastic about the research. They were, furthermore, very supportive and provided the researcher with relevant information in the best possible manner. To the knowledge of the researcher, the reason for the interviewees' unlimited support was the personal involvement of the Marketing Director (the son of the company's Chief Executive Officer) in contacting the research participants. The Marketing Director's awareness that the researcher's visit to Sri Lanka was for the very purpose of collecting data for

the current research led him to be co-operative and obliging. Information obtained from each interview has been used to shape, supplement and strengthen subsequent data collection. As with (Patton, 1980), the interviewing process uses both an interview guide approach and an informal conversational approach. In order to capture complete information some interviews were tape-recorded. The researcher has been able to replay the tape whenever necessary during analysis in order to capture the complete interview data. The interviews vary in length between 1 and 2 1/2 hours.

No specific interview process has been followed in conducting interviews for non-managerial employees. These interviewees were asked to describe their job-related and overall climate factors as workers within the organisation. This approach encouraged the non-managerial employees to speak openly. Although the interviewees were not guaranteed any confidentiality, they described and detailed their experiences and feelings very openly. One reason for their openness was the researcher's familiarity with them. During the research, the researcher spent a lot of time in the company premises and became an everyday visitor to the company. This led the employees to be friendly with the researcher. However, the obvious reason for the employees' loyalty to the researcher was that the researcher had contacted the company's Chief Executive Officer's son, the Director of Marketing before collecting data. Interview data are exhibited in Appendix D.

4.4.7.2 EMPLOYEE OPINION SURVEYS

Two employee opinion surveys were administered to 40 non-managerial employees at the head office of the Ceylon Tea Services Ltd. One survey was designed to assess the changes in organisational culture between 1997 and 1999 by measuring organisational behaviour relative to a set of 10 factors reflecting organisational values and climate.

This survey instrument was based on the survey instrument used by Dearstone (1989). The questionnaire, which has been designed using a Herzbergian theoretical model, had been validated and tested for reliability (see Dearstone, 1989, p.63).

The second survey instrument was designed to measure employee job satisfaction, as a separate dimension from other organisational climate factors. In his study, Dearstone (1989) uses 53 items in order to measure employee job satisfaction. This researcher has extracted 50 items with slight modifications in order to assess the employee's opinion of job satisfaction for the period between 1997 and 1999. These two survey instruments and the covering letter are shown in Appendix E.

4.4.7.3 DIRECT OBSERVATION

Another very useful source of data used in the current study was direct observation. The Marketing Director arranged a tour of the production plant for the researcher. The researcher's tour of the production plant together with the Assistant Production Manager was very informative. The four-hour tour provided really a valuable amount of information relating to the production processes, production supervision, material usage, use of technology, quality control, maintenance, shopfloor worker relationships, manager-worker relationships, and communication. The Assistant Production Manager explained every step of the production process, which ranged from the process of bringing tealeaves to the factory to the packing of finished products. The researcher observed the production process thoroughly and took notes as the Assistant Production Manager explained the procedures. The notes taken by the researcher were very useful in the analysis of production operations and employee relations at the research site. The Assistant Production Manager seemed to feel that it was his duty and responsibility to explain, show around, and allow the researcher to talk to the production workers.

Therefore, the researcher was given the opportunity to talk to tea packing girls (known as machine girls), quality checkers, supervisors, and machine operators.

In addition to the data collection from the tour of the factory, the researcher collected some very useful information by just hanging around and being at the company premises. This was a kind of physical observation of the layout of the company, employee behaviour, and their interrelationships, employee-manager relationships, security measures, facilities, and environmental related issues. This data is very useful in substantiating the data collected from other sources such as interviews and opinion surveys. Direct observation data are displayed in Appendix F.

4.4.7.4 ARCHIVAL RECORDS

A range of archival records was observed to gain a thorough understanding of the organisation's structural and operational background. These records include formal annual financial reports and statements to shareholders, memoranda, productivity data, employee data, quality reports, organisational structures, and several publications by the tea industry. These archival records have been particularly helpful in gathering information regarding sales, productivity, profitability, value-added, organisational structure, quality, employee population and market share.

4.4.7.5 PRESS RELEASES AND ONLINE INFORMATION

Most of the data for the research was gathered with information released by the subject organisation. Some of this information was in the form of press releases while the remainder was intended as customers information about tea, particularly Dilmah Tea. The source of this data was the Dilmah on line information, which is available at <http://www.dilmahtea.com>. The researcher was able to gather much insightful

information from this source of information even after conducting the empirical research at the Ceylon Tea Services Ltd headquarters.

4.4.7.6 CONTACTS WITH ‘DILMAH’ THROUGH ELECTRONIC MAIL

Another very important data collection tool used in the current study was electronic mail. The researcher constantly contacted the upper level and middle level managers of the Ceylon Tea Services Ltd throughout the study period. Initially e-mail contacts helped the researcher to gain access to the research site. Electronic mail is very efficient and this was a very quick and reliable way of contacting managers and getting their responses. Additionally, it is a free service for the researcher so the value of e-mail contacts is of profound importance in the current research. E-mail contacts with the Marketing Director, the Director Operations, the Chief Accountant (Group Financial Controller), the Marketing Director’s Secretary, and the Business Development Manager were very useful in gaining quick and reliable data about many aspects of the functioning of the organisation. Some of the e-mails received by the researcher from the managers of the research organisation are exhibited in Appendix G.

4.4.7.7 CUSTOMER OPINION SURVEY

To further elaborate the findings of the research, the researcher conducted a small survey of “Dilmah Tea” consumers in Australia, the largest consumer market of Dilmah tea. This was also done through e-mail contacts. The respondents were selected randomly from the University of Wollongong student population. The participants were given a short questionnaire to ask their opinion about Dilmah tea. Eight useful responses were received out of a survey population of twenty-five (Appendix H). It is true that the sample size is not big enough to make reasonable judgements about the survey results. It was however, decided to include some evidence gathered from this

small survey in order to get some information about the company's marketing operations. See Appendix I for other documentary evidence and inserts found in Dilmah tea packets.

4.4.8 ANALYSING CASE STUDY EVIDENCE

The analysis of case study findings is considered a very important aspect of the current research. As pointed out by Yin (1994, p.102), "Data analysis consists of examining, categorizing, tabulating, or otherwise recombining the evidence to address the initial propositions of a study". The literature suggests several analytic techniques, which can be used in case study research: pattern matching, explanation building, program logic models and time series analysis. Yin (1994) discusses two commonly used case study analytic strategies:

- a) Relying on theoretical propositions; and
- b) Developing a case description.

Following the theoretical propositions, which guided the objectives and design of the case study and review of literature, the development of a case description has been cited as the preferred strategy in analysing case findings. As Yin (1994, p.104) maintains, "The propositions would have shaped the data and therefore would have given priorities to the relevant analytic strategies". The propositions obviously help focus on the more relevant data. The second approach, developing a case study description necessarily means organising data using a descriptive framework. The current research being an explanatory and descriptive study adopts the first approach, that is, to present research data relying on theoretical propositions. In analysing research data qualitative methods packages are not used. Instead, several empirical chapters describing research evidences are presented using the *a priori* model rather than new categorisations

created from the research data. The research evidence was categorised following the components of the research model developed in Chapter Three.

4.5 SUMMARY

This chapter describes the methodology adopted in this study. The chapter is organised in three parts: research methodologies in management accounting; case study research; and research design. It details the research approaches used in accounting and the appropriateness of case study method in doing research in accounting. As is discussed in the chapter two have been increasing calls for more case study research by academics in the field of management accounting in recent years. The suitability of case study strategy is its ability to increase the understanding of management accounting practices in its real-world context. This was clearly explained by Scapens:

Case studies offer us the possibility of understanding the nature of management accounting in practice; both in terms of the techniques, procedures, systems, etc. which are used and the way in which they are used (1990, p.264).

Since the purpose of this study has been to observe how the practices of management control in terms of the techniques, procedures etc. have been used at the subject organisation, a case study was appropriate for the research questions addressed. The chapter describes the case study design and data collection methods used in the current study. A qualitative case study approach has been deemed appropriate because it enabled detailed examination of the issues covered by the research. Another strength of the design has been the use of multiple data sources. These attributes of the case study method were considered particularly suitable for the theoretical concerns and the issues of this study (Booth, 1995). The use of a single case study strategy can be considered a major limitation of the study. This was, however, unavoidable because of the time constraint and the decision to conduct a broad analysis of the patterns of management

control in emerging economies. Another known limitation associated with the chosen research method has been the problem of generalising the research findings. A common criticism is that a case study may not represent the population and/or the results will be unique to the particular instance. Booth (1995) provides a promising discussion of the point. Booth argues, “a strong case exists for the ability to generalize findings from even a single case design. ... the strength gained here is not from having a bigger or more representative sample, but from the demonstration of the theoretical relevance of explanation” (1995, p.99). As such, the emphasis of the current case study is on theoretical generalisation rather than on statistical generalisation.

Chapter Five deals with the organisation that was studied. It describes the main features of the organisation and together with a description of the Ceylon Tea Industry and the importance of the tea industry to the country as an emerging economy.

CHAPTER FIVE

THE SRI LANKAN CONTEXT

5.1 INTRODUCTION

This chapter provides the setting for the case study. It describes the tea industry in Sri Lanka, reviews the importance of tea to the Sri Lankan economy, and discusses the MJF Group, the parent company of the subject organisation and Ceylon Tea Services Ltd, the subject organisation.

The chapter is organised as follows. The first section of the chapter is devoted to a discussion of Sri Lanka and its tea industry. It details how tea became the major export crop in colonial Sri Lanka. A subsection reviews the changes that have occurred in the tea industry with special reference to the government trade reforms in post-colonial Sri Lanka. It also discusses briefly the importance of the tea industry, and the value added tea export industry to the Sri Lankan economy. The second section of the chapter introduces the subject organisation through a discussion of its parent company, the MJF Group. It discusses the main business activity of the MJF Group, the manufacture and export of tea together with its integrated operations. The third section provides background information of the subject organisation. It discusses the nature of the company's core activities and contemporary situation in terms of performance data.

5.2 SRI LANKA AND THE TEA INDUSTRY

Sri Lanka (called Ceylon until 1972) is a small tropical island in the Indian Ocean. The island is strategically located at the cross roads of both east and west sea routes and is considered the gateway to South Asia. For centuries, Sri Lanka has been famous for its

beauty, its gems, spices, and tea. The country's strategic position in the Indian Ocean and its natural resources have made it a prey for foreign invaders.

The main reasons for the foreign invasion, particularly those of the Europeans were the interest in buying spices and in controlling neighbouring India. Europeans made great efforts to improve primary agricultural crops, especially tea and rubber. Until independence in 1948, Sri Lanka was mainly an agricultural country. By 1948, the most important export crops were tea (65%), rubber (13%), and coconut products (19%) (Bailey, 1952). Even though a small country, during the 1940s Sri Lanka produced one-fifth of the world's tea and 7% of the world's rubber. Athukorala and Rajapatirana (2000, p.553) also support this fact when they say:

At the time it gained independence in 1948, Sri Lanka was a prime example of an export economy dependent on a limited range of agricultural commodities.

During the colonial era, the agricultural exports in Sri Lanka were heavily concentrated on tea, while rubber was the second most important export crop. The industrial sector was not an important part of the country's economy.

5.2.1 THE EARLY ERA OF CEYLON TEA INDUSTRY

The British rulers brought more economical, political, cultural, and social changes to Sri Lanka than any of the other foreigners. The British took special measures to develop agriculture, especially the coffee industry. Tea cultivation remained a minor activity because the British paid little attention to tea. By the early 1870s, however, the coffee industry had reached the peak of its prosperity.

When coffee lost its commercial value as an export crop, the colonial administrators made special efforts to improve tea cultivation. By the time, tea began to boom labour

supply had become a real problem and the colonial rulers' solution was to import labour from south India. The British constructed a significant road and rail system to facilitate the plantations. Soon tea appeared as the main commercial crop and the entire local economy shifted to the new crop within a short period. Beginning around 1870 tea became Sri Lanka's major export and the island became world famous for its tea. The majority of the tea plantations were owned by foreigners. They took great efforts to maintain the place of Ceylon tea in the world market. Dilmah Online Service continues...

... (f)inally, at the Paris Exposition of 1900, visitors to the Sri Lanka Pavilion discovered replica tea factories and the "five o'clock tea" that became so fashionable. As a contemporary chronicler put it, "The charming colonial house with bright shutters, the deliciousness of the beverage, the beauty of the Singhalese people - living statues of bronze wrapped in shimmering white loin-cloths- everything contributes to the success of this delightful stand at Trocadero..." The promotional policy was so effective that by the end of the 19th century, the word "tea" was no longer associated with China, but with Ceylon. The island's prosperity sparked covetousness on the part of British companies and London brokers, who wanted to acquire their own plantations and cut out the middlemen. This marked a turning point in the saga of tea-pioneers, which gave way to merchants whose name or label would soon become more important than the country in which the tea was grown (www.dilmahtea.com).

As such, the tea industry in Sri Lanka rose to its heights during the British colonial era and tea became the major export commodity, and it gave rise to a number of multinational tea companies that operated in Sri Lanka.

5.2.2 POST COLONIAL SRI LANKAN ECONOMY AND THE TEA INDUSTRY

The contemporary economic situation in Sri Lanka is very favourable for both agricultural and industrial sectors. According to the United Nations statistics, Sri Lanka has the highest levels of education and human development in South Asia. According to the World Development Report (World Bank) (1994), and Human Development Report (UNDP) (1994), Sri Lanka possesses far better social economic indicators than its nearest neighbour India as illustrated in Exhibit 5-1.

EXHIBIT 5-1: COMPARATIVE SOCIAL ECONOMIC INDICATORS

Factor	Sri Lanka	India
Human Development Index	0.665	0.382
Life Expectancy	71.2 years	59.7 years
Adult literacy rate	89.3%	49.8%
Mean years of schooling	7.2	2.4
Pupils completing primary school	97%	62%
Secondary Enrolment	74%	44%
Tertiary science enrolment	42%	-
GNP per capita	\$500	\$310
Real GDP (PPP)	\$2,650	\$1,150
Export per capita	\$143	\$22

Source: <http://www.boisrilanka.org/boihome/wkforce.htm>, July 08, 2000.

After independence, Sri Lanka had several governments, representing different political parties, with remarkably different trade policies. One of the main concerns of these governments was the foreign trade policy. During the three decades from the 1950s to the 1980s, the Sri Lankan economy underwent major policy changes from import-substitution to export-oriented industrialisation. Athukorala and Rajapathirana explain the government policy reforms thus:

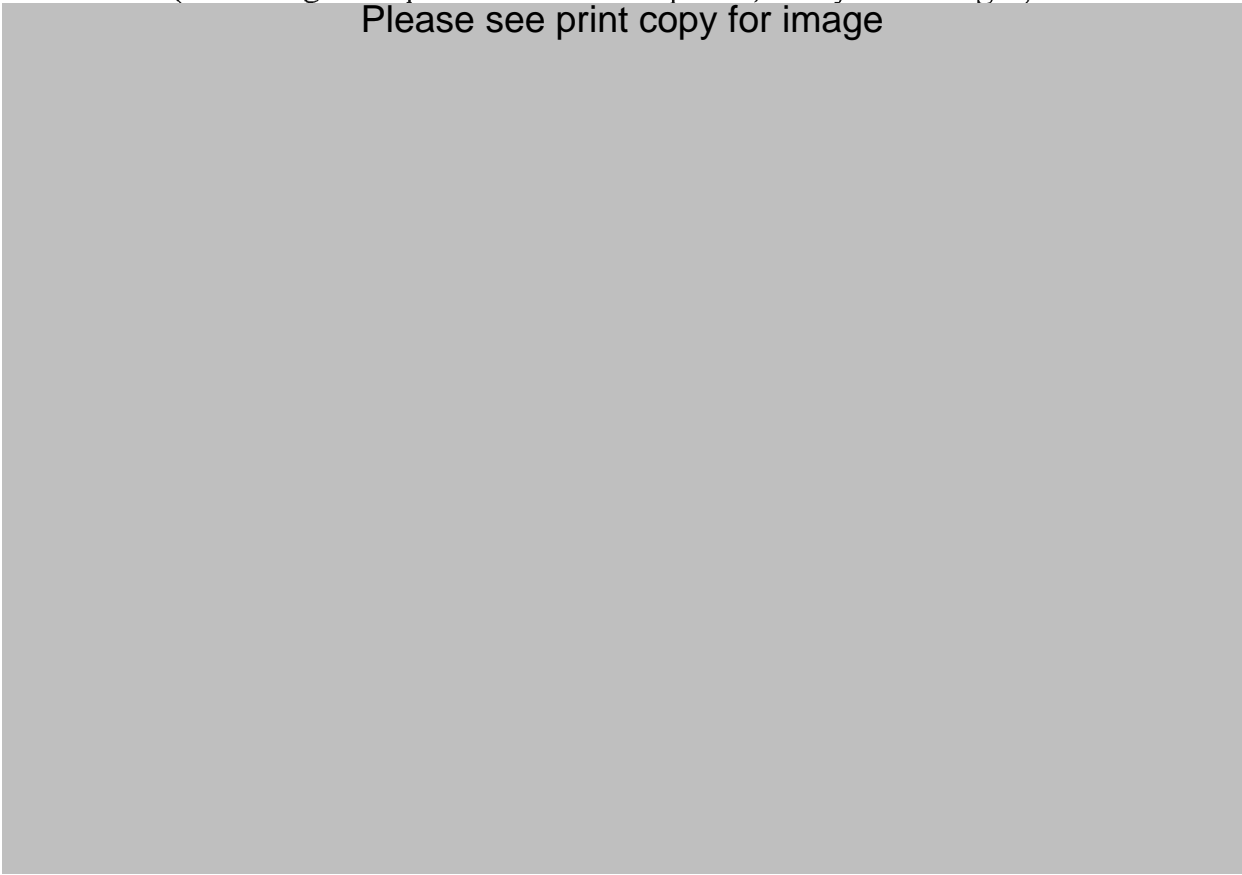
(d)uring the first decade after independence in 1948, Sri Lanka (called Ceylon until 1972) continued to be an open-trading nation with only relatively minor trade or exchange rate restrictions and liberal domestic policies. From the late 1950s on, a combination of change in political leadership and balance-of-payments difficulties led to the adoption of a state-led import-substitution industrialization strategy. Following a hesitant and mild liberalization attempt during 1968-70, the period from 1970 to 1977 saw further government intervention in the economy under the guise of creating a socialist society. By the mid-1970s, the Sri Lankan economy was one of the most inward-oriented and regulated economies outside the communist block, characterized by stringent trade and exchange controls and by pervasive state interventions in all areas of economic activity. Widespread nationalization measures and threats, coupled with various economic controls, had effectively marginalized the private sector in the economy (2000, p.544).

A very significant characteristic of the colonial export structure in Sri Lanka has been the heavy dependence on several primary commodities – the largest tea and the second largest rubber. Market-oriented policy reforms initiated in 1977 and sustained over the past two decades have however dramatically transformed this colonial export structure (Athukorala, 2000, p.92). In the mid 1970s, Sri Lanka attempted to achieve economic

development through the expansion of import-substitution industries. The results were, however, contrary to expectations because of the heavy reliance on imported raw materials and capital goods. As Athukorala and Rajapathirana revealed:

The first round of reforms, which was carried out during 1977-79, included significant trade reform. Quantitative restrictions on imports were replaced with tariffs, and the tariff structure was revised to achieve greater uniformity; restrictions on foreign investment were reduced while new incentives for export-oriented foreign investment were provided under an attractive free trade zone (FTZ) scheme; financial reform was enacted, including adjusting interest rates to levels above the rate of inflation, opening the banking sector to foreign banks, and freeing credit markets to determine interest rates; limits were placed on public-sector participation in the economy; exchange rate realignment was carried out; and incentives for non-traditional exports were created (2000, p.546).

EXHIBIT 5-2: EXPORT STRUCTURE OF SRI LANKA, 1965-1998
(Percentage composition at current prices, two-year averages)
Please see print copy for image



Source: Athukorala, 2000, p.93.

The market-oriented policy reforms initiated in the 1970s have resulted in dramatic changes in the export structure. The export structure is now heavily dependent on manufactured exports – mainly textiles and clothing. The traditional primary exports

play a secondary role in the economy. In 1990 further enhancing the liberalisation reforms, the government initiated a set of new policy reforms. This included an ambitious privatization program, further tariff cuts and simplification of the tariff structure, removing exchange controls on current account transactions, and several important changes to the foreign-investment policy framework, all of which were in line with the increased outward orientation of the economy (Athukorala and Rajapathirana, 2000, p.546). As a result, the importance of tea as an export commodity has decreased in recent years and manufactured exports have increased during the twenty-year period from 1978 to 1998 (see Exhibit 5-2).

As Exhibit 5-2 illustrates, tea remained the major agricultural crop in Sri Lanka from 1965 to 1998. During the early 1980s, however, Sri Lanka faced tremendous political and ethnic problems mingled with declining prices for exports including tea. A civil war started in 1983, and battered tea production. Clad reported that “Sri Lanka, once the proud leader among tea-exporting nations, now finds itself struggling hard to be in the running” (1989, p.94). Since the late 1980s India has become the world's largest tea exporter, followed by Sri Lanka, and then Kenya.

Similarly, the low prices for tea had bad effects on the economy. The two largest tea producers, Sri Lanka and India had to compete with some non-traditional tea exporters with lower prices. To redress this problem the tea exporting countries attempted to reach an export quota agreement in 1980. As a report in the Financial Times of London revealed:

The new attempt at establishing export quotas resulted from the continuing slump in world tea prices. Some countries increased production and exports in an attempt to cover rising costs and losses from falling prices, which further depressed market prices. Although the 2 largest tea exporters, India and Sri Lanka, have production problems, world tea exports are increasing because other nations filled the

production gap. Traditional exporters such as India worry about increasing competition from China because of China's lower prices (Anonymous, 1980, p.44).

The tea exporting countries had to seek new markets and develop innovative products such as tea bags. Meanwhile, the government of Sri Lanka took measures to encourage foreign investment in non-traditional export industries. Because of government policy reforms that granted significant incentives for foreign investment in non-traditional export industries, for the first time in the export history of Sri Lanka, since the 1990s textiles and clothing category overtook tea as the major export component. Meanwhile, in 1992 the tea industry suffered extensively from a severe drought and a 30% wage increase for public-sector workers in 1992 resulted in an increase in tea production cost.

For several years, Sri Lanka played a key role in the world market as the premier tea-exporting nation and then as the second biggest tea producing country. This predominant position received a setback in 1996 with Kenya forging ahead, albeit marginally in volume, but with the island continuing to keep the lead in terms of foreign exchange earnings (www.dilmahtea.com). It was however expected that because 50% of Sri Lankan tea exports are in pre-packed form, Sri Lanka could stay in a favourable position in terms of foreign exchange earnings. This became a reality when “(i)nfluenced partly by the drought conditions in Kenya, Sri Lanka re-emerged in 1997 to claim the number one position – with an estimated shipment of 268 million kg. ahead of the 1996 figure by 10%” (www.dilmahtea.com). In Sri Lanka, tea ranks as the major agricultural export crop. Exhibit 5-3 depicts the major agricultural exports for the period 1994-1998. Tea has been second only to garment exports in these years. Tea has been a vital industry in Sri Lanka providing employment opportunities with high levels of facilities to a significant number of people. According to the Sri Lanka Tea Board:

The tea sector in Sri Lanka has always been a vital component of her economy. It is also the country's largest employer providing employment both directly and

indirectly to over one million people. It also contributes a significant amount to Government revenue and to the gross domestic product (June 03, 2001).

EXHIBIT 5-3: COMPARATIVE EXPORT DATA - 1994 – 1998 (RS '000)

Item	1994	1995	1996	1997	1998
Tea	20,964	24,638	33,747	42,151	49,867
Rubber	3,852	5,713	5,745	4,638	2,808
Coconut products	2,696	3,750	4,692	5,133	3,924
Garments	71,156	88,140	97,768	125,113	148,920

Source: Department of Census and Statistics, Government of Sri Lanka.

In 1997, the Ceylon Tea Industry saw a remarkable increase in production, exports, prices and profitability. This can be, largely, attributed to the present government's trade policy reforms. According to the Dilmah Online Service:

The two institutional changes that have transformed the tea scenario are the privatization of the estate sector and the current thrust from small-holders. At the macro-level, these developments complement each other by combining the principal features of the plantation system (close control of production and quality) with those of small farming, (flexibility, incentives and equity). As of December 1997, all of the 21 plantation management companies with tea interests have gone into private hands, while 235,000 small farmers on average holdings of 0.4 hectares (ha) have gradually extended their operations beyond the realm of tea into the wider arena of rural development (www.dilmahtea.com).

The year 1997, however, was not very favourable for the Sri Lankan tea export industry. This was because of Russia's decision to raise the import tariff on imported packaged tea from 10% to 20%. Russia is the world's largest importer of bulk tea. It is a major destination for tea producers in India, Sri Lanka, and China (Anonymous, 1997, p.6). In 1991, about 95% of the tea imports in Russian were in bulk form and packed domestically. After 1991, this situation changed dramatically and about 75% of the tea imports to Russia were in pre-packaged form. Sri Lankan tea shipments to Russia are pre-packaged. As a report reveals:

Sri Lanka has profited most from the transformation of the Russian tea market since 1991. That year, Sri Lankan exports totalled just 5,000 tonnes. They rose to 28,000 tonnes in 1993, and in 1995 they were up to 40,000 tonnes. 38,000 tonnes of this tea was imported in branded packets; only 2,000 tonnes came in bulk. The Russian tea trade earns Sri Lanka about \$80m a year (Anonymous, 1997, p.6).

The Russian crisis had adverse impacts on the Ceylon Tea Industry resulting from heavy losses in the market. The economic problems in Russia brought about a significant reduction in tea prices as well as demand from Central Asia and the Ukraine. Despite these unfavourable conditions, however, Sri Lanka has been able to conquer her economic problems in many aspects in recent years. According to the Government of Sri Lanka (Department of Information) the country's tea industry is growing:

Sri Lanka's black tea production has increased significantly by 32% or 1,875,296 kgs in March this year, compared to March 1999 and the black tea production in March 2000 amounted to 32,293,243 kg, while the figure for March 1999 was recorded as 24,417,947 kg. The local black tea production has also risen during the period from January to March this year by 6% or 4,875,296 kg, compared to the same period in 1999 (May 10, 2000).

Traditionally, Ceylon tea has been shipped in bulk form and since the 1980s more emphasis has been placed on the manufacture and export of value added tea. Now Sri Lanka has facilities to provide the most up-to-date tea bagging and packing methods. Approximately 95% of the total production of Sri Lanka's tea is exported. In Sri Lanka, both private sector and public sector are engaged in tea manufacturing and exporting operations. The government of Sri Lanka is directly engaged in tea growing and trading through state authorities. In 1976 the Sri Lanka Tea Board, which is a semi government statutory authority, was established with the objectives of promoting and developing the tea industry. Tea manufactured in Sri Lanka is sold through one of the following channels as approved by the Sri Lanka Tea Board:

- a) Colombo tea Auctions;
- b) London tea Auctions;
- c) Private sales;
- d) Forward contracts; and
- e) Direct sales.

The first tea auction in Colombo was held in 1883 and since then auctions have been held weekly. As per the Sri Lanka Tea Board:

Today Colombo tea auction has entered into its second century and ranks as the world's largest tea auction center. Almost 95% of the country's tea production is marketed this way (. June 04, 2001).

A large number of private sector business enterprises are engaged in tea trading in Sri Lanka (see APPENDIX J for a list of tea traders in Sri Lanka). While some private sector organisations are Sri Lankan owned companies, the others are multinational companies.

These tea-trading companies can be categorised as follows:

- a) Tea;
- b) Tea – Retail;
- c) Tea – Wholesale;
- d) Tea Bag Packers;
- e) Tea Bag Suppliers;
- f) Tea Blenders;
- g) Tea Brokers;
- h) Tea Exporters;
- i) Tea Manufacturing Machinery; and
- j) Tea Packers - Bulk, Packets, and Bags (June 04, 2001).

The subject organisation of this research, Ceylon Tea Services Ltd, belongs to the category of tea bag packers. Because of government policy reforms and satisfactory facilities available, the Ceylon Tea Industry is currently enjoying a very favourable export market situation. Similarly, Sri Lanka's emphasis on value-added tea products is very strong. About 50% of Ceylon tea exports are in value added form. Today value added tea exports have been a major strength of the Ceylon tea industry. Tea traders in Sri Lanka in the early 1980s were very concerned about the quality of tea that was sold as Ceylon Tea but was a blend of tea from other sources. To redress this problem, some pioneering tea traders in Sri Lanka initiated the value added tea industry and Ceylon Tea Services is among them. Dilmah Online reveals the consequences of the rise of big brands:

As brand names became more important than the origin of the tea, the decline of Ceylon tea began. Multinational brands which built up consumer loyalty over the years by using only Ceylon tea in their packs started moving to cheaper, more recent origins for tea. Most consumers did not notice the gradual and planned move

away from Ceylon to inferior origins. Most consumers know Ceylon Tea as the finest in the world, and still think that their favourite brand contains Ceylon Tea where as in fact, Ceylon Tea has all but disappeared from retail shelves in traditional Ceylon Tea markets (www.dilmahtea.com).

Soon the modern pioneers of the Sri Lankan tea industry sought to find a solution to this disgraceful situation. One such concerned tea businessman was Merrill J Fernando, the Founder of Dilmah Tea. Merrill J Fernando commented:

I realized all the activities in the tea trade were upside down. I couldn't understand the reason why a country which produces one of the world's finest teas could not market its own product. I observed how tea was exported as a raw material worldwide. How it was blended, branded, packaged and sold at a comparatively higher price (www.dilmahtea.com).

Another agonising factor under such situations was that the consumers had to pay a very high price for tea although the multinational companies bought Ceylon Tea at very low prices. Commenting on this issue the Dilmah Founder explained:

My concern lies in the fact that while our industry was suffering instability and the prices of our teas were below the cost of production at the same time, the consumers bore high prices. It was my wild dream – being the proprietor of my own brand of tea which I wanted to make sure will be the best Ceylon tea in history (www.dilmahtea.com).

Tired with the practices of foreign companies several Sri Lankans established their own tea business, which produced and exported tea all over the world. Fernando started his own tea business in 1954. As Fernando states while discussing his own experience:

At that time I was contemplating on owning my own brand of tea, it was considered sacrilege as the industry was dominated by foreigners. There was nothing Sri Lankan about it. Thus steadily and slowly the business conducted by foreigners was transferred to local companies and local companies established themselves. However, what they eventually did was supply raw material or bulk tea, which never offered a future for our tea industry. In my own experience I have exported tea in raw material form to most of the renowned international tea brands worldwide through brokers/middle men in the country (www.dilmahtea.com).

Fernando turned himself into a very successful businessman within a few years and managed a competent and successful business. In 1974, Fernando introduced DILMAH Tea and his business flourished. According to his own narrative:

We achieved the status of being the fourth largest exporter from Sri Lanka, for bulk tea worldwide during that particular period and I competed with many multi nationals (www.dilmah.tea.com).

An era of renaissance for Ceylon Tea was born for the first time in 1980, when DILMAH was launched as pure Ceylon tea in Australia. At the time, some tea companies were marketing tea as Ceylon Tea (which may be or may not have been pure Ceylon tea) in Australia. Associate Professor Robert Williams of the University of Wollongong recalls his memories:

I often do remember ‘Lan Choo’ tea being marketed as Ceylon Tea back in the ‘50s.

Knowing the market situation for tea in Australia, Fernando decided to introduce pure Ceylon Tea to Australia. By applying the simple strategy of packaging tea right where it was grown, he initiated the value added tea concept in Sri Lanka and “saw cost benefits and a very significant advantage in offering fresh tea to consumers who had got accustomed to drinking ... old, blended tea” (www.dilmahtea.com). The renaissance of Ceylon Tea was marked by the incorporation of Ceylon Tea Services Ltd with the MJF Group to develop export markets for pre-packaged Pure Ceylon Tea, thus ensuring all value-added benefits would remain in Sri Lanka where they would be most needed. The next section is devoted to a discussion of the MJF Group.

5.3 THE PARENT COMPANY: MJF GROUP

The subject organisation, Ceylon Tea Services Ltd is a public company within the MJF Group of Companies. The head office of the MJF Group is situated in Peliyagoda, near Colombo, the capital of Sri Lanka. The MJF Group is the largest manufacturer of pre-packaged teas in Sri Lanka. The MJF Group is Sri Lankan owned and managed and is a leading business enterprise that dominates the tea manufacturing and exporting

industry. The company is currently engaged in a number of diversified business activities, which are horizontally and vertically integrated including:

- a) Manufacture and export of tea; in pre-packaged branded product form;
- b) Printing and packaging;
- c) Real estate;
- d) Agency representation of packaging machinery & material;
- e) Tea and rubber plantation management; and
- f) Investment and private portfolio management.

The MJF Group's core business activity, manufacturing and exporting (marketing) tea in pre-packaged products, has earned the Group a reputation throughout the world as a high quality tea producer. The Founder of the MJF Group, Merrill J. Fernando, developed his own brand name of tea "Dilmah" in 1974 naming it after his two sons; Dilhan and Malik. The Chairman of the Group, Merrill J Fernando, believes his decision to develop his own brand of high quality tea has been well received by the consumers. For example, Dilmah holds 12% of the market share in Australia where it was launched initially and a substantial market share of 17.2% in New Zealand. Dilmah has proven to be Australia's fastest growing tea brand, subsequently Dilmah Tea is marketed in more than 90 countries around the world. It has a market share of 15% in the Baltic States, 12% in Ukraine and 5% in Russia. As the Marketing Director revealed in September 2001:

... we are this week launching Dilmah in the UK. Our tea will be at Safeway stores throughout Britain shortly and I am flying to London tomorrow for the official media launch on the 20th September (Appendix G, p.419).

The MJF Group is a fully integrated group of companies with strategic investments in tea gardens, printing, packaging and packing and, in several countries, their own distribution organisation. The Group grows its own tea in Ceylon and packages tea using its own facilities. Since its early years, the Group has been very successful and year-by-year its tea export reached record levels. In 1997, the MJF Group acquired two

of Sri Lanka's leading Plantation Groups, Elpitiya and Talawakelle. This acquisition has increased the overall employment of the Group to approximately 26,000 personnel. The forward and backward integration of business activities has given the Group the ability to offer its customers the opportunity to taste high quality and fresh tea. "Dilmah" has earned a name as the premier tea brand originating from tea growing countries. The Group has 10 companies located in Sri Lanka:

- a) Ceylon Tea Services Ltd;
- b) MJF Exports Ltd;
- c) MJF Teas Ltd;
- d) MJF Plantations Ltd;
- e) Dilmah Fine Teas & Herbs Ltd;
- f) Package Care Ltd;
- g) MJF Travel & Trucking Ltd;
- h) Dilmah Properties Ltd;
- i) City Properties Ltd; and
- j) Merrill J. Fernando & Sons Ltd.

MJF Group has a number of successful companies operating in overseas countries:

- a) Dilmah Australia Ltd;
- b) Dilmah Poland Sp z o.o;
- c) Dilmah Moscow Ltd;
- d) Dilmah Ukraine Ltd;
- e) Dilmah New Zealand Ltd;
- f) Dilmah Central Asia Ltd; and
- g) Stanes MJF Teas Ltd.

The Group's production facility is of international standard and the largest in tea growing countries. The Group's investment in the tea business is in excess of Sri Lankan Rs 6 billion/ US\$100 million. In the first six months of 2000, the Group's tea exports accounted for almost 50% of total teabags and almost 40% of all value added tea from Sri Lanka. The companies in the MJF Group located in Sri Lanka are operated under three areas of specialty: tea; packaging; and, other businesses.

5.3.1 TEA COMPANIES

The Group has four tea companies, which are ISO 9002 certified, operating in different areas of specialty:

- a) Ceylon Tea Services Ltd;
- b) MJF Exports Ltd;
- c) MJF Teas Pvt Ltd; and
- d) MJF Plantations Ltd.

Ceylon Tea Services Ltd is a public quoted company. It was the first Tea Company to be listed on the Colombo Stock Exchange. The core business activity of the company is exporting and marketing value-added tea. As the largest manufacturer and exporter of teabags in the tea growing countries, the company has earned a unique and challenging name for its tea. In 2000, the company's turnover was Sri Lankan Rs 1.4 billion/US\$ 0.2 billion and it has maintained a record as one of the best performing shares in the Colombo Stock Exchange. In 2000, the company's operations in Central Asia and India commenced.

EXHIBIT 5-4: A DILMAH TEA GARDEN

Please see print copy for image

One of the Dilmah tea gardens is shown in Exhibit 5-4. See Appendix K for a description of the packaging and other companies of the Group.

Source: Dilmah Online

MJF Exports Ltd is a well-established tea exporter with experience over five decades. The company has an excellent record of trading in blended and original garden teas in bulk form to blenders and packers worldwide.

MJF Teas (Pvt) Ltd is a fully owned subsidiary of MJF Exports Ltd and specialises in the development of the **DILMAH** brand and tea exports to Eastern Europe. About 95% of this company's turnover is attributed to packeted tea exports to the former CIS. A significant growth of business has been reported in the last few years.

MJF Plantations Ltd is the plantations division of the MJF Group. To ensure that Dilmah gives its customers the opportunity of tasting the best teas in the world, the Group grows its own tea.

5.4 THE SUBJECT ORGANISATION (CEYLON TEA SERVICES LTD)

Ceylon Tea Services Ltd, which is the largest exporter of teabags from Sri Lanka, was incorporated in 1981 with the express purpose of providing high quality garden fresh tea using its own brand name, "Dilmah", to its customers throughout the world. The Company (referred to as Dilmah) pioneered the value-addition of tea at origin, in Sri Lanka. Tea had long been Sri Lanka's biggest and most important export, becoming the largest foreign exchange earner and the provider of employment to millions of people. However, as already discussed in the previous section, until recently Sri Lanka was merely a supplier of raw material as bulk tea to blenders and packers overseas. Ceylon Tea Services Ltd was incorporated with the objective of developing an export market for pre-packaged Pure Ceylon Tea, thus ensuring all value-added benefits remain in the country where they are most needed.

Dilmah operates a purpose built factory equipped with the most modern machinery, including a line of 10 IMA C2000 tea-bagging machines, which is the largest installation outside Europe (Exhibit 5-5). The MJF Group's integrated business activities which include growing tea, tea bagging, packaging, printing, exporting and

marketing are all engaged in the assurance of the quality of Dilmah product. Dilmah has now developed into a premium tea brand like other market dominant brands such as IBM, Pizza Hut, and McDonalds. Dilmah's first target market was Australia and the brand was launched in Australia in the early 1980s. Dilmah Pure Ceylon tea is now considered the finest tea on the market in Australia (Annual Report 1998/99, p.7).

EXHIBIT 5-5: DILMAH TEA FACTORY

Please see print copy for image

The company's major markets are Australia, New Zealand, Russia, the United Arab Emirates and Poland, where the company is directly involved in the marketing and distribution of Dilmah Tea.

Source: Dilmah Contacts.

Since Dilmah Tea is freshly packed at source and unblended, it is far superior to most other brands that contain a blend of teas from different origins. As well as being widely available at retail level, Dilmah offers a wide selection of Food Service products and is the exclusive supplier of tea to McDonalds restaurants in 21 countries. The company also supplies Dilmah to about 17 airlines and is arranging business with Qantas Airlines. Singapore Airlines recently discarded their old product and adopted Dilmah, recognising its high quality. In the Russian market, Dilmah had a name as the second most popular brand up to 1997.

The United States of America was going to be the company's new millennium's second market since MJF Group partnered with Celestial Seasonings Inc., Colorado, in April 2000 to introduce Dilmah Tea to the USA. The company was looking forward to bringing something truly different to its customers. The situation, however, suddenly

changed due to strategic changes in Celestial Seasonings Inc. Dilmah's Director of Operations explained the situation (Appendix G, p. 400).

... unfortunately they have been bought out by another company, Heinz Foods, who have put all their JV's on hold - hence our plans to work with Celestial are on hold and we are making alternate arrangements for the US market.

EXHIBIT 5-6: TOTAL SALES (CEYLON TEA SERVICE LTD): 1991-1999

Year	Sales (Rs 000')
1991	237,102
1992	324,023
1993	310,995
1994	372,812
1995	399,852
1996	465,371
1997	1,078,027
1998	1,071,402
1999	1,192,939
2000	1,464,451

Ceylon Tea Services Ltd is a rapidly developing enterprise.

From 1991 to 2000 Dilmah saw an enormous increase in demand for its products (Exhibit 5-6). During this period, new products were introduced and new markets were identified. As a result, sales grew more than six-fold.

Source: Company Annual Reports.

The company also packs private label teas for several supermarkets in Australia such as Safeway, Woolworths and Coles and almost all House Brands in New Zealand. Employees believe that the success of the Company is linked to the dedication of Fernando, who has been actively engaged in the tea industry for forty-eight years (discussions with employees). According to Dilmah marketing information, Fernando is considered the most experienced active tea taster in the world today. The company relies on the latest technology to ensure quality of its products to be a market leader. As the Tea Consultant explained:

We export tea and market our own production. Our business is centered on packaging and marketing our own brand for exports. We have markets all over the world. We use the latest technology to ensure quality of its products. We are an ISO 9002 certified company (Appendix D, p. 362-363).

EXHIBIT 5-7: EMPLOYEE POPULATION: 1991-1999

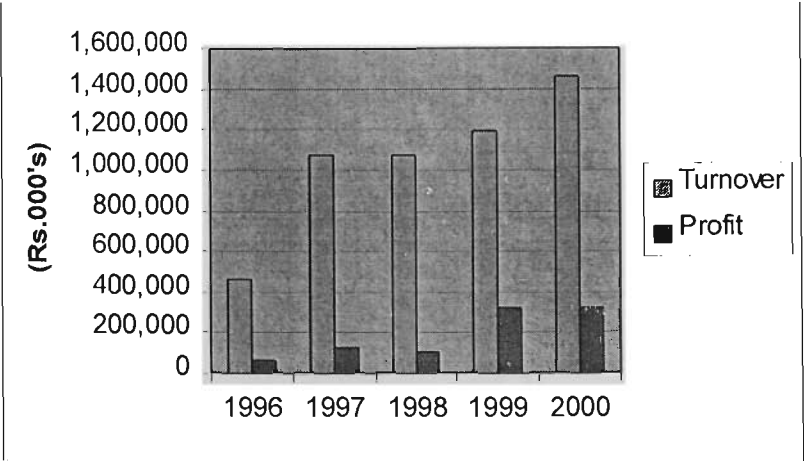
Year	Employees
1991	283
1992	302
1993	330
1994	350
1995	314
1996	410
1997	450
1998	371
1999	466

With increasing production and new markets, the organisation’s employee population also increased significantly. By the end of March 1991, the total employment was 283 and this number had increased to 466 in 1999 because of an increase in the casual labour force (Exhibit 5-7). Dilmah relies on casual workers heavily to meet urgent contracts.

Source: Company Annual Reports.

Exhibits 5-8 to 5-14 illustrate some selected financial performance indicators of the Ceylon Tea Services Ltd for the five-year period 1996-2000.

EXHIBIT 5-8: TURNOVER AND NET PROFIT



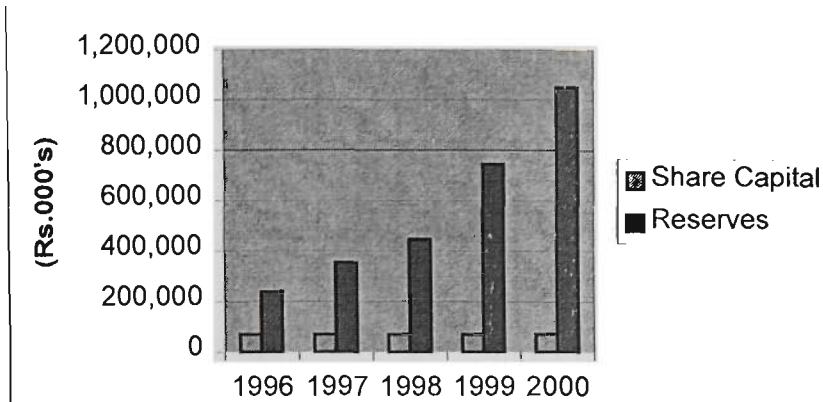
As shown in Exhibit 5-8 during the five-year period, 1996-2000 turnover and profit have increased significantly.

Source: Company Annual Reports.

During the financial year 1999/2000, the company recorded its highest turnover. This was an improvement of 22% on the previous year’s turnover. The company’s ability to

develop quality products and its continuous search for new markets has resulted in increased sales.

EXHIBIT 5-9: SHAREHOLDERS FUNDS

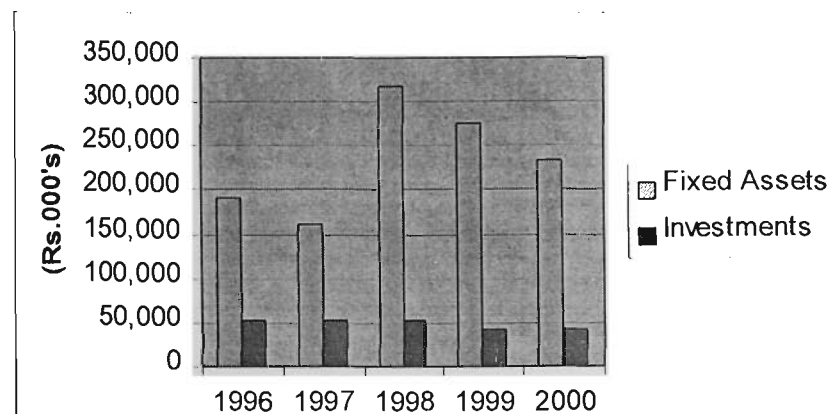


As shown in Exhibit 5-9, the amount of undistributed profits has increased five-fold during that period.

Source: Company Annual Reports.

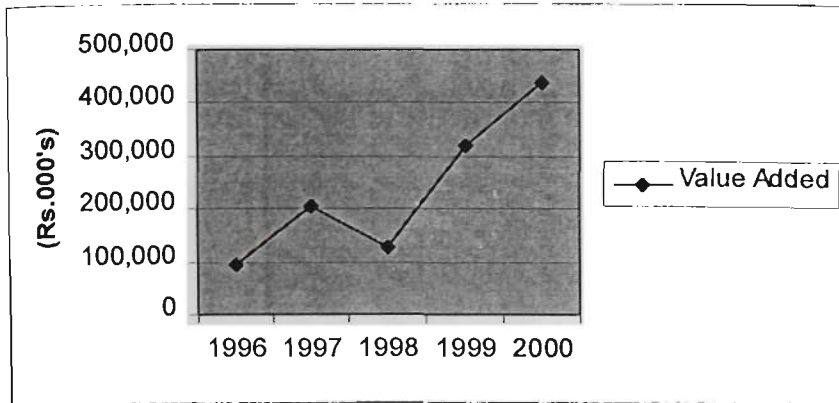
Thus, although the share capital has remained unchanged during the period, shareholders' residual interest in assets has been increasing. As shown in Exhibit 5-10, there has been a significant increase in fixed assets value in 1998 and the company's fixed assets and investments have been slightly changing during the period concerned.

EXHIBIT 5-10: FIXED ASSETS AND INVESTMENTS



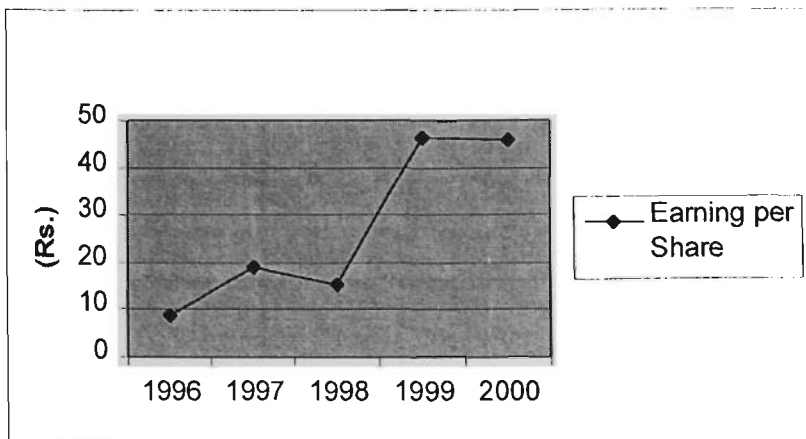
Source: Company Annual Reports.

The company's expansion program was completed by 1998 and there was no significant investment in fixed assets after that. This has been due to the parent company's decision to invest in diversified businesses.

EXHIBIT 5-11: VALUE ADDED

Source: Company Annual Reports.

As depicted in Exhibit 5-11, the amount of value added by the company has increased significantly since 1998. As the chart shows, in 1998 there has been a remarkable decline in the value added by the company. This was mainly due to the loss of Russian markets in 1998. As a result of penetrating into new markets and a higher effort of marketing, the company had been able to increase its sales significantly during 1999 and 2000 resulting in an increase in the value added.

EXHIBIT 5-12: EARNING PER SHARE

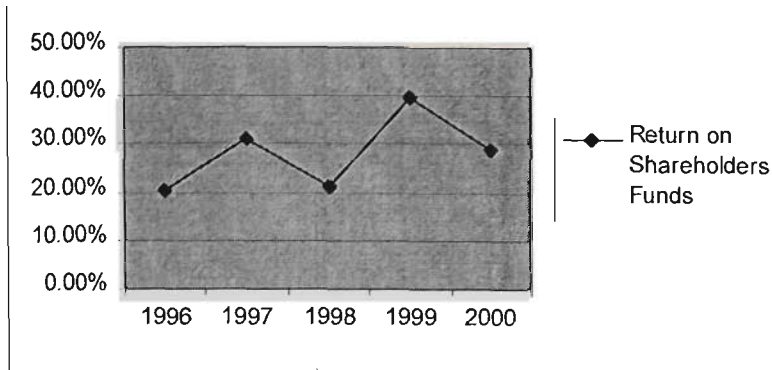
Earning per share ratio is an indicator of the relationship between share prices and earnings.

Source: Company Annual Reports.

As can be seen in Exhibit 5.12, except for 1998, there has been a significant increase in earnings per share over the period concerned. In 1999, there was an increase of 198.45% in earnings per ordinary share. This amount has marginally reduced in 2000

representing a decrease of 0.28% on the previous corresponding period.

EXHIBIT 5-13: RETURN ON SHAREHOLDERS FUNDS



Return on Shareholders' Funds is a measure of the ultimate profitability of shareholders' investment.

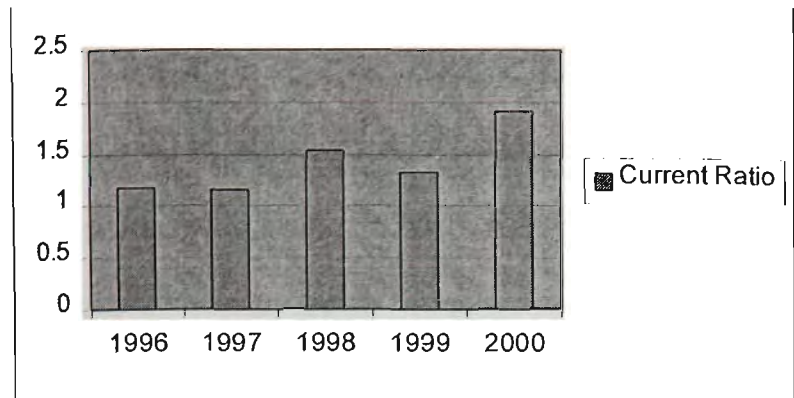
Source: Company Annual Reports.

As shown in Exhibit 5-13, this ratio has been changing over the period concerned. In 1998, there was a decrease of 32.28% on the previous years figure. In 1999, however, the ratio had increased by 87.98% which was significant. In 2000, return on shareholders' funds declined by 27.17% on the previous corresponding period.

The Current Ratio is current assets divided by current liabilities. This ratio measures an entity's ability to meet its current liabilities on time and ensures the availability of funds for current operations. As shown in Exhibit 5-14 the current ratios for Dilmah have remained under 2 for the period discussed. There is acceptance that this ratio for industrial companies should exceed 2:1.

Unlike some other organisations in Sri Lanka, the Ceylon Tea Services Ltd has a unique management style shaped by the top-level managers' constant vigilance and dedication. Most organisations, in both the private and public sector, are run by a form of bureaucracy. Formal hierarchical authority has a predominant place in Sri Lankan organisations.

EXHIBIT 5-14: CURRENT RATIO



The company’s operations prove, that even with a lower current ratio, it has been operating successfully.

Source: Company Annual Reports.

In contrast, the management style of the Company is primarily entrepreneurial with high levels of owner-manager control and a high level of employee commitment. Since the beginning of the operations of the company, the founder of the Group has been actively involved in every aspect of its operations. The founder and his two sons hold the majority of the responsibilities for the wellbeing of the company. The founder’s dedication, care, interest and competence has created a unique culture in the organisation. Following the founder, his two sons and the workforce are fully committed to their roles in the company. They all work as a group of family members to achieve a common goal.

The Company is primarily designed as a functional organisation. Chapter Six is devoted to a detailed discussion of the structural arrangements of the company. The prevalent organisation structure facilitates the organisation in communication and problem solving. The strategic decisions and the majority of day-to-day decisions are made at the top level with some participation from middle and line management. There is, however, team based decision making in problem solving, which is of profound importance to company operations.

The organisation's management information system is fully integrated and computerised allowing easy access to the relevant performance data by the managers. Initially, the organisational accounting system was not computerised. With the rapid development in sales and other integrated activities, the management recognised the need for a computerised system for quick and easy information processing. Accordingly, in 1997 the company installed a fully integrated computerised information system facilitating the informational needs of the managers.

5.5 SUMMARY

This chapter introduced the research site of the study. The chapter discussed the tea industry in Sri Lanka, both its history and the current situation. It observes the prevalent economic conditions in Sri Lanka, especially the government's trade policy reforms and their impacts on the tea industry. It also discussed the nature and activities of the MJF Group, the parent company of the subject organisation, and briefly discusses the Ceylon Tea Services Limited and its core area of operations.

In Chapter Six, a discussion of the organisation structure of the research organisation is presented. In particular, it discusses the strategy, structure and culture of the Ceylon Tea Services Limited in order to understand the patterns of management control.

CHAPTER SIX

CORPORATE STRATEGY AND ORGANISATIONAL STRUCTURE: CEYLON TEA SERVICES LTD

6.1 INTRODUCTION

This chapter begins with a description of the patterns of management control within Ceylon Tea Services Limited. It does this by considering several interrelated areas as part of the story of the patterns of management control at the Ceylon Tea Services Ltd. Much of the information included in this chapter is derived from the information published by the parent company.

The chapter is organised as follows. The chapter begins with a brief discussion of the history of the Company. It presents a detailed description of the strategic situation of the Ceylon Tea Services Ltd. This is followed by a discussion of the functional organisation of the Company and of the growth strategies used by the parent company, MJF Group, as an introduction to a detailed discussion of significant functional areas of the Company, which are presented in Chapter Seven.

6.2 DILMAH TEA: A BRIEF SKETCH

The company's strategic initiatives are centred on the quality of products and marketing operations. The management's special attention is paid to maintaining the quality of its products. One of the major strengths of the company is the quality of its products. Quality and innovative products have been the cornerstone of the company's growth since the foundation of the company in 1981. When the company launched

Dilmah 100% pure Ceylon Tea in 1988, the founder's vision of incorporating quality and freshness into tea became a reality. Dilmah products are very reasonably priced and quality is higher than competitive products because of the simple fact that Dilmah Tea has its own source of supply and there are no additional costs involved in keeping the freshness of the tea. The company is engaged in direct marketing and there is no middlemen's involvement. This factor has resulted in low prices and there is no excessive storage of products in warehouses. Dilmah has become a world leader in the value added tea industry. Merrill J. Fernando has made a speech, which the company distributes on the Internet.

My family and I share a commitment to bring back to consumers around the world, Ceylon's Finest Tea. My mission began forty seven years ago. My Dilmah tea is today marketed in 87 countries around the world - countries in which Ceylon Tea had become a thing of the past. Consumers have recognised the difference in Dilmah and driven the growth of our family tea - as a family business focused on quality, we do not command large advertising budgets; consumers who enjoy the fresh taste of Dilmah are our most valuable resource and have contributed immeasurably to the growth of Dilmah in every market (<http://www.dilmahtea.com/core.htm>.)

Annual sales have been climbing rapidly from the very early stages of the company. The company's turnover for the accounting year 2000 amounted to Rs 1.46 billion representing an increase of 22.76% on the previous corresponding period. The company is people oriented with management policies that encourage individual initiative and contribution throughout the organisation.

6.3 COMPANY HISTORY

Ceylon Tea Services Ltd, in 2000, had completed its 19th consecutive year of growth in both sales and operating profits. Much of the success of Ceylon Tea Services Ltd is derived from the entrepreneurial spirit of the Chairman of the Board of Directors,

Merrill J. Fernando. Fernando also the founder of the company foresaw the growth of his company into a leading value added tea company. Today, Ceylon Tea Services Ltd is the largest exporter of value-added, branded tea of any tea-growing country. The Company began its corporate history in 1981 in a modest way. Having become dissatisfied with the operations of the Sri Lankan tea industry, Fernando along with a colleague and a handful of employees and entrepreneurial zeal, started the company as a small tea packing business by purchasing two tea-bagging machines. The history of Ceylon Tea Services Ltd is almost synonymous with the history of the founder of the Ceylon Tea Service Ltd because it is the vision and dedication of Fernando that has led the company to its unique existence in the business world. Today the company has become the largest tea bag exporter in Sri Lanka. The culture of the company reflects Fernando's attitudes to business and management. Therefore, the following section is devoted to a biography of Merrill J. Fernando.

6.3.1 MERRILL J. FERNANDO AS AN ENTREPRENEUR: VISION OF DILMAH FOUNDER

The founder of the company, Merrill J. Fernando has been an active manager since the company started. He has taken a leading role in every strategic initiative of the company. His managerial approach has not been limited to controlling and managing company operations and its participants. In fact, he has also been an active participant in the company's day-to-day operations. According to Dilmah Online:

I have dedicated my life to tea!" says Merrill J. Fernando, the founder of Dilmah tea. This is not an exaggeration. He is the most experienced tea taster in the world today. Merrill has dedicated 48 years to tea and learned a great deal about tea. He guides his family business passionately and caringly with the vision of giving tea consumers "the finest tea on earth".

A unique, enthusiastic, and positive individual, Fernando (Exhibit 6-1) has been successful at whatever he was involved in. He started his career in the tea industry and then changed to oil. In Fernando's own words:

I was first involved with tea and was trained by Heath & Co. but at the time, it was difficult for a Sri Lankan to find employment in the tea trade, which was dominated by foreigners. I received an exciting offer from an American Oil company to be one of their inspectors, which involved the opportunity to travel island-wide and I took it up. After two years, I decided that I witnessed all I wanted to see in the country and wanted to get back into the tea trade which I did, after a two year break (www.dilmahtea.com).

Fernando was fortunate to be selected for training as a Tea Taster and travelled to Mincing Lane, London, which is the Mecca of the tea world and he learnt a lot about the tea industry. In a press conference, Fernando recalls his memories:

EXHIBIT 6-1: FOUNDER OF DILMAH TEA

Please see print copy for
image

Our tea trade was entirely in the hands of the British. Our Government brought pressure on the tea trade to open it to Ceylonese (as we were then). They were unwilling to do so for some years, even after we became an independent nation. Fortunately, things changed and the first batch of Ceylonese was recruited in 1950 and I was lucky to be one of them. It was a challenge, as there appeared to be a belief that tea tasting and blending was beyond the reach of locals (www.dilmahtea.com).

Merrill J. Fernando, one CEO who makes his own tea!

Source: Dilmah Online

After completing the training, Fernando worked in a tea company in the United Kingdom for a while and then returned to Sri Lanka and joined a British owned and managed tea firm, A. F. Jones and Company. Proving his perseverance and abilities, he became the company's Managing Director within two years and as time went by he

bought out the British shareholders and ran the business with a partner. Wine & Dine Magazine in Asia, in its April 2000 issue reported this enthusiastic entrepreneur's story:

DURING THE 1950's, Sri Lanka's tea trade was riddled with social and economical injustice, all of which affected the 20-year old Merrill J Fernando vehemently. "Most of our tea crop was shipped all the way to England where it was blended and packaged under British owned brands for re-export to captive markets in British colonies and elsewhere." "Poor tea farmers were paid a pittance for their crop and consumers paid a high price for their cup of tea. Middlemen based in London reaped a rich harvest, siphoning off the cream in profits — some of which belonged to poor farmers," Fernando recalled dismally of his homeland's 'sacred' lifeline. In addition, the tea trade was closed to locals and monopolised by colonial powers. Feeling bitter about the unfair situation, Fernando vowed to correct the way things were and thus became the unsung champion for the Sri Lanka's tea trade. Fernando's opportunity to correct the grim situation came when the industry allowed six Sri Lankans to be trained as tea tasters, the first batch of locals to receive such training. Fernando, then aged 21, stopped his law studies and responded to the call. Four years later, he joined a British tea company called A. F. Jones & Co. Ltd where he quickly rose up the ranks to become its managing director within two years. When the company decided to pull out of Sri Lanka in 1958, due to increasing social and political upheaval, Fernando and his friends bought over the company (<http://www.dilmahtea.com/press/bnw/merril-bnw.html>).

Soon the young entrepreneur wanted to establish his own tea company with his own brand name. This happened when Fernando started Merrill J. Fernando & Co. Ltd while still in his twenties. Fernando later recalled this at a press conference:

It was my wild dream – being the proprietor of my own brand of tea which I wanted to make sure (would) be the best Ceylon tea in history. At that time I was 24 years of age. Thus it took me until 1988 to launch my own brand into the market, the challenges were enormous. At that time I was contemplating on owning my own brand of tea, it was considered sacrilege as the industry was dominated by foreigners. There was nothing Sri Lankan about it (Dilmah Press Releases).

This was a turning point for both the young entrepreneur and the Ceylon Tea industry, which was dominated by foreign multinational companies. After a few years, the tea business conducted by foreigners was transferred to local companies and local companies established themselves. The main purpose of Merrill J. Fernando & Co. Ltd was supplying bulk tea to the world's major tea brands:

This company supplied bulk tea to most of the world's major tea brands in the 1960s and 1970s. With a combination of outstanding service and value for money, Merrill rapidly gained a strongly supportive clientele, enabling his fledgling business to grow. Merrill J. Fernando & Co. soon became one of the top 10 tea exporters in Ceylon, and the only Sri Lankan owned one to enjoy this success (Dilmah Online).

It was a challenging experience for the young Sri Lankan exporter to be successful in a trade where multinational companies compete. Fernando's comment on this was:

I managed a competent and successful business when I supplied bulk tea. We achieved the status of being the fourth largest exporter from Sri Lanka, for bulk tea worldwide during that particular period and I competed with many multi nationals (Dilmah Press Releases).

The challenges, Fernando faced were numerous. One such challenge was the nationalisation of his business by the then government. According to Dilmah Online:

In the 1970s with the election of a Socialist government, Merrill lost his tea plantation to nationalisation, and with increasing regulation, sold his business with the intention of emigrating from Sri Lanka. However this was not to be and persuaded by friends he remained in Sri Lanka, forming another company, M J F Exports Ltd., in August, 1974 and in the early 1980s registering the trademark DILMAH with a dream of eventually supplying pre-packed, value added tea to his bulk tea clientele.

During that period, although several local companies were able to acquire the control of the Ceylon tea trade, which was under multinational domination, their activities were mainly restricted to supplying raw material or bulk tea to foreign tea blenders. This practice did not seem to offer a secure future for the Ceylon tea industry. By this time, Fernando had realised the adverse impact of multinational operations on the nation's major foreign exchange earner. He was very concerned about the low price multinationals paid for high quality Ceylon tea while selling it at very high prices. He wanted to expand his business into value-added tea marketing. Fernando later explained his concerns:

In my own experience I have exported tea in raw material form to most of the renowned international tea brands worldwide through brokers/middle men in the country. I observed how tea was exported as a raw material worldwide. How it was blended, branded, packaged and sold at a comparatively higher price (Dilmah Press Releases).

Fernando was not just concerned about it, he was determined to market his own tea using his own brand. According to Fernando:

I realized all the activities in the tea trade were upside down. I couldn't understand the reason why a country which produces one of the world's finest teas could not market its own product (Dilmah Press Releases).

Worried about the situation of the Ceylon tea industry, the young entrepreneur determined to own his own brand of tea and introduce 100% pure Ceylon tea to the world. For many years, he had to supply tea to foreign companies as a raw material. In 1981, Fernando started another tea company, Ceylon Tea Services Ltd with the express purpose of developing an export market for value added Pure Ceylon Tea. His vision was to ensure all value-added benefits remained in the country where they were most needed. He contacted the government of Sri Lanka to get support in importing tea-bagging machines into the country. The company's decision to import tea-bagging machines was not well accepted by the government. It was a challenging exercise for the young entrepreneur. Fernando recalled his memories recently:

It is interesting to note that after 25 years of trying to launch my own brand I did approach the government in hope of them providing assistance concerning investment and machinery. However, the questions I was subjected to by the bureaucracy shattered my hopes. In the early 70s when there existed central control and a shortage of foreign exchange, I attempted to request an import license to purchase two foreign tea bagging machines. However, I was discovered by a particular individual who asked me why I was attempting to waste foreign exchange on this type of activity when big players such as Brooke Bond had not requested this (Dilmah Press Releases).

Despite Fernando's desperate attempts to explain that the multinational tea companies would never consider Sri Lanka as a base concerning value addition, the then government did not pay attention to him. However, when a new government came to power, Fernando was successful. According to Fernando:

When the free market policies were implemented, I took my opportunity to purchase the two tea bagging machines and having purchased this I felt it was the correct thing to do (Dilmah Online).

Therefore, an important step of the company's history was the importing of two tea-bagging machines. Ceylon Tea Services Ltd was the first to import a tea-bagging machine into Sri Lanka. Initially, it bought two tea-bagging machines and this created another dilemma, which led the company in a new direction. As Fernando explained:

When I had two tea bagging machines and not understanding what to do, it seemed ridiculous to want a printing machine to print tags and envelopes as well. But as time progressed I realized that it was one of the sanest things to do in the tea packaging industry. I was unaware of how to go about it. What raw material to expect. The packaging material I had to import from Japan and if there was something incorrect about it, it would be approximately four months before I could rectify it. However, with two machines, along with a colleague I established a small tea packing business (Dilmah Press Releases).

Many including the Ceylon Tea Board and Fernando's clients were not happy about his decision to start a value added tea export. It was a painful era for the wishful entrepreneur. As a Dilmah Press Release revealed:

The machines spent several years lying utilised below capacity as Merrill faced the wrath of bulk tea customers who believed that Sri Lanka should remain a raw material supply source and Europe, USA, Australia and New Zealand the value addition points. Merrill's vision was based not on the politics of development but rather on the simple fact that, by supplying consumers direct from origin, the quality and freshness of tea could be improved without additional cost, in every market. Naturally the multinationals thought differently since their interests lay in sourcing product from multiple origins regardless of quality, and branding the commodity in a manner that the origin would not be of relevance.

Fernando's vision was to offer the consumer fresh and high quality tea from its source at reasonable prices. He was very much concerned about the low price high quality Ceylon tea received by the multinationals. In spite of the low cost of tea, the consumers had to pay a high price once it reached the supermarket shelves overseas. In a recent press conference Fernando said:

My concern lies in the fact that while our industry was suffering instability and the prices of our teas were below the cost of production at the same time, the consumers bore high prices. It was my wild dream – being the proprietor of my own brand of tea which I wanted to make sure will be the best Ceylon tea in history (Dilmah Press Releases).

Fernando, determined to build up his own brand of tea, gradually built up his new business with the assistance of a few of his customers. The year 1988 dawned with a new wave for Fernando when his vision became reality with the launch of DILMAH. Dilmah 100% pure Ceylon tea was launched in Australia. Dilmah tea was then introduced to New Zealand, and to date in 90 countries around the world. Fernando is considered the most experienced tea taster in the world today. Many people involved in the tea business are beginning to follow Fernando's example in doing business (Dilmah web page).

Fernando began on a road that would lead to fame and fortune with a product whose name in the beverage market would become as well known as Pizza Hut in the fast food industry. The challenges, he had to face, were enormous and numerous both in the bulk tea exporting and value added tea industry. In Fernando's own words:

These challenges were enormous and were intimidating. When I became involved in the tea trade as a boy of 22 years I realized all the activities in the tea trade (were) upside down. I couldn't understand the reason why a country which produces one of the world's finest teas could not market its own product. I observed how tea was exported as a raw material worldwide. How it was blended, branded, packaged and sold at a comparatively higher price (Dilmah on line).

Thus, began the story of Dilmah Tea, which is successfully marketed in 90 countries around the world. Since its inception, the company operations have been a success story. By March 1991, the employee population was 283 and had a sales volume of Rs 237,102,000. By March 1999, the employment had increased to 371 and sales had amounted to Rs 1,071,403,000 representing a valuable foreign exchange earner in Sri Lanka. This was the humble beginning of Ceylon Tea Services Ltd, which has now become a giant in the value added tea industry.

6.3.2 DEFINITION OF BUSINESS

Dilmah's strategic objective is simple: to provide the freshest and finest tea on earth in value added form from its origin, Ceylon. The company, with net sales of over Rs 1.46 billion in 2000, defines its business as the export of value added tea. The company, in its early years, can be viewed as an entrepreneurial tradition. Fernando has transformed his company into an integrated tightly run organisation with an emphasis on the bottom line. Fernando is known among his employees for his care for his employees, passion for his business, dynamic leadership and his attention to detail.

6.4 CORPORATE STRATEGY

As discussed in Chapter Three, a corporate strategy is an overall plan or framework of action that guides the business enterprise. Essentially, this plan will be at least one year in duration and will outline the mission, goals, market segments, overall and specific activities, and control mechanisms of the firm. Without a pre-defined and well-integrated strategy, the firm may flounder and be unable to cope with the environment that surrounds it (Berman and Evans, 1995, p.30). The Company uses both long term

and short term planning to provide guidance for operations. The Chairman develops the majority of the Company's strategic planning with the assistance of the other managers.

The corporate strategy of the Company is revealed through an examination of the company's key players and their activities. Ceylon Tea Services Ltd is a public corporation whose operations are controlled by a Board of Directors, composed of Chairman and Managing Director, Merrill J. Fernando and five Directors (as at March 2000). Following is a review of the strategic situation of the company.

6.4.1 STRATEGIC MANAGERS AND OWNERSHIP (AS AT 31 MARCH 2000)

As with any entrepreneurial business, Fernando has been the primary strategic manager of the company since its inception in 1981. As the company grew, others became involved in strategic-decision making. The Board of Directors of the company consists of six directors. The Chairman's two sons, Malik J. Fernando and Dilhan C. Fernando, are members of the Board of directors. A unique strategic feature of Ceylon Tea Services Ltd is the active involvement of the Chairman in the company's day-to-day operations. Thus, theoretically, the corporation can be described as a family controlled enterprise.

As already discussed in a previous section, Fernando, recognised in the 1980s that a value added tea industry was "the solution for the lifeline of the Ceylon economy" (Dilmah online). Since then, Fernando has endeavoured to improve the quality of his products as the business has grown.

EXHIBIT 6-2: DIRECTORS' INTEREST IN SHARES AS AT MARCH 2000

Please see print copy for image



Source: Ceylon Tea Services Limited, Annual Report 1999/2000, p.9.

6.4.2 STRATEGIC PLANNING

Strategic planning for Ceylon Tea Services takes place at both the corporate headquarters and at the operating group levels. The Chairman, with inputs from company executive managers, develops a long-range strategic plan to achieve the company's objectives. With this overall plan, objectives are set for each of the operating departments. It is then the responsibility of each of the operating departments to develop a strategic plan to achieve their departmental objectives.

The Chairman has a tremendous impact on Dilmah's strategic planning. He is directly involved in all strategic decisions. Apart from this, he retains an active involvement in the marketing function. As a marketing led company, Ceylon Tea Services believes marketing is the core of its success. This means that the Director of Marketing, Dilhan C. Fernando, also has a large impact on Dilmah's strategy formulation and implementation. Dilhan C. Fernando explains his area of responsibility and the involvement of the Chairman in policy setting:

As the Director of Marketing I have overall responsibility for the Marketing function and whilst I report to the Chairman, and he does get involved in setting policy and direction, I would work within guidelines agreed between us, and direct my department accordingly (Appendix G, p.414).

EXHIBIT 6-3: THE MANAGEMENT TEAM (AS AT NOVEMBER 1999)

<i>Name</i>	<i>Office</i>
Mr. Merrill J. Fernando*	Chairman & Managing Director
Mr. Malik J. Fernando*	Director Operations
Mr. Dilhan C. Fernando*	Marketing Director
Mr. Desmond Fernando*	Secretary
Mr. Himendra S. Ranaweera*	Director and Chief Operations Officer
Ms. Minette Perera *	Director Finance
Mr. Neville Ranasuriya	Human Resources & Administration Director
Mr. Mahen Rasaratnam	Tea Consultant
Mr. W.G.R. Upali	Engineering Manager
Mr. Sumith Jayawickrema	Production Manager
Mr. Roshan Tissaratchy	International Marketing Manager
Ms. Vagira Karunaratne	Quality Assurance Manager
Mr. Dilakshan Thampoo	Purchasing Manager
Mr. Dinesh Gunasinghe	Material Stores Manager
Mr. Piyal Kariyawasam	Tea Blending Manager
Mr. Saradha Sosa	Chief Accountant (Financial Controller in 2000)
Mr. Ronald Rubera	Business Development Manager (left in 2000)
Mr. S. Ramabhadra	Accountant (left in 2000)
Mr. Bennet. Jayasuriya	Human Resources and Administration Manager
Ms. Dilrukshi Seneviratna	Food Technologist
Mr. Michael Rodrigo	Transport Manager
Mr. Sanjaya Perera	Shipping Manager
Mr. Dilshan Boteju	Marketing OP Manager
Mr. B.C.F. Mendis	Security Manager
Mr. Percy Jayakody	Maintenance Engineer
Mr. L. Wasantha	Tea Blending Manager

* Board of Directors. Source: Company Visits.

6.4.3 MANAGEMENT

The personality of Ceylon Tea Services as a corporation reflects the attitudes of its founder. His influence extends from corporate headquarters to his employees. He commands such respect and adoration from those who work for him that his

mannerisms can often be observed in his employees. This is evident by the remarks of one of the Lady Security Officers noted in 1999:

On the 20th of this month (November), our company's Silver Jubilee (25th anniversary) was celebrated. Even the Chairman and the two sons danced with employees at the party. They greet everybody in the morning. It is a custom. On the New Year's Day they get off the cars and greet, (Say Ayubowan: Longevity) and wish a happy New Year to everybody. However, some other managers are not like the Chairman and his sons (Appendix D, p. 381).

Fernando has kept the same level of intensity and drive from the inception of the corporation as a small tea exporting company to a successful, publicly held entity. The Company has a team of dedicated and innovative managers with expert knowledge in his/her area of responsibility (MJF Group Management Responsibility Documents). Exhibit 6-3 lists the names of each of the managers shown in the organisational chart. In addition to these managers, the company has a sub manager titled, assistant manager, for many of these managers.

6.4.3.1 HUMAN RESOURCES

Apart from the management team, many people have made invaluable contributions to Ceylon Tea Services Ltd through the years. As of March 31, 2000, the company had 210 employees. Their continuous supportive efforts have helped the company exceed Rs 1.46 billion in revenue in 2000. Exhibit 6-4 is a group photo of the head office and factory staff of the company. Following the example of its founder, Dilmah values its employees highly. According to the employees and managers, they are better off than their counterparts in other organisations in Sri Lanka. The company has been successful to date in attracting and retaining qualified personnel. To assist in this, the company adopts a number of benefit plans such as housing, healthcare and support in education, and recreational and other benefits for different levels of employees. The company

recognises the importance of employee relations. An important feature of the employee relations of the company is that there are no trade unions, which would represent the employees of the company. This is mainly due to the founder's reluctance to encourage a worker organisation. On the one hand, this is an example of an autocratic leadership style. When considering the level of employee unionisation in other organisations in Sri Lanka, however, it is surprising that Dilmah employees do not demand for unionisation. The history of Sri Lanka's industrial relations is full of labour strikes, work stoppages and rallies. Dilmah employees do not have the privilege to raise their voice through employee unionisation. The founder's charismatic leadership style might have created invisible tension among the employees, which is not very good for the smooth flow of company operations. It can be anticipated that whenever the employees get an opportunity to go against the founder they will go for unionisation as was revealed by some shopfloor workers.

EXHIBIT 6-4: CEYLON TEA SERVICES LTD STAFF

Please see print copy for image

On the other hand, non-unionisation has resulted in a harmonised and loyal work force. Similarly, there are instances where employees who have left the organisation for some reasons have returned.

Source: Dilmah Online

6.4.4 GROWTH STRATEGY

The growth experienced by Dilmah has been continual and ongoing. Indeed a brief look at the Company since its inception verifies this. It has been very profitable since the beginning. In 2000, it enjoyed a 190 percent increase in income before tax. The increase in income before tax in 1996 was more than 140 percent. Beginning in 1988, the Company began to focus on growth and profitability. Most of the efforts were directed towards improving the product quality, brand image and profitability. With its continuous efforts and dedication, the Company has developed its brand into a global brand. The Chairman believes that brand integrity is part of the secret of his company's success. He described his philosophy of developing an integrated brand image based on his experience:

... my advice to marketers in our countries is not to be daunted by the implications of building a global brand image. Rather to focus their efforts on an appropriate part of the globe, according to the available resources and perhaps the product offering (Press Releases).

The Company has grown through increases in sales (Chapter Seven). The Company's strategic initiatives in integrated services have led the company to growth in sales each year. The Group's focus on different but complementary aspects of the Tea Industry, from plantations to packaging to overseas marketing has created a strong export market for Dilmah products of the Ceylon Tea Services Ltd. Growth has also come because of geographic expansion. According to the Chairman:

... my journey started in a modest way in Australia, then New Zealand and so on (Dilmah Online).

The Company operates in a highly attractive industry with a strong competitive position. This industry attractiveness may result in more competition through the entry

of new competitors and/or current competitors' attempts to increase their sales. As a precaution, the parent company operates highly integrated services extending through tea growing to export marketing. Similarly, to keep and improve its competitive position, the parent company MJF Group has basically followed two growth strategies; internal and external over the years. The Group is achieving growth through concentration in its current industry via both vertical and horizontal integration. This has resulted in increased sales and profits of the Ceylon Tea Services Ltd.

The Group's vertical integration of operations has extended from backward integration (taking over a function previously performed by a supplier) to forward integration (taking over a function previously performed by a distributor). The Group's activities in tea growing can be described as backward integration of operations. The MJF Group is actively involved in the plantation business. It has several tea plantation companies to provide high quality raw materials for Dilmah products. Through backward integration, the Group expects to minimise resource acquisition costs and inefficient operations. The group, further, expects to increase the quality of raw materials and improve operational efficiency. Overall, this strategy has led the Ceylon Tea Services Ltd to increase its competitive advantage in a value added tea export.

The Group's forward integration of operations includes integrated printing and packaging services. Through its forward integration strategies, the group has attained control over product distribution and marketing. To meet the need to source high quality materials unavailable in Sri Lanka at the time the Group invested in printing and packaging industries. Utilising sophisticated printing machinery Package Care Ltd

fulfils the need for tags and envelopes for the MJF Group and other manufacturers of teabags in Sri Lanka. Universal Packaging and Print Care Ltd are the Group's own printing and packaging companies.

6.4.4.1 MJF GROUP'S STRATEGIC ALLIANCES WITH HAYLEYS AND AITKEN SPENCE; TEA PLANTATION COMPANIES

Further strengthening the Group's strategic initiatives, in 1997, "(t)he company formed a strategic alliance to acquire and manage Talawakelle Plantations with Hayleys Ltd and Elpitiya Plantations with Aitken Spence" (Sunday Times – 31st March 2000). Hayleys Limited is a holding company with subsidiaries that operate in a wide range of diverse business activities. Aitken Spence - in Sri Lanka is a public, quoted company with market leadership in a number of core businesses such as hotels, travel and tourism, cargo logistics services, printing and packaging, property development, light engineering, garments and plantations. The company has achieved ISO 9002 certification for its operations in the shipping industry. One of the most important growth strategies of the company is the forming of strategic alliances with global partners to strengthen their core businesses. The alliance with the MJF Group is one such growth strategy, which promises improved performance in plantation operations.

The alliances with Hayleys and Aitken Spence Ltd have been one of the most important strategic decisions the Group (MJF Plantations Ltd) has made in recent years. The alliance was aimed at integrating the MJF Group's operations in a strategically sound way; that is the backward integration of its tea business. This partnership led the Group to acquire two of Sri Lanka's best tea plantation companies with some of Ceylon's

finest tea gardens. Two of these plantation groups, Elpitiya and Talawakelle, accounted for over 5% of the total Ceylon Tea production in 1997. Backward integration of its operations has brought important benefits to the Group's efforts at providing its consumers with tea.

6.4.4.2 THE MJF/CELESTIAL PARTNERSHIP

The most important alliance that the MJF group has attempted is with Celestial Seasonings. On March 01, 2000, the MJF Group announced its partnership with Celestial Seasonings Inc., aimed at introducing Dilmah Tea to the USA. This alliance, however, could not put into operation due to a sudden strategic change in the Celestial Seasonings in 2000. The company is positive about implementing the plan in the near future. During the same period, the MJF Group announced its strategic investment in Forbes and Walker Ltd in Sri Lanka, a century-old tea broker.

6.4.4.3 MJF GROUP'S ALLIANCE WITH FORBES AND WALKER LTD

On March 28, 2000, the MJF Group invested in Forbes and Walker Ltd maintaining its strong strategic position in a diversified tea business. The deal was a result of an agreement between the MJF Group and Vanik Incorporation, the parent company of Forbes and Walker Ltd, to strategically purchase part of their subsidiary Forbes & Walker Ltd (Sunday Times, March 12, 2000). As Dilmah online states:

Founded in 1881 by James Forbes, a tea taster, and George Chapman Walker, a British Army officer, Forbes & Walker Ltd., is one of the oldest broking houses in Ceylon, and today the second largest. Forbes & Walker is primarily a tea broker, accounting for around 25% of all tea offered for auction at the weekly Colombo auctions, although the company also handles a sizeable share of Sri Lanka's rubber, coconut and spices sold through auction. Current annual auction value of commodities handled by Forbes & Walker Tea and Commodity broking is around SL Rs 4 billion.

Vanik, a troubled merchant bank, wanted the MJF Group to come forward to invest and manage part of its business. The deal was an important part of the MJF Group's growth strategy. According to the Sunday Times:

The MJF Group has come forward to bail out the troubled Vanik Incorporation, with an offer to purchase part of their subsidiary Forbes & Walker Ltd (FWL) for over Rs 150 mn. ... The cash rich MJF Group is expected to fund the deal through internal resources (March 12, 2000).

This alliance could create a competitive advantage in the MJF Group's core business.

MJF issued the following message on its decision to invest in Forbes and Walker Ltd:

MJF Group investments have generally followed a pattern of strengthening its core business of tea, and the Forbes & Walker investment is seen as an expression of the group's commitment to tea, and confidence in Forbes & Walker, with its 119 year history. MJF Group is one of a handful of fully integrated tea companies, perhaps the only one to market its own brand globally.

The 'partnership' with the MJF group is seen by industry sources as a synergistic move with MJF's marketing expertise being likely to be harnessed to streamline the brokerage operations of the company (Dilmah Online). These strategic alliances of the MJF Group have strengthened the operations of the Ceylon Tea Services Ltd by ensuring the supply of high quality raw materials and other facilities for its products.

6.5 ORGANISATION STRUCTURE: BUSINESS SEGMENTS AND REORGANISATION

Ceylon Tea Services Ltd practices selective centralised and decentralised decision-making strategies. Strategic and significant financial decisions are made at the top level in the organisation whereas operational decisions are made at lower levels in the organization. This demarcation, however, does not mean that managers at the top level are not involved in daily operational decisions. An important feature of decision

making at the Ceylon Tea Services is the chief executive officer's involvement in every aspect of company operations, which has so far been proven invaluable and appropriate to the company (interviews with managers). The lower level managers have the authority and autonomy to make decisions regarding their responsibility areas. The decentralized management allows managers to be entrepreneurially creative in their respective responsibility areas. A team based decision-making strategy, involving managers at all levels, is operational in some areas of responsibility. Therefore, the top management is not free from operational decision-making. Top managers, however, pay special attention to future expansion programs.

6.5.1 CORPORATE ORGANISATION

The company organisation can be described in terms of four levels of management responsibility: top echelon, executive level, mid level and lower level. The Chairman of the company Merrill J. Fernando is in the top echelon. The Chairman retains strategic management responsibility, concentrating on setting the strategic direction and expansion decisions. Additionally, the Chairman is actively involved in the marketing function.

The executive level consists of three members of the board of directors: the Director of Operations, the Chief Operating Officer, and the Director of Marketing. Two of these executive managers are the Chairman's sons: Malik J. Fernando and Dilhan C. Fernando. The Chairman, Director of Operations and Director of Marketing who can often collectively be referred to as the "family" is deeply involved in providing the overall guidance to the company and exercises effective control with about 49.68%

EXHIBIT 6-5: ORGANISATION CHART (AS AT JANUARY 2000)

MJF GROUP	MANAGEMENT RESPONSIBILITY	Sec. No. QM-2.0 Page No: 4 of 12
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ORGANIZATION CHART

Please see print copy for image

Source: MJF Group Management Responsibility, QM-2.0, p.4.

ownership. When a new operational plant (overseas) or new product line is started at least one member of the “family” will be there – most often, the Chairman or

Marketing Director will be on the floor. The “family” members are visible leaders and approachable to employees.

The family really enjoys working and they can be seen on the factory premises throughout the day. The “family” is the first to arrive at the factory and last to leave the premises. Their vision is that “A leader should be an example (model) to the employees” and they are really on the floor to help motivate employees and the meeting of goals (Discussions with the Marketing Director).

While the Chairman often leads strategic management, operational management is delegated to the executive managers. The three executive managers manage the day-to-day operations by focusing on different aspects of the business. Malik is in charge of directing and managing the quality system to ensure improvements in product quality to exceed customer expectations. Himendra is in charge of coordination of the activities of the various departments and handles the activities in Planning, Purchasing, Shipping & Transport, Administration & Human Resource, Imports, Production, Food technology & flavouring, Engineering and Stores departments. Dilhan concentrates on promoting the company image at a global level to attract more clients, increase sales & liaise with them. Each of these three managers has authority to make decisions that clearly fall in his area of responsibility. They meet formally in the form of weekly administration meetings but informally communicate with one another throughout the day.

The middle management level consists of the Director of Finance, the Director of Human Resource and Administration and the Tea Consultant. Sound operational control of each functional department is the responsibility of lower level management. The company has clearly defined responsibilities for each of its managers.

EXHIBIT 6-6: ORGANISATION CHART (PRIOR TO RESTRUCTURING IN 1997)

UNCONTROLLED
COPY

MJF GROUP	MANAGEMENT RESPONSIBILITY	Sec No QM-2.0 Page No. 4 of 12
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ORGANIZATION CHART

Please see print copy for image

Source: MJF Group Management Responsibility, QM-2.0, p.4.

Exhibit 6-5 is the current organisation chart of Ceylon Tea Service Ltd after the restructuring. The organisation structure serves both the Ceylon Tea Service Ltd and the MJF Group. Before 1997, the company organisation had a slightly different structure (Exhibit 6-6). A brief description of each of the functional areas of the company should provide some useful insight into its operations.

As illustrated in Exhibits 6-5 and 6-6, the MJF Group is organised as a functional organisation. The same organisational chart is applied to the Ceylon Tea Services Ltd. In between the corporate and functional levels, there are three strategic business units known as ‘operating divisions’: operations, operating, and marketing.

The activities of these strategic business units are organised under a director. The strategies of these units are guided by the corporate strategies. These functional departments are responsible for the implementation of functional strategies. Some of the key functional departments are production, engineering, purchasing, accounting, human resource, administration, and marketing.

Each strategic business unit sets strategies to meet its objectives with the guidance of the chief executive officer. The corporate strategy helps the strategic business units set their strategies. Strategies set at each of the three strategic business units are implemented at the next level by functional strategies. In each strategic business unit, there are several functional departments to carry out its strategies. These functional departments set operational policies with the guidance of the relevant strategic business unit directors and the chief executive officer. It is the responsibility of each manager to

make sure that corporate strategies do mesh with lower level strategies. In this regard, team-based decision-making has been of profound importance in implementing corporate strategies.

6.6 SUMMARY

This Chapter presents information about the organisational structure and overall corporate strategy of the Company. The chapter relies heavily on company published information. This has been seen as appropriate because of the need to present an accurate picture of the company's structural and strategic situation. Particularly, regarding the strategic situation of the company, the researcher has relied on information derived from the company's strategic managers discussions with the press, and press releases. The remaining chapters of this thesis rely upon other sources of information such as interviews, non-participant observation and email contacts with company managers and staff. They are intended to provide a more objective discussion of the patterns of management control operated at the company. In the next chapter, an analysis of the strategic situation of some functional areas of the company is presented.

CHAPTER SEVEN

FUNCTIONAL STRATEGIES: PRODUCTION, MARKETING, AND FINANCIAL STRATEGIES

7.1 INTRODUCTION

This chapter is about the functional implementation of corporate strategy at the Ceylon Tea Services Ltd. Corporate Strategy was recognised as an important component of the developed management control model. In this chapter an attempt is made to discuss how strategic managers in the three major business units (operating divisions), operations, marketing, and operating, handle the strategy implementation process. It presents a discussion of the functional strategies applied by these strategic business units in order to achieve business goals. The chapter is organised according to the three significant functional areas: production, marketing and finance.

7.2 STRATEGIC BUSINESS UNITS

The activities of the Company are organised under three strategic business units: the Operations Division, the Operating Division, and the Marketing Division. A director who has the overall responsibility for the activities of the division heads each division. The Company's three operating divisions are organised into a number of functional departments (Exhibit 6-5). Each of these business units sets its own business plans to make the best use of resources allocated. Although the activities of the Company are organised under three separate operational divisions, they are totally integrated. In developing and implementing corporate and business plans, the three Divisional Directors work as a team together with the Chairman. Team based decision making has

been a unique feature of this family enterprise. The remainder of this chapter is devoted to a description of the implementation of plans in the three functional areas.

7.3.1 PRODUCTION STRATEGY

Dilmah believes that its success depends on the ability to identify the products required by customers and to produce high quality, innovative products, which are compatible with or exceed industry standards. The Company's operations strategy is formulated to use its technological expertise and manufacturing capabilities to offer its customers a wide range of teas to meet a variety of user needs.

The Company operates a purpose built factory alongside the Group Head Office. In 1995, the company moved to its newly constructed office/factory complex in Peliyagoda. The new centre is state-of-the art and includes a six-story main building with a distribution centre and two production plants, one for the Ceylon Tea Services Ltd and the other for the MJF Group in a 200,000sq.ft office/factory complex. These production plants are equipped with automated product handling equipment and computerised control systems. The next section, which is mainly based on the researcher's direct observation, details discussions with the Assistant Production Manager during the factory tour on November 12, 1999, email contacts with company managers and staff, and company's published documents, and describes the organisation and operations of the Dilmah production plant.

7.3.1.1 MANUFACTURING

Beginning in 1988 and carried forward for more than a decade, the Company, until 2000, produced Dilmah tea exclusively for export purpose only. The Company's manufacturing operations are of high standard and products are of high quality. Dilmah

products have been well received in export markets (annual reports). According to the Production Manager, in 1998/99 while a target of 90% machine efficiency was allocated to his department, it achieved a rate of 75-90%.

High quality manufacturing facilities enable the Company to provide a range of super quality teas to its customers (Dilmah on line and discussions with managers). Dilmah is the most vertically integrated tea bag manufacturer and exporter in the world, which provides consistent control over quality, cost and availability of its products. Its manufacturing strategies include the implementation of Total Quality Management (TQM), Just In Time (JIT) product scheduling systems, Quality Conscious Tea Blending and Contract Basis Manufacturing. The next section describes the manufacturing procedure involved in the manufacturing of Dilmah tea.

7.3.1.2 RAW MATERIALS

Before Dilmah tea comes to the consumer's cup, a number of activities have taken place to produce it. Apart from manufacturing Dilmah tea, the company undertakes private labelled tea packing too. The ingredients for Dilmah tea come from the Company's own tea gardens. A unique feature of Dilmah tea is that all Dilmah tea comes exclusively from one source, the Dilmah tea gardens (Appendix M). To meet the demand of private label packing contracts, the Company purchases tea at auctions.

7.3.1.3 DILMAH OPERATIONS MANAGEMENT

The Company's main business activity is producing and exporting consumer tea packets and teabags (Exhibit 7-1). At the weekly tea auctions, the Tea Consultant purchases tea for private label contracts. The tea buying team's job is to purchase the correct grade of tea to meet the customer's requirements. To make sure that the correct high quality tea is purchased the Tea Consultant necessarily attends tea auctions. As he

explained, “I myself attend tea auctions because we want to make sure that the best quality teas are bought” (Appendix D, p. 363).

7.3.1.3.1 FLAVOURING

Once tea is ready in the warehouse, it undergoes several further manufacturing steps in order to make differentiated products. Products with a difference in taste are made through the process known as flavouring. Flavouring is the process of changing the flavour and aroma of tea by adding flavours. The company’s production is composed of 85% normal black tea and 15% flavoured tea. As the Food Technologist explained:

We are working on behalf of the materials requirement department. We are responsible for ensuring that the flavouring requirements of the contract are met. We do the laboratory testing of the teas. It involves the testing of teas from the time of buying up to finished bags. Through a number of analyses such as ISO 3720 analysis to identify the toxic elements, to Microbiological Analysis Test (Appendix D, p. 367).

EXHIBIT 7-1: A SAMPLE OF DILMAH PRODUCTS

Please see print copy for image



Thus, tea manufacturing operations include purchasing raw materials, tea tasting, tea blending, bagging and packaging.

Source: Dilmah Online.

The Chairman is involved directly in the flavouring operations because, strategically, flavouring is a very important area to the Company’s manufacturing operations because the company is continuously developing new varieties of tea to compete with international competition. The Food Technologist clarified the Chairman’s role in flavouring:

Our department approves the suitable flavours. The final approval of flavour, however, comes from the Chairman (Appendix D, p. 367).

7.3.1.3.2 TEA BLENDING STRATEGY

Once the raw materials have arrived at the plant, the items are checked and stored in the stores. Blending is the next step in the manufacturing process and the Tea Blending Manager oversees this crucial process. Blending tea to meet customer specifications (for both Dilmah and other products) has significant strategic implications, which bring the Company unique strategic advantages. Tea tasters taste the tea samples bought at the tea auctions and prepare blends of tea according to the customer requirements.

It is very important to clarify the true meaning of tea blending in the Dilmah manufacturing process because blending is very often mixed up with bulking. Especially, in the export tea industry, blending means mixing high quality tea with low priced poor quality tea to match the cost of a blend with a pre-established price level. This process gives the opportunity to use tea from many growing origins to make a final product. According to “From the Nursery to the Cup”:

On the other hand, bulking relates to mixing of tea purchased from several plantations of equal quality and taste, in order to achieve volume required against established quality standards. This is not blending high quality tea with cheap tea or Ceylon tea with others (p.7).

For Dilmah tea, blending means bulking of tea of equal quality and taste to meet the production requirements. A feature of the Dilmah manufacturing strategy is the blending of tea grown in their gardens only. This strategy is the secret of the freshness of Dilmah tea. There is no raw tea import action by the Company at all. In the tea export industry the tea exported may be a blend from many sources.

The success of the Company's operations is partly due to its manufacturing strategies designed to provide high levels of customer satisfaction. The tea department under the direction of the Tea Consultant's department has a work force of about 23 tea boys, clerks, executives and specially trained Tea Tasters. Their job is to ensure that tea blending meets customer requirements to the letter. In the Tea Consultant's words, "Everyday tea tasting is done – about 200-300 cups a day" (Appendix D, p. 363). They taste tea to make the proper blend.

EXHIBIT 7-2: TEA TASTING BY THE FOUNDER OF DILMAH

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for image

The Dilmah tea blending policy has been one of the most significant strategic initiatives that bring the company a group of loyal customers. Exhibit 7-2 shows the Founder of Dilmah, tasting tea.

Source: Dilmah Online.

7.3.1.3.3 OPERATIONS IN DILMAH PRODUCTION PLANT

One principle that distinguishes Dilmah manufacturing is the unusual depth of operational management, production and quality. Corporate strategies emphasise production and quality management at every step in the manufacturing process. The Company has clearly implied manufacturing policies and programs. It has an operational philosophy that stresses customer satisfaction and continuous improvement. TQM is implemented in order to improve quality in company operations. The Quality Manager points out:

We have a policy of total commitment to quality. Every department and every employee is important to achieve our quality target. We are combined in a customer-supplier chain (Appendix D, p. 369).

One of the important features of the Company's manufacturing strategy is customised (flexible) manufacturing. The company's flexible manufacturing operations are committed to serving the customer base that orders different product configurations. Manufacturing is based on customer contracts. There is no excessive manufacturing of Dilmah products for unknown markets. Product is manufactured on order and is dispatched immediately. Therefore, quality is not compromised because of long storage times. The Company, using its extra manufacturing capacities produces some of its products for other companies to market under their own brands. It is not responsible for the quality or marketing of those products. This has brought extra earnings to the Company at less risk.

In the production plant, the blended tea is fed through a tube onto fully automated packaging lines where it is measured into specific teabag or teacup sized quantities. The fully automated Dilmah tea feeding system is known as the Jenco System. The Jenco System is especially designed by the Company to maintain the quality of production. The major aims of the system are to prevent mixing up and pack the correct type of tea.

7.3.1.3.3.1 PACKAGING

Packaging is vital in the case of Dilmah. Dilmah Tea as a consumer product is distributed mainly through self-service environments. Except for food service orders, Dilmah products are distributed to supermarkets where many well-established competitors sit next to one another on a store shelf. Thus, strategic decisions about packaging are made at the highest levels in the Company. Dilmah packaging as a beverage product consists of three levels: Primary packaging, Secondary packaging, and Tertiary packaging. Primary packaging is the material that envelops tea, the tea bag.

Individually wrapped paper or foil bags are the primary packaging of Dilmah tea. Secondary packaging is outside the primary package. A feature of Dilmah secondary packaging is that each box of Dilmah tea is protected with a polyethylene bag. Tertiary packaging is the bulk packaging that holds secondary packages for shipment. Dilmah tertiary packaging consists of large cardboard boxes and they are known as “outers”. As the Quality Manager pointed out that “packaging materials are checked for quality using ISO –2859”.

7.3.1.3.3.2 PRODUCTION FACILITIES

Dilmah operates two main production plants, in Sri Lanka and in Poland. The Company's main production plant is situated in Sri Lanka. Production in Poland commenced in 1998 and several other production centres are planned for the Russian Federation, Central Asia and India. The Chairman in the Annual Report (1997/98, p.8) said, “In pursuance of our production expansion program, investment in new plant and machinery was Rs 196 million. Our production facility is one of the world's best, and we continue to upgrade and expand it”.

The new production plant, which is equipped with the most sophisticated tea bagging and packaging machines, has been able to ensure that Dilmah's quality of manufacturing complements its quality policy. Tea bagging and wrapping operations are undertaken in separate sections of the production plant. The tea bagging plant consists of six production lines with a number of fully automated IMA tea bagging machines (see Appendix N).

The production plant employs about 400 tea packers. Each factory worker has a special uniform, for example, the machine girls' uniform consisted of a green cap and green

apron. While all the tea packers and quality checkers are female workers, the only male workers at the production plant are machine operators. It is a feature of the CTS shop floor employment. The machine girls (tea packers) are trained to be honest and trustworthy and to tell the truth. As the Assistant Production Manager pointed out, “the culture in the company permits the girls to be truthful” (Appendix D, p. 379). Managers believe female workers (young girls, many straight from the school) do not do any purposeful harm to company operations. The cultural and social background in the country does not encourage girls to be dishonest. This is, however, not the case with young boys. Managers believe young boys who appreciate radical views are not easy to understand and control. For these reasons they employ young girls in the production plant.

This approach to recruitment can be regarded as an easy way of getting employee support in manufacturing operations. Controlling female behaviour is considered to be easier than that of the male. In one sense, employment mobilisation is less among female than male workers. According to the Marketing Director, “(m)any of the girls in the production plant are young and straight from school” (Appendix, D, p. 362). Therefore, they do not have diversified social contacts or experience and obviously it is easy to extract work from them. Dilmah’s practice to recruit young girls can be assimilated with the concept of the “construction of the governable person” of Miller and O’Leary (1987). With a founder who can be viewed as a charismatic leader, Dilmah managers are trying to develop an image of totally obedient factory-floor workforce, which can be easily supervised and controlled. Though there is no apparent gender discrimination at Dilmah as discussed in the theory of management, machine girls might have been disadvantaged through managers’ overemphasis on machine girls’ obedience and honesty. Probably, they do not have the right to raise their voice

against unethical work place practices. Machine girls are specially trained for their jobs. In case of a machine breakdown, girls working with the respective machine know to stop the machine immediately. They have been given authority to stop production and call the machine operators to repair the machine.

The Dilmah production facility presently operates two twelve-hour shifts per day, five days a week. The production workers' remuneration for overtime is reasonable. The Company's tea packers are supervised by experienced and trained supervisors who handle manufacturing and packing operations. As mentioned under manufacturing strategies, the Company does not produce in anticipation of potential customers. The manufacturing time from the date an order is received to the date the package is ready for delivery is a matter of a few days. Thus, within a few days of picking, Dilmah tea goes to the supermarket shelves with an ensurance that the tea is fresh. The 24-hour five-day manufacturing operation allows the Company to meet customer orders in time. As explained by the Marketing Director the long working hours assist not only the company but also the workers:

We have two 12-hour work shifts. Overtime payment is 1 1/2 times of the normal wage. These girls are from far away places and they live in boarding houses. They have nothing to do at boarding houses. Therefore, they are happy to work overtime and earn some more money rather than wasting their time (Appendix D, p. 362).

It is true that machine girls get a reasonable remuneration for their overtime work. The researcher's discussion with them did not reveal any dissatisfaction regarding payments or long working hours. Machine girls, however, might have been feeling exhausted and overworked. The overtime policy again is an example of the notion of the governable individual. Rather than recruiting extra workforce, Dilmah relies on existing factory-floor workforce to meet customer orders in time. Perhaps, it is seen as a means of keeping workforce under control.

7.3.1.3.3.3 PRODUCTION PLANNING

The production plant has a system of production planning on a daily basis. These plans are based on the marketing division's schedules of the required quantity of production for each client. These schedules are passed to the operations division from the marketing division. The operations division then prepares a production schedule known as the Menu Master. For each client a separate menu master is prepared describing the specific requirements of the order. For each order, a sample teabag, and packing and filing instructions are given. The Menu Master is kept in the company for a period of 3 years. Thus, in the case of the client questioning the quality, packing or other relevant issues, the company is in a position to answer him/her with proof. The production department implements a complex production planning system for the smooth flow of operations.

There is a factory operation meeting daily at 9.30am in the plant with factory workers and the Assistant Production Manager. This meeting is very useful in communicating tea filling and packing instructions to the factory floor workers. It is the responsibility of the quality checkers to ensure that packing and filling are compatible with the particular contract. Formal communication is of profound importance for the effective and efficient process of manufacturing.

7.3.1.3.3.4 PRODUCT QUALITY

The high quality of Dilmah products has served to boost the Company's brand image over the years. In an effort to continuously improve product quality, the company implements a system of quality assurance at the production plant. Quality and reliability are the emphasis of the manufacturing process.

The company maintains quality control at each stage of production and packaging. The Company has a separate quality control department under the guidance of the Quality Manager. Its quality control system is state-of-the-art in the value added tea industry. The quality program commences with the inspection of incoming materials. The Quality Manager explains:

Based on a sampling plan incoming materials are inspected lot by lot. We have predetermined quality standards and we check the acceptability of incoming materials according to ISO 2859 (Appendix D, p. 369).

The tea department is responsible for the compliance of tea taste with the clients' requirements of taste. As the Tea Consultant commented:

Once a week we have a meeting to discuss the quality. We are responsible for the correct functioning of the tea department. Members in my department seek advice whenever they have a problematic issue (Appendix D, p. 363).

In the production plant there is also quality control by the food technology department to ensure the flavour of tea. Dilmah products undergo quality inspection and testing throughout the manufacturing process and this is evidenced by the programs implemented for process measurement and improvement, reduction of waste, maintenance of on-time delivery and reduction in defect rates. The Food Technologist emphasised the company's special endeavour to maintain quality of products when she said that ...

... although we (Sri Lanka) have been marketing a unique product for a hundred years, there has been very little emphasis given in the tea trade to the quality of the product simply because Ceylon tea held a unique position in the tea market. But this company has so far elevated the standards of tea from the given value addition to the tea as well as emphasis given to maintain the product. This has become a very important factor in the company. We are further implementing an "HACCP" (Hazard Analysis of Critical Control Point) system to give the customer a very safe and hygienic product. And, so far no other company has given to the customer such a product. This is the first company to be accredited with that requirement (Appendix D, p. 368).

The quality of the company's products meets stringent international requirements. Dilmah believes in quality for its success. The founder is totally committed to his industry and thinks quality is the number one factor for winning customer loyalty. Non-standard, damaged or creased packing materials or less weight tea bags are collected on an hourly basis from each machine in the production plant. A very effective quality assurance system is operated in the wrapping division. On an hourly basis, quality assurance is undertaken. Apart from the regular quality checking processes, special quality assurance processes are operated at the beginning of each wrapping session. As the Quality Manager explains:

Special sample checking is carried out in the production plant. Packaging materials are also checked for quality (ISO 2859). For quality management system, the company is an ISO 9000 certified company (Appendix D, p. 369).

7.3.2 MARKETING STRATEGY

It is generally agreed that marketing strategy is the key to market share in the tea industry, since there is substantial similarity among products, and product quality is of profound importance in order to successfully compete in the market. This is true for Dilmah because the Company is competing with multinationals in the export market using its own brand name. As the Chairman in his annual review reported:

The company's primary activity is in *marketing* DILMAH tea – not merely supplying it. Our strength as a marketer is reflected in our DILMAH's success in sophisticated countries like Australia and New Zealand, where we are in direct competition with multinational (1997/98, p.7) [original emphasis].

Dilmah tea bags were first introduced to the Australian retail market at Rosehill Race Course on the 15th of June 1985. By the time of the annual shareholders meeting in 1985, the company had earned a name as the major overseas supplier of tea bags on the Australian market. The Chairman's review in 1985 made it clear:

Much of your company's efforts have been concentrated on the Australian market, where we have successfully eliminated competition from all other origins to become the major overseas supplier of tea bags. We have now to contend with the

single local grower and manufacturer of tea bags located in Queensland (Annual Report, p. 40).

Since its inception in 1981, the Company has exported and marketed successfully a range of teas. Until 1999, the company products were limited only to export markets. Its overwhelming success is due in part to its marketing strategy – in short, its goal-oriented philosophy, which focuses on its customers. The Company's marketing strategy represents its founder's philosophy - "Dilmah cares for your tea from the nursery to your cup". The company's goal is to give its customers throughout the world garden fresh, unblended, high quality 100% pure Ceylon tea.

The Company's marketing strategy is focused on growth via health and quality consciousness (considered a significant advantage over competitors), brand awareness, strong consumer loyalty, distinctive packaging, and honesty. Its strategy is simple but strong. The Founder of Dilmah simply tells how good and fresh his beloved Dilmah tea is and how he cares for it in a brochure designed and written by himself, which is inserted into every Dilmah tea product. Dilmah tea has been highly commended for its high quality. In the Age Magazine, Merrill revealed:

What we ship from here is 100 per cent Ceylon tea because it's all packaged here, but if it's packed in any other country you can blend it with any other tea and call it Ceylon tea - but it's not pure Ceylon tea (Business Specials, Tuesday 26 January, 1999).

Proving the success of the company's marketing strategy, the company has become a prominent exporter of value-added, branded tea. In the Age magazine, the Founder revealed:

We are considered the role model in marketing, from a developing country, a commodity in its own brand in a value-added form (1999, p. 4).

The company's success in marketing can be largely attributed to the efficient and effective performance of the Marketing Division. The following section is devoted to a discussion of the nature of the marketing organisation.

7.3.2.1 ORGANISATION OF MARKETING OPERATIONS

Dilmah can be described as a marketing innovator in the value added tea industry. Marketing has been recognised as a major activity of the company. As a market led and exports oriented company, marketing strategy plays a key role in the success of the company. Because Dilmah's competitors are giant multinationals, the Company is very vigilant of its marketing activities. This is evident by the active involvement of its Chairman in the Company's marketing operations. The Marketing Director summarised the Chairman's involvement in the marketing strategy:

Our Chairman has overall management control and retains active involvement in the marketing function. The reason for this is that our company is marketing led and we believe this function to be the core of our success. In every business customers are the critical factors and ours is no different. Hence, we do not have the traditional management roles where our chairman would take a back seat in operations. He is actively involved in setting marketing policy and reviewing marketing performance etc., in weekly and quarterly reviews. He also interacts directly with myself as Marketing Director and Marketing Manager (Appendix D, p. 395).

The company's innovative advertising and promotion aimed at communicating the truth about its products, and market penetration are, its major marketing strategies. Dilmah's marketing strategy is described briefly in the following subsections.

7.3.2.2 AREAS OF OPERATIONS

Being an export-oriented company with its major customers in developed countries, the company's products are marketed through tea brokers and its own subsidiaries operated overseas. Fourteen years after incorporation the Company was marketing Dilmah tea in 70 countries all over the world (Appendix O). Among others, the company's major

customers include Coles Supermarkets, Safeway, Woolworths, Franklins, and McDonalds' Restaurants in Australia and New Zealand. The company's operations cover two main business areas: retail service and catering. As the Business Development Manager explained:

Retail Service: In retail the consumer is the decision-maker. Thus, the physical presence of the product is very important. So we spent a lot of resources on packaging. We are concerned with value added packaging simply to attract initial impression of the customer.

Catering – food service: Airlines and McDonalds restaurants: E.g. Qantas, Ansett Australia, Sri Lankan Air Lines, Polish Air Lines, Emirate Airlines, Singapore Air Lines' lounges and several other airlines. The catering service helps to remove additional costs – e.g. advertising, and promotion. What we do is generally to cut costs (Appendix D, p. 364-365).

Dilmah Tea is the only supplier of packaged tea in Sri Lanka to be selected and approved by McDonalds restaurants in 26 countries. Dilmah is a co-branded product, which McDonalds possess. On every bag of McDonalds' tea, there is a Dilmah logo of which the Company is proud.

Market penetration has been a valuable strategy, which opens non-traditional markets for Dilmah. Dilmah enters new countries regularly. International market expansion has been the key factor in the company's growth from the beginning. An important part of the Company's marketing strategy is to increase sales volume by increasing sales in existing markets and identifying new markets. Dilmah's major markets are Australia, New Zealand, Russia, the United Arab Emirates and Poland, where the Company is directly involved in marketing and distribution. India has been another successful market the company has penetrated. The Director of Marketing commented on the importance of Indian market in 1999:

We have recognised this factor and entered India approximately 6 months ago. However, we are targeting only the top 5% of the market, which demands quality and not diluting our focus and our mission by addressing the mass market. Our success is in maintaining our smallness and if we try to be another Unilever or Lipton we will lose the edge. Hence, as in other markets we shall work towards

gaining loyal consumers in the top 5% of Indian's population (Socio 1) (Appendix G, p. 394).

The Company has recognised that Dilmah is not a mass-market tea rather it is creating a niche – of gourmet tea drinkers who are willing to pay a little bit more for better tea. Thus, in new markets it does not seek to compete directly with existing brands rather its policy is to develop new products to cater to every specific taste and to treat the fancies of the ever discerning consumer. In this attempt, the role the advertising and promotional campaign plays cannot be undermined.

7.3.2.3 ADVERTISING AND PROMOTION

Perhaps the most important aspect of Dilmah's overall marketing strategy is advertising and promotion. An important goal of its marketing strategy is to increase sales by increasing sales in existing markets and identifying new markets. Since its inception, it has followed a strategy of innovative advertising aimed at informing consumers about products. The Founder is the architect of Dilmah's advertising campaign. His vision has proved itself perfectly for attracting consumers, and people recognise him as a television celebrity. Fernando recently revealed the history of his advertising campaign:

It is true that I advertise Dilmah; the idea was first put forth by our advertising agent in New Zealand who said "You maintain a quality product, possess an honest face and consumers want to be identified with what they eat and drink." He attempted to persuade me to relate my story on television, which I refused because I could not consider myself a salesman or display my face on television to sell my tea. Eventually he convinced me. The person who undertook this was Daron Curtis, the Managing Director of Waves Advertising. At present he is with me shooting some new commercials for the coming year and that recommendation brought tremendous integrity to the brand, for people say, "look that tea belongs to that man and we have faith in his ability". There is a responsibility that goes with this for I cannot under any circumstance compromise the quality of my tea – because I give consumers my personal assurance (Dilmah Online).

EXHIBIT 7-3: A DILMAH TEA ADVERTISEMENT

Please see print copy
for image




Exhibit 7-3 is a sample Dilmah TV advertisement and see Appendix P for more. As a whole, Dilmah faces escalating competition in some markets. With its own printing and packaging facilities, Dilmah is in a position to compete successfully with multinational tea companies.

Source: Dilmah Online.

Dilmah has followed a strategy of innovative advertising aimed at selected market segments. In its attempt to win consumers in new markets, it has to compete with century old, well-established trademarks. Dilmah as a family owned brand name had a lot to do with advertising in its early years. The company's growth strategies were concentrated on identifying new markets and protecting existing markets through promoting its own brand name. It recognised, however, that the marketing of nationally owned Ceylon tea was most important. One of Dilmah's great strengths has been its ability to hold its customers through heavy, targeted advertising. The importance of marketing and sales promotion to the successful operation of Dilmah tea should not be undermined. It is marketing that supports Dilmah; a commodity from a developing country has found its place in the world market. Marketing creates high prices for Dilmah, which are essential for maintaining its position and becoming a global marketer. Fernando emphasises over and over the significance of proper marketing and promotion:

There is no sense in modernising and increasing tea production at great cost if we cannot sell our tea at remunerative prices. Production and quality gains are meaningless without a real increase in prices. While the cost of production keeps rising, prices keep falling and in real terms we have been going backwards rather than forwards. Marketing is therefore paramount; and advertising and promotion is

the foundation of any successful marketing effort as Dilmah has so clearly shown. Reliance on our own brands must be the name of our marketing game. (1995, p. 11).

7.3.2.3.1 DILMAH LOGO

The importance of Dilma's logo (Exhibit 7-4) to the Company's business cannot be overemphasised. Dilmah's logo is very helpful for its unique identification. Dilmah promotional activities are in line with its attempt to protect its brand image. The Company uses its logo extensively in advertising its products.

EXHIBIT 7-4: DILMAH LOGO

Please see print copy for
image

The Company's image is supported not only by advertising and promotion but also by high quality products. Overall, the company's marketing strategy is very flexible.

Source: Dilmah Online.

Whenever there is a need to change any policies or strategies, the Marketing Division takes action immediately. For example, the company has had to face many challenges in its Russian markets, which have led to decreased overall sales and profits. As the Accountant revealed, "Ceylon Tea Services was the first foreign company to enter into the Russian tea market". With the changes in the Russian market situation, the Marketing Division was very responsive, and reviewed their marketing strategy and gave the Russian Market a low priority. The spare production capacity created by the Russian crisis was utilised in other markets. The Marketing Division is a team of very dedicated people who strive to increase sales, brand image and profit gaining financial stability for the Company. As the Area Manager (Australia and New Zealand) explains:

We have smaller teams broken into different regional units. They work as a team. At the end of the day the entire marketing work is united as one (Appendix D, p. 368).

Prudent marketing strategies have enabled the Company to continue record keeping operations year after year regardless of the challenges the Company has to face. As mentioned earlier, the Company's business strategies are integrated so that the best possible results for the operations can be achieved. A quick look at the Company's financial position reveals the nature of financial strategy. Thus, the following section concentrates on a discussion of the Company's financial strategy.

7.3.3 FINANCIAL STRATEGY

The company's financial activities are coordinated under the guidance of Director of Operations Malik J. Fernando. He is responsible for the overall corporate investment and financial aspects of the company. Financial activities are organised as a separate department under the direction of Minette Perera, Director of Finance.

One of the major activities of the finance department is the maintenance of the company accounting system. The accounting activities are organised under the Financial Controller (Chief Accountant when this research was conducted) Saradha Sosa. The financial statements are prepared under the historical cost convention in accordance with generally accepted accounting principles and the accounting standards laid down by the Institute of Chartered Accountants of Sri Lanka.

7.3.3.1 FINANCIAL SITUATION

The fiscal year of Ceylon Tea Services ends on the 31st March every year. By the time of the shareholders meeting in 2000, most of the company's shareholders knew how much the company had changed since its humble beginning. The Company had

achieved its best results since its inception. The return on equity has been a major strength of the Company from its strategic initiatives to growth strategies. By 1999, Earnings Per Share (EPS) had boomed to their highest level proving the success of the Company operations. In 2000, however, there was a slight decline in (EPS) (see Chapter Five).

EXHIBIT 7-5: FINANCIAL PERFORMANCE, 1981-2000: CEYLON TEA SERVICES LTD
(In Thousand Rupees)

FISCAL YEAR	SALES	NET INCOME BEFORE TAX	ASSETS	SHAREHOLDERS' EQUITY
1991	237,102	31,913	210,267	86,201
1992	324,023	68,755	335,062	126,660
1993	310,995	44,308	430,022	157,038
1994	372,812	54,028	606,122	197,204
1995	399,852	76,679	790,267	262,001
1996	465,371	62,100	1,077,046	309,165
1997	1,078,027	149,281	894,121	423,077
1998	1,071,402	115,944	1,316,754	513,746
1999	1,192,939	336,449	1,521,359	815,508
2000	1,464,451	355,002	1,823,293	1,116,909

Source: Ceylon Tea Services Ltd Annual Reports.

The Company recently decided to issue bonus shares in the ratio of three new shares for every seven shares held as at 30th June 2000. The Company's unique production and manufacturing strategies have earned it a unique financial position (annual reports). The company has been a success story since its inception with increasing sales and profits. Appendix Q exhibits recent financial data on Ceylon Tea Services. Some of the indicators of financial highlights are discussed in Chapter Five. An 18-year record of the financial performance of the company is shown in Exhibit 7-5. Over its eighteen-year history from 1981 through 1999, it has enjoyed steady growth in sales except in 1993 and 1998 (Exhibit 7-5).

The fiscal year 2000 was a big success for the company. Sales topped Rs 1,464,451,000 for the first time in its nineteen-year history. This was an improvement of 22% on the previous year's turnover. According to the Chairman the increase in sales, in particular, was due to the company's strong performance in Australia and New Zealand. In addition, the company enjoyed its highest performance in 2000 with a before tax profit of Rs 355,002,000. This was an increase of 35% on the previous year's figure and a great achievement by the company despite the weak currency value of its biggest market, Australia. For a company with turnover in the fiscal year 2000 exceeding Rs 1.46 billion in an emerging economy, the road to financial solvency was not always very smooth. The company has had to face many challenges over the years. During the fiscal year 1998, there was a marginal decline of 1% in turnover. Otherwise, the company enjoyed a continuous growth in sales and profits. One reason for this hit in 1998 was the decreased prices Ceylon tea received in the world market and increased raw material costs. During the period the weakness of both Australian and New Zealand currencies, the two major markets of the Company, aggravated the impact of the high cost of raw materials.

Another reason with an adverse effect on the company profits has been the Company's pricing strategy in selling to major retailers for it is committed to hold prices for three to four months and this policy has sometimes placed great pressure on profit margins. Thus, the Company is now revising pricing strategies to attain budgeted margins.

A great challenge the Company has had to face in recent years has been the Russian Crisis. The Rouble crisis in August 1998, had adverse impacts on the company's operations. Similarly, a hijack scenario of the Dilmah distributor in Russia in 1997 brought unexpected problems to the company. The domestic tea packaging industry in

Russia is growing very fast and the tariff on value added tea imports to Russia had been increased. The Company had established a strong distribution network in Russia with several years' dedicated work and was enjoying a large market share when the crisis began. In response to these problems, the Company no longer relies on Russia for a significant contribution to its sales and profits. Instead, alternative markets have been recognised to utilise unused production capacity. Regardless of these obstacles, the company has achieved success through hard work and devotion. In 1999, there was a decline in value added tea exports from Sri Lanka. Dilmah, however, entered into several new markets including Singapore, Thailand, Japan, Taiwan and Vietnam. In his address to the Shareholders in 2000, the Chairman revealed the impact of the Russian scenario, which had adverse impacts on Sri Lankan tea exports:

Your company accounted for almost 50% of Sri Lanka's total tea bag exports. While we are, no doubt, pleased with this achievement, the decline in the overall value added export is a warning that countries like Russia are now, reverting to bulk tea imports to service domestic production of value added branded tea, having developed their own brands with the active cooperation of Sri Lankan exporters. This eventuality was highlighted repeatedly in my previous reviews. The brands Sri Lankans developed for their Russian customers are our competitors today (Annual Report 1999/2000, p.6).

The role accounting plays in the company's overall performance is important specially in deciding product cost, price, and product profitability. The next section is a discussion of the Company's accounting policies, which produce important statements of the Company's financial performance.

7.3.3.2 IMPORTANT ACCOUNTING POLICIES

Ceylon Tea Services Ltd uses historical data in planning current finances. Monthly market reports are generated for each regional area. Retailer information is gathered from ACNeilson - the global leader in marketing research - information and analysis in

preparing monthly budgets. Significant accounting policies are revealed in the Company Annual Reports. Some of them are discussed below.

Inventories are stated at the lowest of cost and estimated net realisable value, after making the necessary allowances for obsolete and slow moving items. Net realisable value is the price at which inventories can be sold in the normal course of business after allowing for cost of realisation and/or cost of conversion from their existing state to saleable condition. Property, Plant and equipment are recorded at cost and depreciation of property, plant, and equipment other than freehold land is generally calculated on a straight-line basis over the estimated useful life of the assets.

As will be mentioned in Chapter Nine the company adopts accrual accounting. Tea sales are recognised at the time goods are despatched. Turnover represents the amount derived from the sale of goods, which fall within the company's ordinary activities after turnover related taxes. The annual profit is arrived at after charging all expenditure incurred in the running of the business and in maintaining the property, plant and Equipment in a state of efficiency. Maintenance and repair costs of property, plant, and equipment are charged to operations as incurred. Half year's depreciation is provided for in the year of purchase, if the asset was purchased during the first half of the financial year. No depreciation is provided for in the year of purchase if the asset was purchased during the second half of the year, and none in the year of sale. The cash rich Ceylon Tea Services Ltd basically relies on internal sources of financing. For example, the Company's 200,000sq.ft office/factory complex in Peliyagoda was financed entirely from reserves. Prudent utilisation of finances enabled the Company to minimise its reliance on bank borrowing, despite in its early years of operation bank borrowings being a major source of financing. In commenting on the Company's financial picture,

the Accountant said that he feels the Company's financial situation is very strong. According to the Accountant, in a growing company like Ceylon Tea Services such a financial situation is very useful because it brings higher return to the shareholders and the company can invest in expansion projects, which will bring significant financial benefits both to employees and consumers alike. Dilmah's policy of employee welfare – such as in house medical facilities for plantation staff, financial assistance for the education and basic needs of employees' children and themselves, and bonus schemes – is highly appreciated by its employees.

Accounting information is used especially as a guidance in establishing product price and target profit margins. It is tied into the overall strategy and control through departmental budgets. Periodically, these budgets are reviewed and updated as a means of control. The existence of departmental budgets tends to improve company operations. Dilmah has grown through increases in both sales and profits. Growth has come also because of geographic expansion. The integrated operations of the strategic business units have gained tremendous financial and other benefits for the Company. Future growth is expected to come from increased market penetration and efficient utilisation of resources.

7.4 CHAPTER SUMMARY

This chapter examined the nature of strategy implementation at the Ceylon Tea Services Ltd. It discussed in detail three functional strategies namely, manufacturing, marketing and financial. Several significant manufacturing, marketing and financial strategies were discussed. The Chapter also presents a discussion of the Company's financial position and important accounting policies are discussed. Chapter Eight discusses another component of the theoretical framework: Corporate Culture.

CHAPTER EIGHT

CORPORATE CULTURE

8.1 INTRODUCTION

This chapter examines the attempts taken by top managers at Ceylon Tea Services Limited to control organisational participants and their activities by managing the Corporate Culture. Corporate Culture represents another component of the research model developed. In this chapter an attempt is made to reveal the patterns of management control of the research organisation. It provides a discussion of why these managers behave in the way they do and it will support in understanding what control system types best describe family controlled business enterprises.

The first part of the Chapter will discuss briefly the theoretical stance of corporate culture. The second part of the Chapter discusses the nature of beliefs, expectations, and values shared by the workers, managers and owners of Ceylon Tea Services. It will demonstrate the philosophy of the Company designed to influence the value premises on which its members' organisational behaviour is based and controlled.

8.2 CORPORATE CULTURE AS FOUND IN THE LITERATURE

The literature discusses two forms of culture: national culture and organisational or corporate culture. In this research, however, attention is paid only to the latter, corporate culture, because the research is based on an empirical study of one organisation. Different analysts have provided different definitions and descriptions of

corporate culture. According to Schein's frequently cited definition, corporate culture is:

... a pattern of basic assumptions – invented, discovered, or developed by a given group as it learns to cope with its problems of external adaptation and internal integration – that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems (1985, p.9).

Reflecting both psychological and sociological aspects, Schein distinguishes those basic assumptions from values and artefacts. The term corporate culture is often used to describe the shared values and beliefs, which are attributable to particular organisations. The concept of culture has been used in order to understand organisations, organisational behaviour, and organisational change (Chow et al, 1999; Kloot, 1997; Dearstone, 1989; Hofstede, 1980).

Organisational culture is considered an important element of an organisational management control system because it determines “an individual's commitment, satisfaction, productivity, and longevity within a group or organization” (Veiga et al, 2000, p.539). A prominent relationship can be seen between the organisational culture and performance/effectiveness. When a good fit among organisational groups exists, a psychological bond is developed that is not easily broken (Veiga et al, 2000; Ashforth and Mael, 1989) and this leads to high employee job satisfaction, high morale and organisational effectiveness.

Some researchers view organisational culture as a variable while others view it as a root metaphor (Johnson and Gill, 1993). Those who consider culture as a root metaphor generally believe that culture cannot be managed or changed. Those researchers who

consider culture as a variable view culture as a “socially constructed system of shared beliefs and values” (Siehl, 1985, p.125). Thus, a corporate culture is something that can be created, managed and manipulated according to the needs of the particular organisation. Flamholtz also agrees with this view of organisational culture when he states that:

(i)n spite of the fact that it changes slowly and typically with great difficulty, organizational culture *is* a variable. It is subject to design and can be the product of management decision (1983, p.159)[original emphasis].

Any examination of the management of culture and organizational control is affected crucially by the various ways in which culture may be understood in organizational analysis (Johnson and Gill, 1993, p.101). Dawson (1996) points out that “it is a key management challenge to create a strong and appropriate culture that will facilitate both the development and implementation of a ‘winning’ strategy”. Especially, in small and family managed organisations, founders offer organisational members “the luxury of close, personal relationships and, frequently, strong, basic, shared beliefs. There may also be close identification and strong devotion to the founder and what he or she wishes to accomplish” (Johnson and Gill, 1993, p.103). Necessarily, founders may be very influential and their prior knowledge and experiences may cause them to form belief systems (assumptions) about how to carry out day to day activities and to solve problems, and cultures may be developed around these assumptions (Johnson and Gill, 1993).

Underlying the concept of corporate culture is a basic assumption that managing the self, others and situations through control mechanisms (including culture) is a

legitimate way of conducting affairs (McAuley, 1994, p.417). Simply, corporate culture emphasises management control and different cultures result in different systems of management control and differences in the patterns of management control result in different organisational cultures. In the given model, Exhibit 3.1, the relationships between the core control package and corporate culture are two-way because once created, they have an impact on the way values are subsequently changed. This means organisational culture is regarded as something manageable although it can be considered partly created through the passage of the organisation. As Johnson and Gill point out:

Founders establish organizational culture to a crucial degree, but, it is argued, what we see at this stage is culture being created rather than consciously managed – even though leaders inevitably play a key part in the formative process (1993, p.104).

Although the impact of founders' actions in creating strong organisational cultures is obvious, it is accepted that there is a limit to the extent that cultures can purposefully be managed. Culture often evolves over long periods in multiple and diverse ways (Johnson and Gill, 1993, p.104). Thus, in the current study, culture is considered both a variable, as something that an organisation 'has' and a root metaphor, as something that an organisation 'is'. The literature suggests that organisational culture can be considered the centre of an organisation. Sometimes culture may be the driving force exerting a major influence on all layers of experience and outcomes (Dawson, 1996, p.145). Similarly, culture is considered a crucial point in the design of a control system because it affects the design of other system components (Flamholtz, 1983). In Exhibit 3.1, although corporate culture is considered a separate component, it is linked to the other components because corporate culture determines or at least ought to determine

the nature of organisational structure, strategy, management information systems and the core patterns of management control. Flamholtz specifies the relationship between corporate culture and control structure as ...

(f)or example, in an entrepreneurial organization the culture required may be based upon the values of individual initiative, flexibility, lack of bureaucratic control and independence of action. Given this culture, the required organizational structure ought to be characterized by decentralization rather than centralization; loosely defined roles rather than tight role definitions and minimal rules and standards operating procedures rather than extensive rules and procedures. If not, there will be an obvious incongruity between the organization's culture and its control structure (1983, p.149).

Thus, it is believed that an organisational culture has a profound influence on a management control system. The organisation's core management control package should be compatible with its culture. The dimensions of an organisational culture influence the behaviour of organisational actors. Once the desired culture has been defined, the remaining elements of the organizational control system help transmit and reinforce the entity's culture throughout the organization to govern strategic and operational decisions and actions (Flamholtz, 1983, p.159).

The following section focuses on a discussion of the corporate culture existing at Ceylon Tea Services Limited. It particularly examines the influence of the founder in shaping and reshaping the organisational behaviour of the Company's participants through an intentionally managed corporate culture.

8.3 CORPORATE CULTURE AT CEYLON TEA SERVICES LIMITED

Ceylon Tea Services Ltd can be described as a unique organisation in which a strong corporate culture, different from other organisations in Sri Lanka, exists. Sri Lanka has "a long history of ... a rich culture that dates back 2500 years" (Atapattu, 2002, p.18).

In fact, Sri Lanka's culture is often cited as being rich and diverse. The richness and diversity of the cultures in Sri Lanka are a direct result of the diverse ethnicity of Sri Lanka. Several ethnic groups namely, Sinhalese, Tamils, Muslims, and Burgers live in Sri Lanka. Between the Sinhalese and the Tamils, the two larger and opposing ethnic groups, are the Muslims and the Burgers. The culture and identity of these ethnic groups are shaped largely by their religious beliefs. Buddihisms, Christianity, Hinduism, and Islam are major religious beliefs in Sri Lanka. The rituals and norms among these ethnic groups are diverse to a great extent. Among these ethnic groups several languages are spoken. Sri Lanka also has a history of social discontent being expressed in the form of rebellion and violence. These are the major challenges of the government. Add to this is a political culture of corruption and abuse of power in Sri Lankan institutions. Labour unionisation is very popular in Sri Lankan institutions. As a result, strikes, rallies, and work stoppages have been major characteristics of the history of industrial relations in Sri Lanka.

Dilmah producers, however, are often cited as a firm that has achieved strong performance in pursuit of both financial as well as social responsibility goals despite the diverse ethnicity group actors and their cultures existed in the company. The company has been successful in controlling the inter and intra cultural relations which affect its control strategies. This organisation has been able to avoid problems that have bedevilled other Sri Lankan enterprises by creating a strong corporate culture. At a glance, one can see that the company facilitates its employees far better than the other enterprises in Sri Lanka. One reason for this might be the factor that the company sells its products in developed western countries while it uses chief domestic labour for

manufacturing. Thus, Dimah operations are very profitable and it can provide its employees reasonably high welfare facilities. However, Dilmah is not the only company which uses chief domestic labour for producing for markets in developed countries. The company's leadership style might have resulted in a strong corporate culture.

The company started as a small teabag manufacturer in 1985, because of Dilmah founder's dissatisfaction with the poor reputation of Ceylon Tea in the global market (Chapter Five). The challenges and barriers the Company had to face in its infant years were numerous. Despite all these obstacles, the company has developed into a giant in the tea bagging industry. Its sales and profits represent an impressive financial performance for an entrepreneur in an emerging economy.

Part of Dilmah's unique performance can be attributed to its strong corporate culture. Over the years, the Company has developed unique norms and values in the areas of operations, human relations and social responsibility. Much of the company's corporate culture has derived from its founder, Fernando's personal philosophy and his experience in the tea business for nearly half a century. When the Company was very young, Fernando made almost all of the strategic decisions of the enterprise efficiently and effectively. A workaholic, Fernando's typical day was 17 working hours and Saturdays and Sundays were mostly devoted to Company operations (Dilmah online). He was known among his employees for his determination and dedication. In recent years, Fernando's two sons have joined the Company contributing their skills and knowledge and sharing the decision-making responsibility. Thus, the Company's

philosophy of management has been further shaped by the Founder's two sons' intellectual abilities and vision, formed by a Western education and their Eastern heritage. The Chairman together with his two sons has formed an excellent team, which guides the operations of the company. The team together with other organisational members has shaped and reshaped organisational norms and values to formulate a system, that is unique to the Company.

The Company's culture represents a shared system of interrelated understanding shaped by its managers' and subordinates' experience in the past performance of the Company and in its future expectations. Unique norms, assumptions and values that the employers and employees share regarding the rules of conduct, administrative procedures, rituals and customs in the above mentioned areas can be found. They define a set of 'shoulds' and 'oughts' of the Company's everyday life. Several areas in which these norms and values have made a direct impact on the Company's development and on its philosophy of management can be identified. They are:

- a) Commitment to Quality;
- b) Passion and Dedication;
- c) Concern for Consumers;
- d) Concern for Employees;
- e) Concern for Innovation;
- f) Social Responsibility; and
- g) Concern for the Environment

8.3.1 COMMITMENT TO QUALITY

The Company pioneered the tea bagging industry in Sri Lanka in a period when large multinational corporations dominated the tea business in the world. In its early years of operations, most of the company's efforts were concentrated on the Australian market.

By 1985, the Company had successfully eliminated competition from other tea suppliers and become the major overseas supplier of tea bags on the Australian market.

As the Annual Report to in 1991 revealed within a very short period of operations the Company had become...

“the tea growing world’s No. 1 manufacturer & exporter of tea bags and speciality teas today and is acknowledged to be a role model for marketing a developing world commodity in value added from” (p.2).

The secret behind such achievement is the Company’s insistence on quality. Since the introduction of Dilmah tea, the Company has guaranteed the following to its customers in order to maintain the high quality of its products:

- a) 100% pure Ceylon tea;
- b) Freshness, flavour sealing and delivery direct from high tea gardens of Ceylon;
- c) Traditional methods of hand picking and preparation; and
- d) Tea bags with real leaf tea taste and flavour.

Dilmah tea is picked, processed and packed within days. A feature of the Dilmah manufacturing process is that the tea is hand picked, harvesting only two tender leaves and the bud giving it a distinctive flavour. However, Dilmah remains totally committed to the traditional method of manufacturing which has been proven the best over more than 125 years. Dilmah’s culture has been dominated by the concept of quality. The founder (Dilmah Online) highlights the importance of quality:

As one of the world’s few remaining traditional tea tasters, I do not compromise on quality. I cherish the past and believe that, as in many other things old is gold. Not old tea, for tea must be fresh, but the old ways of manufacture”.

Managers consider the quality policy as a guide and employees over the years have taken great pride in the Company’s reputation for its high quality products. Currently,

quality consciousness has been Dilmah's hallmark and the Company has been rewarded for its commitment to quality. For example:

Quality of our products is very important. Tea tasting is of paramount importance to the export industry. Tea tasting is done for each variety (Tea Consultant, Appendix D, p. 381-382).

Commitment to quality is very high. It is the reason behind the success of the company (Area Manager of Logistics, Appendix D, p. 387).

The success of our company depends on the brand and high quality. Quality policy is in everybody's head. They are intended to do the work according to it (Shipping Manager, Appendix D, p. 386).

EXHIBIT 8-1: QUALITY POLICY

Please see print copy for image



Source: Company Visits

The Founder's insistence on quality has resulted in developing quality consciousness as a strong cultural component of the Company. Simply, quality consciousness has given the Company a competitive edge.

In 1997, giving further emphasis on quality, the company developed a quality policy (Exhibit 8-1). A copy of the quality policy is displayed in each department, lobby and other places where employees get together such as the canteen. As the Quality Manager remarks:

Quality Policy is displayed in every department simply for the reason without knowing it they cannot achieve it (Appendix D, p. 388).

Employees in the Company from senior executive to machine girl is inspired by the concept of quality. Quality is the major issue in all Company operations and it is not a topic restricted to the discussions of the higher echelon. In the Accountant's words:

Even at lunchtime, I have observed factory workers talk about the problems with machines. Everybody from management to the factory floor is concerned about the quality of work (Appendix D, p. 385).

In order to maintain the quality of its products, the Company's quality department has introduced quality improvement programs at each aspect of tea production. The Quality Manager (Appendix D, p. 388-389) further explained:

We have a number of quality improvement programs. When there is a problem, we have a form to be filled for that problem. The relevant personnel meet and discuss as a team for a solution. Decisions regarding systems errors are made by the quality manager and not by the Chairman. We collect all such forms for a month and analyse them using quality check techniques such as Pareto analysis. We identify the important areas to which we should pay more attention. We carry out monthly quality improvement meetings to discuss all necessary matters with several managers and directors. It is an informal meeting; the group quality controller and quality manager necessarily attend it. Every three months a management review meeting is held to see the effectiveness of the quality activities. Chairman and senior Managers attend it and it is a formal meeting.

The Company's quality program is combined in the customer-supplier chain. The quality department gathers information relevant to quality, which is used for:

- a) Analysis of customer complaints;
- b) Analysis of internal complaints; and
- c) Internal audits (quality)

Simply, the Company's commitment to quality is total. As the Chairman explained:

I never compromise on quality and flavour. Each week my team and I taste some 5000 different teas from several hundred plantations to select only the finest for Dilmah (Dilmah Online).

The company has trained a team of internal auditors to assure product quality. The team of auditors using an audit plan conducts an independent audit. In the production plant on line, inspection of finished goods and processing is carried out. Quality consciousness has changed the Company members' behaviour largely. From the time they start work they hear and see things relevant to quality and they believe their superiors are really fostering an environment, which is quality conscious.

8.3.2 PASSION AND DEDICATION TO WORK

Another significant component of the Company's corporate culture is the dedication to work by its members, reinforced by the founder's passion for the tea business. The norms of hard work initially came from Fernando who spent huge amounts of time in order to establish and maintain the Company in its early years. As he says ... (Dilmah Online).

I have dedicated my life to tea. My mission began forty-seven years ago.

His dedication to the tea business has rewarded him in many ways. However, the path he came along was not smoothly paved. When he started his bulk tea business the challenges and obstacles he had to face were enormous and intimidating. These obstacles came not only from multinational tea companies but also from his own people. For example, with a total commitment to quality and hard work by 1970 he rapidly gained strong acceptance in the tea export industry enabling his business to grow. His Company soon became one of the top 10 tea exporters in Sri Lanka and the only Sri Lankan owned tea business to enjoy this success, but not for long.

In the 1970s with the election of a new government with Socialist economic policies, he lost his tea plantation to nationalisation. Despite these obstacles, Fernando started his own tea bagging industry challenging the multinational tea companies. He did not get any support for his new venture. However, Fernando's passion and dedication to his business overcame all the obstructions. Recently Fernando (Dilmah Online) went on to explain the issue:

When I tried to set up my own value added business, none supported me - that is only because people are used to the beaten track. In the tea industry, I have observed that the moment someone attempts to bring change and innovative ideas someone pushes them back to the original position. I would not abide by this and I did it my way; you create many enemies in the sense that they do not understand your mission, position or what your intentions are.

Challenges were not limited to the Company's early stages. Even after the company earned a reputation as the largest tea-bagging exporter, it had to face different kinds of problems. One such discouraging incident was the problems with the Russian tea trade. With many years' hard work by 1997, the Company had developed Dilmah brand as the second most popular brand on the Russian market.

Our brand grew immensely popular and we were shipping over 100 container loads of tea per month, and that was a tremendous quantity of tea. The Mafia possessed their own tactics to deal with successful brands. They directly approached our distributor and requested for a share of the business, which they refused. Later they requested twelve million dollars and we refused. Two weeks later they entered the office under the pretext that they were officials and removed about eight and a half million dollars worth of tea from our distributor's warehouse. This affected our distributor and us and created an unfavourable impact on Dilmah. They dumped the tea in the market at 50% below our selling price. However, it was a blessing in disguise although an expensive one, for everyone who could not afford to purchase Dilmah could do so now. The next year we faced another obstacle which was the Rouble crisis, we took this also with good spirit and I have been cautious, when undertaking business, always expecting shortfalls to occur. We saved, built up our reserves and we were able to withstand that blow (Dilmah Press Releases).

Hard work has been another slogan of the company. Company executives also work very hard setting a good example to the workers. They do not work according to fixed timetables. If there is a job to be done, it is done regardless of day and night. The founder's two sons are also hard workers. They share the responsibilities in developing their tea bagging industry. In a recent interview, the founder revealed:

Malik is an intellectual (he) however undertakes responsibility well. He has proven to be an excellent manager and possesses the ability to handle difficult situations extremely satisfactorily. Dilhan is an honest and sincere salesman, he has the ability to interact and get along with people therefore he is the Marketing Director and Malik is an Executive Director. Between the two, I possess an excellent team, they have built their own teams for marketing and management. I am proud of their achievements, which I could never have accomplished because I am too involved in my work and they are getting involved in the business although I never pushed them to it (Dilmah Press Releases).

Proving the founder's remarks the Director Marketing puts forward:

We are here all the time except when we travel overseas. Unlike some managers in the government sector, we do not play golf while others are working. We also work very hard. Sometimes I am here even before 6.00am and leave most of the time after 7.00pm. The employees have a feeling that we are also hard workers (Appendix D, p. 381).

Dedication to work has been a norm among the workers. They value the notion of dedication. Commenting on the success of the Company the Tea Consultant says:

Vision and motivation towards work is the secret of our company's success. We look in to the future to find and create new markets with a totally different approach and whilst doing this we have to fight with multinational companies. Dilmah has become very strong because of the strong commitment by the Chairman. This company has grown to great height and we are looking to achieve more and more heights in the years to come for these constant changes are necessary (Appendix D, p. 382).

Employees accept that the dedication and passion of the Chairman is a permanent part of the Company lore and following his example everybody works hard for a common goal. The Area Manager of Logistics (Australia and New Zealand) comments:

The Chairman's experience and passion to the brand have contributed to the success of the company. Everybody from Chairman to the workers dedication is to the fullest amount. Here everybody is slightly overworked. Fully work. No time to gossip. Hard working as well as rewarding is there (Appendix D, pp. 387).

As such, passion and dedication to work have been an inherent part of the culture. Employees believe they ought to work hard in order to develop the organisation that takes care of themselves and their families. As the Tea Consultant revealed:

We are very keen in developing and the growth of the company. We look in to the future to find and create new markets with a totally different approach and whilst doing this we have to fight with multinational companies (Appendix D, p. 382).

As such, the top executives' dedication and passion for work always has and will influence the value premises of Dilmah employees regarding work in the organisation.

8.3.3 CONCERN FOR CONSUMERS

Dilmah's operating philosophy places a very strong emphasis on being responsive to its consumers. Responsiveness to the consumer is the basis of the strategy of integrating consumerism programs undertaken by the Dilmah marketing division. As with the Dilmah founder, the Business Development Manager believes that, "the heart of our business is to satisfy the consumer" (Appendix D, p. 383). All company activities are

directed towards fulfilling consumer needs in the best way. “We are customer oriented”, (Appendix D, p. 382) pointed out the Tea Consultant.

As already discussed, the company production is based on contract sales. Major retailers and several food services around the world are the company’s main customers. The company attempts to keep the relationship with each customer in the spirit of a long-term partnership, once a customer is identified. “Every client thinks that he is a king. We always try to provide what our clients want, when they want it and at a reasonable price”, (Appendix D, p. 381) said the Marketing Director.

In its attempt to satisfy its customers and consumers, the role provided by market information has been invaluable. Extensive market research and consumer surveys are conducted in order to recognise changes in consumer demand. Based on the results, the company has developed improved distribution systems, new markets, product developments and improvements and created consumer liaison programs accordingly. The Business Development Manager, further, explains the process of collecting information for developing new markets:

We gather information about new markets through marketing research and overseas agents. Mainly from ACNielsen-the global leader in marketing research information and analysis. They collect information through on-line scanning data about what the competitors do and the changes of consumer demand and so on. The information is regarding every product: state-wise, town-wise, and customer-wise both on quantity and brand (Appendix D, p. 384).

With the increase in global competition, company executives have recognised that customer satisfaction is an essential area for growth and creating shareholder value. In pursuing this objective, the Company conducts extensive studies of dealer and

customer satisfaction by its own personnel, and through internationally reputed market research organisations. Special attention is paid to handling customer complaints through the joint efforts of the marketing, quality, food technology, tea, and manufacturing departments. As the Quality Manager explains:

If we identify any complaints from customers, we carry out studies on a continuous basis to maintain continuous improvement in addition to daily meetings regarding quality (Appendix D, p. 388).

The Menu Master is prepared on a client basis and is kept in the company for a period of 3 years. Thus, if the client questions the quality, packing or other relevant issues the company is in a position to answer with proof. Apart from all the attempts to maintain quality and satisfy consumers, Dilmah makes a final effort to inform its consumers about the procedure to be taken in case of a faulty product through a special message from the Founder of Dilmah inserted in tea boxes:

Despite all our care and attention to quality assurance, reliance on a fully automated production line does deliver a faulty product occasionally. If you do run into any, please advise our distributor who will cheerfully forward a replacement and bring it to my notice. Wherever possible please indicate the batch code, which is embossed on the box. Complaints and endorsements are received in the same spirit and they will be responded to as soon as possible (Appendix I, p. 445).

The Dilmah Institute for Tea Research is engaged in numerous research projects, which aim to investigate the properties of tea as a healthy beverage. The institute's findings are published informing tea lovers of the latest tea information. Dilmah maintains a website in order to inform its customers and others interested in knowing more about tea. The website is full of informative articles and press releases, which provide invaluable information about the origins, health benefits and other relevant issues of

tea. The Company offers its online visitors a Dilmah Tea publication, 'From Plant to the Pot', free of charge.

Dilmah customer service includes Complaint Handling, Online Tea Boutique, and Tea Connoisseurs Club among others. The Tea Connoisseurs' Club offers an online forum for those who enjoy fine tea, to share their experiences with tea stories and advice. The team also publishes tea news, tea recipes and conducts a six monthly tea connoisseurs' tea-total competition with prizes. The Dilmah Tea Forum is designed to answer any queries relating to tea. Dilmah's links with its consumers are strong and continuous. As a result, Fernando receives hundreds of letters from tea lovers around the world. For example, here are two of Dilmah consumers' comments:

For some years now I have drunk less and less tea as I find that many well advertised blends of tea have little or no flavour. Until my wife and I discovered Dilmah Ceylon tea during a trip to Australia last month, I had assumed that this apparent lack of taste was an inevitable consequence of growing older. Your Ceylon tea has made me realise there is nothing wrong with my taste buds: ... (John Gregory, Pulborough, West Sussex); and
I wish to thank you for the best tea I have ever tasted. I would rather go without a cup of tea if there isn't any Dilmah. Thank you for the best tea in the world (Elsie Bushby, Victoria, Australia) (Dilmah Online).

8.3.4 CONCERN FOR EMPLOYEES

Another important component of the corporate culture is the high level of care the Company provides to its employees. The Dilmah founder values its employees highly. He says, "The strength of the business is in its loyal staff" (Annual Report 1998/99, p.8). The Human Resource and Administration Department focuses on human resource activities and issues. Human resource planning and development has become an integral component of the planning process. The focus of the company's training and development programs is Total Quality Management (TQM). Especially, factory

workers are given special training in operating tea-bagging machines. Office employees are given extensive training in computing. The emphasis of these training programs is on creating experience with TQM that focus on product quality and thereby maximises the value added by employees and enhances the growth of the Company.

Since its inception, Dilmah has enjoyed a special relationship with its managers and employees. The company offers its employees above average salaries, unique welfare, and the opportunity for significant input into the company's day-to-day operations (interviews and discussions with employees). Dilmah's philosophy regarding its employees is that all employees are to be treated with courtesy and respect. The Company fosters an open two-way communication. Open communication is a unique cultural feature of Ceylon Tea Services Ltd. During the researcher's visit to the Company Head Quarters in 1999, the researcher observed the cultural norms prevailing at the Company, which are different from those in other organisations in Sri Lanka. Managers are given access to key information such as sales data that they would not receive if employed at other organisations in Sri Lanka. Every worker is considered an associate, not an employee and is called by his/her name. Every manager – even the Chairman – knows his employees individually by their given names. Managers are also called by his/ her given name.

The researcher was astonished to hear the Marketing Director's Secretary address him as "Dilhan". A former British Colony, Sri Lanka still has a tendency to adopt bureaucratic administrative procedures and often superiors are addressed with respect using sir or madam. Later, it was found that top managers encourage and approve such

behaviour, which is very rare in other organisations in Sri Lanka. As a response to the researcher's inquiry, the Dilmah founder's younger son, the Marketing Director comments:

Even Jayanthi, my secretary calls me Dilhan, we all are human. I know most of the employees by their names. Here we encourage open communication (Appendix D, p. 401).

Open communication is a distinguishing characteristic in the tea factory too. No apparent hierarchical gaps are to be seen between the supervisors and subordinates. The flow of communication is easy and continuous. Everybody is cooperative and determined to achieve a common target. Managers and factory floor workers talk easily with each other. In the young Assistant Production Manager's words, "in my view Sri Lankan people (work force) need much care. They expect some sort of fairness. At the same time, we should be firm as leaders"(Appendix F, p.381). Perhaps, the young manager believes open communication is a means of being fair to his subordinates. Similarly, being strict and fair could mean that attention should be paid to employees' performance and behaviour at work as Taylor (1913) explained:

...the workman fails to do his task, some competent teacher should be sent to show him exactly how his work can best be done, to guide, help, and encourage him, and, at the same time, to study his possibilities as a workman (pp.69-70).

As such, open communication at Dilmah with minimum barriers is considered very effective. It has been useful in monitoring and controlling worker performance. The labour force at Dilmah, however, is not unionised. The company attempts to make union representation unattractive and unnecessary. The top managers always encourage employee participation in decision-making and the founder's belief is that employees

are well treated and there is no need for employee organisations. A Lady Security Officer shared her experience in this regard:

The company does not allow organising Trade Unions. Once two truck drivers wanted to start a strike. The Chairman said, "I have earned enough. I am doing this business for your own well-being. Keep the keys on the table. You can quit or I will close the company". The drivers kept quiet and everything returned to normalcy soon (Appendix D, p. 381).

Dilmah employees are free to talk about their problems with Company top management. As the Area Manager Logistics explained, "Easy access to the top management is a privilege", (Appendix D, p. 387) because in many organisations in Sri Lanka employees are not allowed to talk face to face freely to managers at the top of the hierarchy. In contrast, Dilmah employees do not need representatives to talk on their behalf. If an employee has something to discuss s/he can talk face-to-face, even with the Chairman. One may, however, question the productiveness of such communications. Employees may not feel free to talk about work related issues with owner managers. Top managers, however, believe their employees do not need representatives to talk on behalf them. As the Director of Marketing went on to maintain:

No trade unions are needed. Trade unions try to represent all. But it is always only two or three peoples' views not everybody's. We are open and if they have a problem, they can come to see us directly. We dance at the parties with them. We have good relationships with the staff. When there are trade unions, managers will see the employees as bad and employees will see managers as bad. If somebody has a problem, s/he can talk to us openly anytime (Appendix D, p. 381).

Regarding trade unions, the employees' common attitude may be contradictory. They did not criticise the existing situation or appreciate it. Some managers have revealed that they are overworked. Perhaps, these managers might think if they were unionised,

they could change the situation. Some managers, however, are not concerned about losing the opportunity to unionise. They find the middle ground considering the other opportunities they get. The company executives appreciate their employees' organisational roles and individual abilities. The expected behaviour of employees is often communicated clearly among employees by top managers. In return, the employees are loyal to the company and appreciate the attempts their managers take to adjust their behaviour in a fruitful manner. For example, the Area Manager of Logistics' comments:

We have had no strikes. If employees are not happy, unions are created. Here the employees are happy and work harder. There is no reason for them to organise as unions (Appendix D, p. 388).

EXHIBIT 8-2: CHAIRMAN WITH PLANTATION WORKERS' CHILDREN

Please see print copy for image

The company celebrates customary local rituals with its employees' and their families (Exhibit 8-2). To promote its employees, Dilmah undertakes performance evaluations periodically (Chapter Nine). Employees are loyal to the company and accept its cultural values and norms. With its high level of compensation and culture that emphasises the employees and their contributions, Dilmah is ranked among the best employers in Sri Lanka (interviews and discussions with managers).

Source: Dilmah Online.

In a country where union demonstrations, strikes and meetings have become a day-to-day practice even in small enterprises in both the public as well as private sector, the harmony and friendship existing at Dilmah clearly demonstrates a unique culture. Dilmah is a place where people belonging to many nationalities and religions work as a family. Dilmah staff consists of different ethnic groups and nationalities such as Sinhalese, Tamil, Burger and Australian. They believe in Christianity, Buddhism, Hinduism and Islam. However, their unity and harmony is very strong. Despite the 19 year-old Sinhala/Tamil ethnic wars in Sri Lanka, Dilmah Sinhalese workers share their lunch packets with fellow Tamil workers.

The Company's wages are some of the highest in the industry and above average compared with other industries in the country (interviews and discussions with managers). The overtime payment for factory workers is 1 1/2 times the normal wage, which is significantly high. The Company's philosophy is that employees work hard for the well being of the Company and in return it should take care of them. The Area Manager of Logistics says:

People are rewarded well. The salary level is super. Our salary is above average (Appendix D, p. 387).

The Company places a strong emphasis on staff welfare by providing in house free or subsidised medical facilities for staff and financial assistance for the education and basic needs of staff and their children. Since the inception of the Company, the Chairman has maintained a tradition, which continues to date of providing school clothing and books for the children of staff who cannot afford them.

The company provides high-level recreational and sanitary facilities to its members. Employees are very satisfied with the attention and care they receive from the Company. For example, the Security Manager said, “I am giving my maximum to the best satisfaction of this company because the company is looking after us very well. Job satisfaction is there. Most certainly I am happy to work with the company”. Unlike other organisations in Sri Lanka, Dilmah employees are happy to talk about their employer. As a Lady security Officer explains (November, 1999):

Company gives toothpaste, soap and uniforms to the workers. Employees receive grand presents on their weddings. On the Chairman’s and his two sons’ Birthdays, Birthday Cake is given to everybody at the company. Once a year there is a grand celebration at the company- a get together (Appendix D, p. 381).

For these reasons, some employees who leave the Company for some reason return to the Company. On this issue the Marketing Director comments:

Yes, some have returned. Because other companies do not care for employees in the way, we do (Appendix D, p. 381).

8.3.5 CONCERN FOR INNOVATION

Dilmah’s concern for innovation is very high. The Chairman in his address to the Shareholders in the new millennium restated the company’s mission for the future:

We shall take our tea industry to greater heights in the next twelve months with product innovations, which will crown Ceylon tea as the trendsetter, the undisputed leader in quality and in bringing hope to the industry (Annual Report, 1999/2000, p.7).

Dilmah innovations are always aimed at improving the quality of its products. A unique aspect of the company is its capability to conduct scientific research into the quality and health benefits of tea, enabling it to develop better technologies for producing a

variety of quality products. The company does not believe in cosmetic innovations as some other tea manufacturers do. The Chairman, explains this further:

In countries like Australia, New Zealand and a few others where DILMAH has acquired good market share, your company is respected and looked up to as the innovator in the tea category. While we innovate quality our major competitors' innovations remain strictly cosmetic. This does nothing for the industry or for the consumer (Annual Report, 1999/2000, p.6).

“Innovation is an everyday thing at Dilmah”, said the Marketing Director (Appendix D, P. 381). From its inception, the Company has been interested in innovations, which improve the quality and freshness of its products rather than in cosmetic changes for the sake of attracting the consumers. It is constantly looking for new ways of maintaining the high quality of its products and developing new products for the discerning customers. Employee ideas and creative suggestions are always listened to and encouraged by company executives. However, as pointed out by the managers, the Chief Executive Officer's influence on innovation is tremendous:

Innovations come from the CEO. And we are driven by them. Others also give innovative ideas if they have. But the CEO has new ideas all the time. His decisions have never gone wrong (Accountant, Appendix D, p. 385).

Innovations also come from the Chairman. It has always been successful (Area Manager of Logistics, Appendix D, p.387).

It is the policy of the Chief Executive Officer to look into product quality, marketing and innovation areas by himself. In making decisions, however, the CEO always consults other managers and workers. As a Junior Manager states, “Senior Management encourage innovation because our products are mainly for export markets and quality is the number one priority of company operations” (Appendix D, p. 390). The company's product development team engage in quality control, new product development, improvement of existing products, and designing packages.

One significant marketing and manufacturing strategy of Dilmah is the development of new products for its new markets. Within Dilmah premium brand a large range of products are available for serving different segments of the economy in the company's markets all over the world.

8.3.6 CONCERN FOR THE COMMUNITY

Another unique cultural feature of the Company, which is not very common in many other private sector organisations in Sri Lanka is the high level of concern for the community well being. As a corporate citizen, the company takes a positive economic, social and intellectual stance towards the community. Actually, this can be described as part of the founder's unique personal philosophy, which is concerned with an awareness of the needs of the others and the value of sharing wealth with the destitute. For many years, Fernando has been involved with charity work. As Fernando said, "We bring nothing with us and we take nothing with us. Therefore the wealth we acquire while we serve here, must be given to those who work with us, to the needy and towards alleviating poverty" (Dilmah Online). He shares his profits and his family wealth with those who are less fortunate.

Fernando has set an example to other businessmen in Sri Lanka by establishing a charitable organisation, "The Merrill J. Fernando Charitable Foundation" with the intention of helping the less fortunate. The Foundation, which is outside Fernando's control, initiated its charity work by supporting a major project to provide breast cancer screening facilities in Colombo, where these facilities are inadequate. Since 1998, the entity has been providing numerous community activities. The Foundation is expected

to support the community with building hospitals, orphanages, schools, and homes for the elderly in rural areas where inadequate facilities exist. Scholarships and grants for educational purposes will also be provided. About one third of Fernando's wealth has been transferred to this Foundation. In a press conference, Fernando reveals his family's future plans about the Foundation:

About a third of my wealth is for my foundation, the Merrill J. Fernando Charitable Foundation. Within three years of my death, all my wealth will be transferred and my children progressively will transfer some of their wealth. I did that because I was brought up in a middle-class family and I had a lot of wealthy relatives and friends and I find I have performed better than some of them even those who were wealthier than I. I continue to work hard, even harder in the present day and age. I have wealth acquired through the co-operation and the assistance of many other people who worked with me. I realise and I strongly believe that we come into this world with nothing and go with nothing. I have added to this philosophy that the wealth should return to those who helped us to acquire it while we are still around. Although I have confidence that my children will handle this situation appropriately I am giving it back before I go in tribute and thanks to consumers, workers and others who helped me along the way. We help children and the elderly or infirm in several countries where we also sell our tea (Dilmah Online).

The Company donates teapots and mugs to retailers to be sold and the proceeds to be donated to local charities in several countries. This endeavour will not only benefit thousands of disadvantaged people but it will also create awareness among others to be kind to those in need of help. In addition, the Company is playing a significant role in supporting the Ronald McDonald Houses and the Children's Leukaemia and Cancer Research Foundation in Australia. The Company is also supporting the Hospice movement in New Zealand. The Marketing Director said that:

(w)e supply children's hospitals in Australia with tea free of charge as a gesture of goodwill and support for their patients (Appendix G, p. 417).

The Founder's vision is that the value adding tea industry he initiated will provide significant economical benefits to many in some Asian and African countries with a

heavy reliance on tea as a commodity. The employees are proud of the company's attempts as a corporate citizen.

8.3.7 CONCERN FOR THE ENVIRONMENT

From its inception, Dilmah has displayed a strong commitment to both the physical environment and the communities it serves. Dilmah cares for the environment since it uses unbleached or oxygen bleached tea bag paper, which does not require chlorine, or chlorine based compounds, in treating wood pulp.

The Company's integrated operations including tea plantations and printing and packaging are also conducted in an environmentally friendly manner. Specially, in the plantation section, special measures are taken to ensure the sanitary conditions of plantations. Among other things, special attention is paid to prevent erosion in the tea plantations. As such, the company has much concern for the environment. The surroundings and sanitary facilities of the company factory and office complex are of superb condition and equal to those in developed countries.

As revealed in the above discussion, the company is attempting to create a culture favourable to both the company and its employees. The top managers' emphasis on quality, hard work, concern for innovation and environment is laudable. It is obvious that as a family controlled business entity, Dilmah wants to be increasingly wealthy and profitable each year. One cannot find fault with such an objective of a business organisation. The company's employee welfare facilities are of high level. There are, however, some extremist approaches to control adopted at Dilmah.

One example is the Founder's reluctance to allow an employee organisation. This can be considered a breach of employee rights. On one hand, without unionisation employees have to accept any rules, regulations, or procedures the company set on them. They do not get the opportunity to raise their voice against injustice. On the other hand, unionisation creates unnecessary problems among employees, once organised employees try to find fault with the managers' decisions and their behaviour. Employee unions very often seek advice and support from other unions in the country making the managers' job very difficult. Similarly, the harmony among employees would be affected because of the possibility of holding a contrasting view. Dilmah employees, however, do not understand the importance of labour unionisation. The company's prohibition of unionisation has cut down employees' human rights. They do not have the privilege to raise their voice against any unwanted decisions managers take regarding their employment related issues. Their jobs are at high risk. As the Lady Security Officer pointed out employees have to keep quiet to protect their jobs. Dilmah employees' rights are very low when compared with their counterparts.

Another weak aspect of the company's culture is excessive emphasis on hard work. For the Fernando Family it is something to be proud of. They start the day at the company and finish the day at the company. The Fernando Family is highly rewarded for their dedication and hard work. However, the set of rewards for the Fernando Family is very different compared to that of the employees. Some managers and employees are, however, not very pleased with the long working hours and high workload they get on some occasions. Similarly, some managers do not appreciate the high level of family influence in strategic and operational decisions. As one manager (anonymous) said,

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“we do not know when and where the senior managers hang around. We do not gossip here”. Some believe that the family group is excessively privileged. One employee said, “it is the only Fernando family who go overseas on business trips, not us” (anonymous). Overall, however, Dilmah’s corporate culture is very favourable to its employees. Dilmah employees’ earn almost double the salary they would get if employed at other organisations in Sri Lanka.

8.4 SUMMARY

This Chapter discussed the notion of corporate culture as another component of the model developed in Chapter Three. It examined the corporate culture in both ways that have been discussed in the research literature and operated in the research organisation. Several characteristic components of the corporate culture do exist at the Ceylon Tea Services Limited and are identified and discussed, in particular, the formation of a corporate culture at the organisation. It is observed that the founder’s influence in forming and shaping the corporate culture has been very influential. Similarly, the company’s corporate culture has been very influential in controlling the organisational members’ behaviour within the organisation. Chapter Nine discusses the Management Information System at Dilmah.

CHAPTER NINE

MANAGEMENT INFORMATION SYSTEMS

9.1 INTRODUCTION

This chapter analyses the systems of management information at Ceylon Tea Services Limited. It does this by considering two interrelated areas designed to provide information for managers. Management Information Systems was recognised as an important component of the proposed management control model. The chapter attempts to reveal what types of management information systems are existed at the research organisation. First, the nature of management information systems at the Company is discussed. This analysis enables a discussion of the importance and application of systems of management information within the entity. Second, the formal accounting information system of the Company is considered. This enables the understanding of the technical sophistication, format, emphasis, and use of this system as a managerial information system.

The chapter is organised as follows. The first section considers the nature and major features of management information systems of the company. The second section analyses the features of formal accounting information systems of the company. The chapter concludes with a summary of the discussion.

9.2 THE NATURE OF MANAGEMENT INFORMATION SYSTEMS

Information systems, especially, Management Information Systems can be either manual or automated. However, because of the widely available computing technology and the complexity of information requirements of organisations, most of the

information systems are computer-based and are considered to be formal systems (Wong, 1981). Long (1989) also asserts “(w)hen someone speaks of an information system today, an automated system is implied” (p.35). Such a system provides storage and retrieval as well as integration of information for different functional areas and management levels of an organisation. Kallman, et al (1980) argues, “(m)any computer data systems perform clerical activities and store information, but an MIS is an active system oriented toward overall organizational effectiveness, providing information for support of decision-making” (p.35).

Wallace said that “(b)ecause of this interdisciplinary nature of the concept, seeking a definition of computer-based management information systems has caused fierce disputes” (1980, p.8), for many decades. While the number of articles and books on the subject is huge, there is still no universal consensus of the term. Many researchers on the subject agree that it is difficult to define what an information system is (Wallace; 1980, Garry and Jeffery; 1971). However, several authors have given commonly acceptable definitions of management information systems. Davis (1974) puts forward the following definition:

A definition of a management information system, as the term is generally understood, is an integrated, man/machine system for providing information to support the operations, management, and decision-making functions in an organisation. The system utilises computer hardware and software, manual procedures, management and decision models, and a data base (p.5).

McLeod provides a detailed definition of a management information system:

We define a **management information system (MIS)** as a computer-based system that makes information available to users with similar needs. The users usually compose a formal organizational entity-the firm or a subsidiary subunit. The information describes the firm or one of its major systems in terms of what has happened in the past, what is happening now, and what is likely to happen in the future. The information is made available in the form of periodic reports, special reports, and outputs of mathematical simulations. The information output is used by both managers and nonmanagers in the firm as they make decisions to solve problems (1995, p.383).

According to these definitions, it is apparent that a management information system at present necessarily means a computerised information system designed and operated to provide information for control purposes. In the literature, 'information for management control' has been discussed simply as accounting information (Marginson, 1999; Otley, 1996; Otley, 1994) – a notion that still holds true for many of today's organisations. With the broader understanding that some managerial activities are difficult or unable to be measured or controlled in accounting terms, in recent years, alternative means of control have been put forward by several academics and researchers (see Marginson, 1999; Merchant, 1986). Particularly, in the case where meaningful measurement of effectiveness of activities cannot be achieved using the output generated, the value of accounting information has tended to be very limited. Thus, the focus on the accounting information system (has become) generalized into a focus on the management information system(s) (Otley, 1996, p.1). Today almost every organisation devotes a large amount of their resources to the area of management information systems. They are likely to include one or more of the following capabilities: report generation, information retrieval from queries, arithmetic calculations, quantitative functions and modeling (Kole, 1979, p.2).

The use of computerised management information in managerial decision-making is a critical task. The role it plays in achieving organisational goals and objectives is an even more critical task. Business managers make decisions to solve problems and information is used in making the right decision at the right time. As Morrison and Laffin (1995) point out, "(to) facilitate those decisions, it is important that computerised management information systems (MIS) are used to full advantage" (p.26). For example, today almost every accounting information system is a computerised system. An accounting information system performs a firm's accounting applications. Such a

system is supposed to provide information of a financial nature. Organisational managers should make sure that such a system is designed and operated to meet the organisation's information requirements with the highest possible effectiveness and efficiency. A computerised system is expected to provide information with efficiency and effectiveness.

Today in many organisations, management information systems with the above-mentioned attributes are designed and implemented as organisation-wide information systems consisting of a number of sub-systems. As firms gain wide experience through designing and implementing organisation-wide management information systems, business managers have begun to develop management information systems suited only to their own departments and/or functions (Robert, 1979; Wallace, 1980; McLeod, 1995). These sub-sets of management information systems are tailored to meet users' specific needs for functional/departmental information and are not designed to meet the overall information requirements of the organisational management. Several of the most common user-friendly information sub-systems are:

- a) Accounting Information System (AIS);
- b) Marketing Information System (MIS);
- c) Manufacturing Information System (MIS);
- d) Financial Information System (FIS);
- e) Human Resource Information System (HRIS); and
- f) Executive Information System (EIS).

These individual information systems are considered a complete management information system. For example, an organisation's financial data processing requirements are performed by an Accounting Information System (AIS). An accounting information system collects data relating to an organisation's activities, through the Day Book and processes data through the Journals. Once the data are processed, they are transferred to the Ledger Accounts according to the principles of

accounting. Finally, the resulting information is communicated through the Income Statement, Balance Sheet, and Supplementary Schedules. The information supplied by an accounting information system is available to users both inside and outside the organisation. It is, however, for outside parties only in a special form and not through the accounting information system. Taken by itself, an accounting information system cannot be considered a management information system. As an individual information system, it is an accountant's information system but not a management information system. The accounting information system is only a subset of a management information system "that has the responsibility of meeting information needs outside of the firm" (McLeod, 1995, p.358).

In contrast to an accounting information system, a management information system is designed to fulfil the entire information needs of the organisation. However, as researchers argue, no single function or discipline can furnish this whole information base (Wallace, 1980; Paul, 1972). Therefore, on one hand, a functional information system is not an alternative to an organisation-wide management information system. On the other hand, it may be difficult for an organisation to have a sound management information system if one or more of the individual information systems do not cooperate properly. In other words, a management information system is the composite sum of these individual information systems, which are designed to provide individual managers' needs for information. A management information system is an organisational resource, which has a commitment to provide quality information to users on all levels within the organisation. The information spans the past, the present, and the future, which is particularly valuable to managers in identifying problems and solving them. The use of MIS, "... enables top management to draw information from every function under the umbrella of total corporate responsibility" (Wallace, 1980,

p.10). The subsection to follow describes the major features of the management information system at Ceylon Tea Services Limited.

9.2.1 MANAGEMENT INFORMATION SYSTEMS AT DILMAH

In the early years of its operations, the company's information system was not computerised. Because of the ineffective and inefficient information produced by the manual system in later years, the information system was computerised. The initial computerised system was, however, not fully integrated. Each department was engaged in data processing and each prepared reports required by the relevant department. This system too was criticised for not being user friendly and isolated.

Since November 1997, the company has out-sourced its information technology through EDS Technology Services. The Site Manager appointed by the service provider is responsible for administration and programming of information technology services at the company. The Information Technology department situated at the company headquarters is maintained by EDS Technology Services. Before the outsourcing, information processing was controlled by the Information Technology Department of the company.

With the introduction of the computerised information system, the company operations, logistics and financial activities have been computerised. The computerised operations of the company have been categorised into several functions:

- a) Order Entry;
- b) Production Planning;
- c) Purchasing;
- d) Production;
- e) Inventory;
- f) Shipping;
- g) Human Resources; and

h) Financials.

In 1998, the company information system, including the accounting system, was restructured. The new system is known as "SYMIX". One of the major objectives of the restructuring was the full integration of the information system. Another objective of the restructuring was to address the Y2K issue and make microchip embedded devices Y2K compliant. The company uses tea bagging and other sophisticated machines for its production and quality control measures that have microchips embedded in them.

Information plays a vital role in decision making at Dilmah. As a 100% export oriented company with its major customers in developed countries, Dilmah paid special attention to the Y2K issue before hand and made plans accordingly. The company operations were fully protected against the potential harmful impacts of the Y2K issue. In his address to the Shareholders in 1999, the Chairman revealed some major plans made regarding the Y2K issue:

The plan to address the issue was drawn up in early February 1998. The plan was detailed to each activity that needed to be carried out. It was broken up as internal assessment and external assessment. Assistance was sought from the main bankers of the company in establishing the plan. The computerized activities of the company were completely upgraded with Y2K compliant hardware and software. The new hardware and software are now in place. Both the hardware and software have been certified as compliant by their vendors who are internationally reputed organizations such as IBM, Compaq, Symix Inc., and Fujitsu Computers. The cost to-date has been Rs 2,350,000 on computer hardware and Rs 7,000,000 on computer software. Further estimated costs are another Rs 5,000,000 on computer software. This balance on computer software is due in three instalments spread over the next six months (Annual Report, 1998/99, p.27).

With the introduction of the integrated computerised information system, the company operations are proceeding smoothly. Information processing and retrieval has been quick and efficient. Especially, the fully integrated management information system has been an essential element in responding to the diversity of customers' wants, The

system supplies information for a variety of purposes such as order processing, invoicing, customer analysis, marketing operations, and product performance. The strategic use of the information system, furthermore, helps in managing inventory, planning manufacturing, financial control and replaces conventional mail with electronic communications. Dilmah uses electronic customer ordering to the fullest level. Although the company does not have control over the actions of customers and competitors, the information provided by the computerised system is of profound importance because it provides a way to react or to be proactive using sophisticated information technology. Simply, every aspect of the company operations is now integrated and relies on computer technology. Computerised information has become an essential part of the day-to-day decision making of the company.

The information system provides fully integrated information, which is invaluable in strategic decision-making. Because of the computerised information system, the organisational structure has been made more effective and has created a sustainable business environment. The information system has resulted in extensively reducing processing time, improving communications, and aiding decision-making. It connects customers, Dilmah integrated services, and other relevant organisations in a more effective manner than previously.

The upgrading of the information system has changed Dilmah's activities in various ways. The system has become a key requirement in its marketing operations. Timely and accurate information is vital for Dilmah because it is market driven. Dilmah believes that information is a valuable resource rather than a by-product of its activities that affects the company's future performance. Specifically, information about the actions of competitors, sales performance, and customer related issues are of profound

importance to the company's operations. Especially, marketing decision-making has been improved by the use of a computerised information system. At a press conference, the Chairman explained the importance of adapting to the use of advanced information technology:

Information technology is already a prerequisite to business growth and development. The world is becoming smaller and the digital economy changes every conventional business model. The consumer has unprecedented access to manufacturers, brand owners and a glut of information on every product and service. This means that businesses need to be adept at catering to every niche in their category, and catering to these quickly and efficiently. Direct marketing is also an aspect in this phenomenon. Information technology is the key to managing in this new environment; efficient use of databases, EDI and ERP to streamline the flow of information and make the consumers life as easy as possible in dealing with your business. Globalisation and the internet have also given substance to the hackneyed but never factual (until now) maxim, the consumer is king. This makes the use of IT more urgent, for our king has near perfect choice – in suppliers of services and products, - and any shortcomings in your own business will quickly be turned to your competitor's advantage (Dilmah Online, December 1999).

The new information system has been very effective and useful in integrating the operations of various departments of the company. Managers are very satisfied with the new system. For example, the Shipping Manager explains, "SYMIX is more useful in preparing documents than the manual system. I create customs and customer documents. In doing so, I use the information other departments have put on the system to create my documents" (Appendix D, p. 386). The Accountant goes on:

The new computerised information system is very effective and very useful. Decisions can be made very quickly. Feedback is also very quick. Control has been easier with the new MIS. The new computerised system, SYMIX, started in February 1998. The previous system was not fully integrated and after much discussions and feasibility studies the new system was installed. The new system is operating well. The use of the new integrated computer system is very handy. Manually you cannot even think of our operations. Necessarily we need some sort of computerised system. SYMIX is perfect. Backup is done. Retrieval of everything is very easy. IT group takes a full back up of the whole system daily. So we will not loose our data (Appendix D, pp. 385).

In summary, Dilmah operations are fully computerised and integrated. This covers from customer order entry to the shipment of orders. The company's purchasing, human

resources, inventory, production, reporting and quality control systems are integrated and computerised. Thus, the information about the operations of each of the departments is easily obtainable by other departments without a time delay. According to the views of the managers, the new system is very effective and efficient.

While some departmental managers rely only on the SYMIX Software system to gather and provide information, some prefer other software to provide information. For example, the Area Manager Logistics explains his experience:

I get information from SYMIX, an updated, on-line, integrated system. It is a user friendly, system. The older system was not so user friendly. But I do not use SYMIX very much. Basically, I use Excel. We prepare our own reports, monthly reports for each region (Appendix D, p. 387).

Customer complaints handling is effective with the new information system. As explained by the Food Technologist

I also handle customer complaints. Earlier it was done manually. Through the new computerised data processing system ordering is easy now. Earlier we relied on other people's reports. Now we can just plug into the system and see the reports. Now it is very quick, fast, easy apart from that we can use data at our own pace (Appendix D, p. 387).

Similarly, the Business Development commented on the SYMIX software: "It helps to control activities in the division professionally" (Appendix D, p.384). This person explained further that...

(f)or Australia, which is Westernised we use formal information collecting methods. And for Russia, we use informal means, through distributors. For my area of decision making computerised systems are very useful. Information about competitors is collected through agents, sales force and distributors. Retailer information is collected from ACNeilson -scanned data. I would like to have more information about competitors. For less sophisticated markets computerised systems are more helpful. I wish it could be user-friendlier than it is if they could generate more specific sales and market (Appendix D, p. 384).

Overall, the computerised information system has made the company operations easier and more efficient than the manual information handling system. Employees are

encouraged to improve their skills in modern information technology. The new office staff is given training in data handling, which is essential in carrying out daily activities. This has made the employees very enthusiastic in their work and they consider it as a privilege that most employees in other organisation in Sri Lanka do not get. As an emerging economy, most organisations in both private and public sectors are interested in adopting information technology in their operations. Computer study programs are, however, very expensive and only a handful of employees can afford them. In this sense, Dilmah employees are better off than their counterparts.

9.3 ACCOUNTING INFORMATION SYSTEMS

This section of the chapter attempts to explain the nature and use of accounting information at the Ceylon Tea Services Limited. In other words, it observes accounting in action. The main purpose of this discussion considers why and how accounting is used in the subject organisation. In doing so, the approach taken by Booth (1995) is followed as a useful way of analysis of organisational accounting systems.

Accounting as a source of managerial information has, traditionally, been defined in a number of ways. The dominant perspective on the usefulness of accounting views it as having inherent functional imperatives such as the satisfaction of financial information needs required for rational economic decision-making (Burchell et al, 1980).

In contrast, Burchell et al (1980) rejects the view that accounting has inherent functional uses and see accounting as something socially constructed. Burchell et al (1980) argue that accounting does not have any inherent usefulness, its prominence in modern organizational affairs is the result of specific organizational and social historical patterns; that is the various uses of accounting accepted as basic premises

under the traditional approach have been, and continue to be, socially constructed (Booth, 1995, pp. 3-4). Burchell et al go on to say that "...we have uncritically adopted a rather particular set of views of human, organizational and social rationality and the relationships between accounting, decision making and organizational action" (1980, p.13).

Rejecting the perspective of the inherent functional view of accounting, Burchell et al explain that, "... accounting can no longer be regarded as a mere collection of techniques for the assessment of economic magnitudes" (1980, p.6). Accordingly, accounting has much wider effects than just a set of numbers. However, it is accepted that "...a system of financial measurement is the core of accounting practices" (Booth, 1995, p.5), and the importance of an accounting system should not be undermined. As with Booth (1995) who studies the use of accounting in a voluntary organisation, the definition of accounting provided by Laughlin (1984) is adopted in the discussion to follow. An organisational accounting system is a...

...formal system which expresses in fundamentally numerical terms past, present and future financial actions of such an enterprise (1984, p.8).

This definition does not provide any demarcations on the usefulness of accounting. Further, it does not make any distinction between different sorts of accounting systems and thus, both financial and management accounting can be included under accounting. The identification, interpretation, coding, and aggregation of these actions are accomplished by the application of various sets of rules of a general and industry organizational specific nature (Booth, 1995, p.5). According to this definition, an accounting system should be formal and based on the financial aspects of actions of the organisation. Booth (1995) is concerned with accounting in a non-profit organisation.

Although the current study is concerned with a private sector business enterprise, the approach taken by Booth in his study is considered relevant for the current study.

In the subject organisation, there are two major systems, which can be identified as formal accounting systems, a financial accounting system, and a management accounting control system. Since Ceylon Tea Services Limited is a public company; external reporting is considered a major function of the Finance Department. It is the responsibility of company directors to prepare and present the financial statements annually in accordance with the Sri Lanka Accounting Standards. These financial statements are audited by Ernst & Young, Chartered Accountants and presented to the members of Ceylon Tea Services Limited at the annual general meeting. The organisation prepares a number of management accounting reports for internal use such as direct costing and standard costing reports.

As Booth explains, “(p)roviding a parsimonious description of any accounting system for a complex organization is difficult as no commonly accepted parameters of analysis have been established in the accounting literature” (1995, p.102). On the other hand, it is beyond this research to reveal the accounting system that exists at the subject organisation in great length. Instead, following Booth (1995), the current research uses a framework proposed by Amigoni (1978) and modified by Jones (1986) to summarise the distinguishing features of the accounting system.

The conceptual framework suggested by Amigoni (1978) was on designing and implementing a management control system. It links three levels of analysis; independent variables such as company and environmental characteristics, distinctive features of a management control system, and control tools. For the current discussion,

however, only the second and third levels, distinctive features of a management control system, and control system tools, are considered as pertinent. Amigoni identified eight distinctive features of a control system, which he argued could vary in differing degrees between control systems as follows:

- a) Degree of detail;
- b) Degree of relevance;
- c) Degree of selectivity;
- d) Degree formal responsibility;
- e) Degree of procedural rigidity;
- f) Style of control;
- g) Quickness; and
- h) Orientation (1978, pp. 283-285).

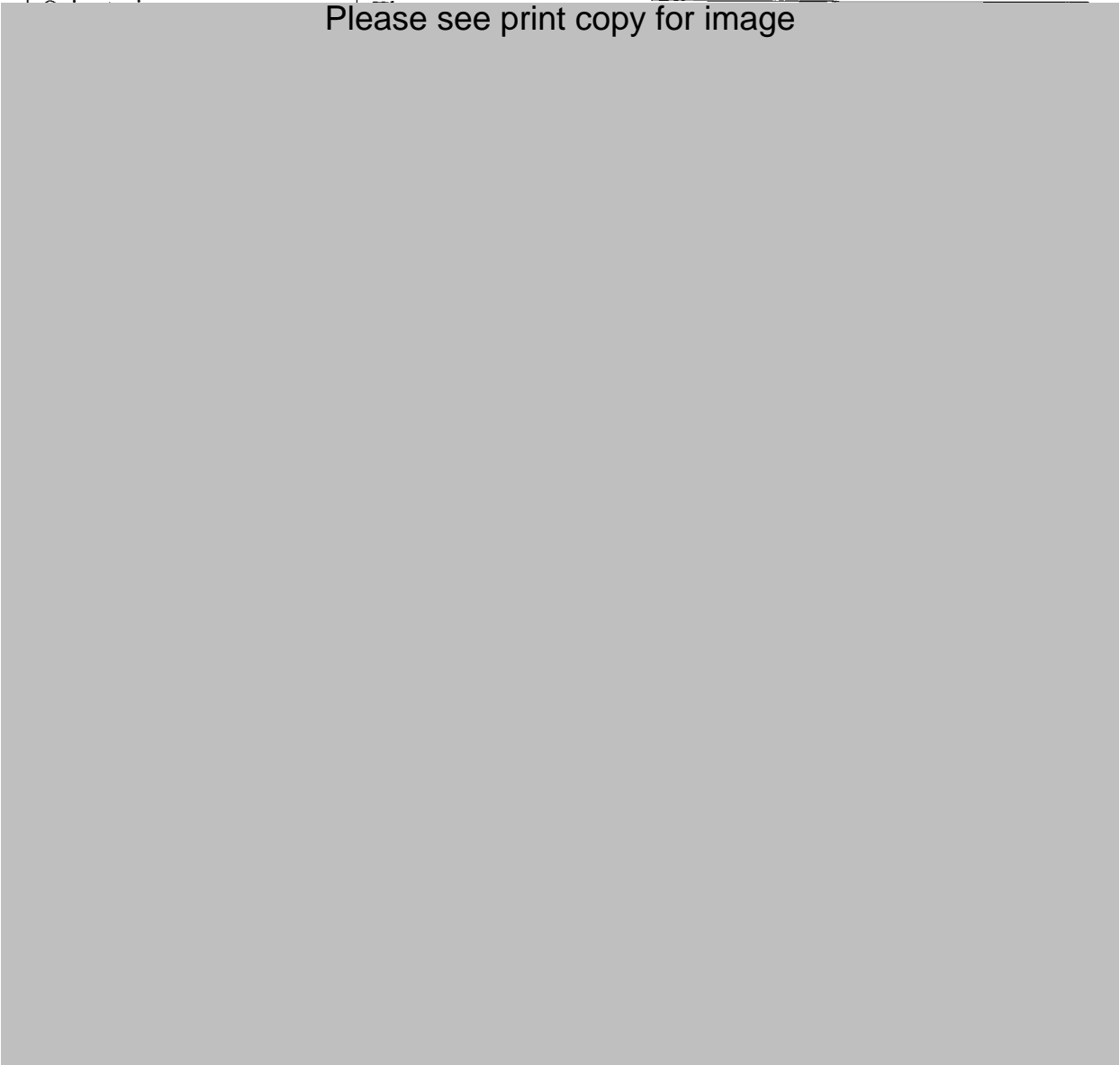
Some of these features are descriptive of the accounting system while others are concerned with the use of accounting information. Thus, as with Booth (1995), three out of these eight features, style of control, degree of relevance, and degree of selectivity are considered beyond the focus on the discussion of the formal features of the subject organisation's accounting system. According to the Amigoni (1978) model, the control system tools are as follows:

- a) Financial Accounting;
- b) Ratio Analysis;
- c) Financial Models;
- d) Inflation Accounting;
- e) Actual Full Costing;
- f) Actual Direct Costing;
- g) Standard Costing;
- h) Flexible Budgeting;
- i) Operational Budgets;
- j) Capital Budgets; and
- k) Long Range Plans.

Amigoni (1978) suggests a comprehensive analysis of these control system tools with regard to the structure and the manner in which they are employed. In the subject organisation, a system of Financial Accounting, Actual Direct Costing, and Standard Costing are used as control tools. Jones (1986) in his analysis of organisational change

and the function of accounting applies Amigoni's (1978) framework with some modifications. Jones (1986) adds four other distinctive features to the Amigoni model, accuracy, consultation, availability as a database, and technology. Booth (1995) combining these with selected features of the Amigoini model describes the accounting system in a division of a major Protestant Church in Australia. The nine distinctive features Booth (1995) applies in his study are illustrated in Exhibit 9.1.

EXHIBIT 9.1: DISTINCTIVE FEATURES OF AN ACCOUNTING SYSTEM



Source: Booth, 1995, p.103.

The remainder of this section is devoted to a discussion of the accounting systems operating at the subject organisation. It is divided into three subsections. The first two

subsections describe the main features of the financial accounting and management accounting control systems respectively. The third section summarises the analysis of accounting information systems and presents some important implications for the concerns of the current study.

9.3.1 THE FINANCIAL ACCOUNTING INFORMATION SYSTEM AT DILMAH

The major financial information system of Ceylon Tea Services Limited is its financial accounting system. It is a fully integrated computerised system based on accrual accounting. Until 1998, the company's accounting system was not integrated. Before the introduction of the integrated system, different departments had independent accounting systems to meet their specific information needs. These systems had separate recording and processing systems. These individual accounting reports were used to generate company annual reports. In 1998, in order to meet the increasing information requirements the company accounting system was restructured.

Commenting on the issue the Director of Marketing explains:

The existing accounting system is re-computerised. It only had the Y2k bug. Hence, we are changing the software. It is an 'ERP' software and therefore the whole company was involved in re-computerising (Appendix G, p. 404).

Since then the company has been using a fully integrated version of SYMIX for its information needs. In an interview, the Accountant goes on to explain the nature of the company accounting system:

In the beginning the company had a manual accounting system, which was not very effective. The company accounting was isolated. The activities: pricing, marketing, shipping, human resources and so on, were also isolated. There were separate accounting systems for separate departments. For example, tea, shipping, marketing, investment departments had their own separate accounting systems. This system was computerised in 1997 but not fully integrated. Since 1998, the operations were fully integrated using the SYMIX system. With the SYMIX system, all activities are fully integrated and in making decisions, integrated information is considered. Thus, for example, in purchasing those who are responsible should communicate with the pricing section and production people should communicate with the finished goods section and so on. Integrated

accounting information is available to the authorised people. SYMIX is an American system. We had to customise certain areas. Accounting systems in Sri Lanka are different from the American Accounting System and we modified the SYMIX system according to our requirements. That will create a problem in the future when updated versions come. We can use the updated version with modifications. Then every time there is an updated version we will have to modify the whole computer system. We will face that modification problem. Sub-files will need to be modified (Appendix D, p. 385).

The Accounting Department is responsible for the preparation of integrated financial reports of the Company including Balance Sheet, Profit & Loss Account, Cash Flow Statement, and Statement of Value Added. Data preparation is mainly a departmental responsibility. Relevant data and reports are obtained via the integrated computerised system. The final formal responsibility of the company financial accounting system is with the Group Financial Controller, Shardha Sosa while the other members of the accounting department are responsible for the recording and processing of accounting information. The former Chief Accountant was responsible for Financial Accounting, Treasury Management, and costing/pricing for the company. In addition, the MIS division is under his supervision. Hence, the new ERP implementation was under his control. The Group Financial Controller is responsible to the Director of Finance Ms. Minette Perera. The Director of Finance is responsible for all activities of the Finance Department. She reports directly to the Director of Operations.

The Executive Directors are responsible for ensuring that the company maintains an adequate accounting system capable of disclosing the financial position of the company with reasonable accuracy and providing information as required by law. As a public company, the subject organisation is required to maintain its books of accounts in accordance with the requirements of the Companies Act No. 17 of 1982 and give a true and fair view of its state of affairs for each financial year. The directors are further responsible to ensure that all applicable accounting standards and policies are applied in

preparing the financial statements and that the financial statements are prepared on a going concern basis.

In order to ensure that the financial reporting system is adequate, the company has an Internal Audit function, which carries out a formal program of auditing. The Accountant revealed that "once a month we have an internal system audit and once a year we have an external system audit " (Appendix D, p. 385).

Thus, the financial reporting system of the company can be described as formal and routine. The computerised accounting information system is considered efficient and effective. It is believed that the personnel involved in the reporting and processing of financial information are trustworthy and doing an excellent job. As the Accountant explained:

The new computerised system is very effective and there are no loopholes. The honesty of the individuals involved in the accounting system is very important to keep the system under control. Without honest and trustworthy people, no accounting system can be controlled effectively and efficiently (Appendix D, p. 385).

The company financial statements are prepared under the historical cost convention according to generally accepted accounting principles and the accounting standards laid down by the Institute of Chartered Accountants of Sri Lanka. The company does not make any adjustments in its financial statements to reflect inflationary effects. The majority of transactions recorded in the system are on a cash basis with accrual adjustments for selected accounts. Adjustments for depreciation are entered at the end of the financial year for the preparation of annual financial statements. The Profit and Loss account and other related statements are prepared on a monthly basis. The monthly accounts are prepared two weeks after the end of the month. Revenue in the

financial statements is accounted for on an accrual basis and matched with the related expenditure. With the annual financial statement, a substantial amount of information is provided on the financial soundness of the company, which is useful for investors. Among other details of dividends, earnings, market capitalisation, market value of shares and share trading information is provided to the potential investors. Some important accounting policies and financial information of the company are revealed in Chapter Seven.

9.3.2 THE MANAGEMENT ACCOUNTING INFORMATION SYSTEM

This subsection analyses the major features of the management accounting information system of Ceylon Tea Services Limited. The emphasis in the discussion is on the general nature of the management accounting system rather than technical details of the process. The Management Accounting System is the main financial information system available for managerial decision-making. The Management Accounting System can be described as a fully computerised and integrated general ledger system, which is operated on a partial accrual basis. This system is administered by the Department of Accounting under the supervision of the Financial Controller. The company mainly uses two types of control tools:

- a) Actual Direct Costing; and
- b) Standard Costing.

Actual Costing and Standard Costing reports are prepared for each shipment of tea. The Financial Controller pointed out the nature and use of these control tools when he said:

The Profit and Loss Account, Balance Sheet and the related schedules are the main reports. Then also a shipment wise costing is done to establish the margin for each order. A pre-order costing is done if the price quoted is not the list price. Actual costing is used for accounting. It is a weighted average of all components used in production. No overhead is absorbed. We use standard costing only for pricing purposes. It is based on the estimated consumption of tea and other packing material for making a tea bag multiplied in to the estimated cost for each item. The

estimate for tea is updated weekly, while the estimate for other material is updated quarterly. The quarterly update considers the \$ price and exchange rates as well as clearing cost etc. We also add some fixed overhead component in the pricing of items (Appendix G, p. 423).

Dilmah does not use the following as formal control tools:

- a) Ratio Analysis;
- b) Financial Models;
- c) Inflation Accounting;
- d) Actual Full Costing;
- e) Flexible Budgeting;
- f) Operational Budgets;
- g) Capital Budgets; and
- h) Long Range Plans.

As the Financial Controller explained:

You may note that most of the (traditional) control tools are not used at the company. That is because we are purely "marketing" driven. We do anything to get market share. And keep the order book full. We do Standard Costing to make sure of a x% margin. Then just do anything to get orders. The bottom line is then an automatic process (Appendix G, p.422).

The data we have are very basic, for management accounting. ie we do not have proper budgets, no variance analysis (post shipment costing), no investment appraisal in the form of cash flows etc (Appendix G, p.410).

There is no formal system of budgeting within the company. The Financial Controller commented, "(a)t present we do not have any formal budget procedures. Funds are allocated as and when required to specific projects based on the need for it" (Appendix G, p.423).

However, several budget-like departmental reports are prepared in the areas of production, sales, sales promotional, and advertising and they are known as departmental budgets. Although, Dilmah is a major player in the export tea industry it does not rely on a formal system of ratio analysis in its decision-making. Several ratios such as Current Ratio, Return on Shareholder Funds, Interest Cover, Earnings Per Share, and Dividend Cover are prepared to inform the shareholders of the financial position of the company operations.

Dilmah does not apply the majority of well-known management accounting practices. There are several reasons for this. The company is marketing driven and if there is a need to allocate resources to any activity it is done with the approval of senior executives. Another reason is that the company is a family oriented firm and cash rich. Therefore, whenever there is a need for resources, the executives as a team make immediate decisions. The company relies on its ability to make sound financial decisions and the role of its internal auditors. Whenever there is a need for investment or other important financial issues company executives form a team of relevant personnel to discuss the feasibility of the proposal. Then, based on the information a decision is made as a group. Although, the company relies on strategic planning, it does not have fixed written objectives such as a profit or growth objective. As the Business Development Manager stated:

We are not a formal multinational company. We are more a dynamic entrepreneurship, that makes strategic decisions based on how the market forces operate. Thus, we do not have objectives formalised in the manner some multinationals have (Appendix G, p. 384).

Thus, basically, the management accounting control system consists of Actual Direct Costing and Standard Costing. These two control tools are capable of providing the managers with relevant and sufficient information regarding the profitability and efficiency of company operations. Similarly, the focus of the accounting system is on past results and less attention is paid to future events as the Financial Controller has pointed out. Thus, accounting at Dilmah can be described as fulfilling mainly a purpose of reporting of financial performance rather than of decision-making. The company's financial performance is impressive as described in Chapter Five. Therefore, the emphasis of the company's financial management is on maintaining its strong financial position, and accounting reports are used as supporting evidence. The company does not rely heavily on past accounting results and then predict the same will happen in the

future. Rather, it takes all possible measures to improve production both in terms of quality and quantity and market them in existing and new global markets. Within this focus, the use of past accounting figures is trivial.

Exhibit 9.2 describes the accounting information system in terms of the nine distinctive features derived from Amigoni (1978) and Jones (1986) as shown in Exhibit 9.1. Following Booth (1995), this discussion is about the system outputs and their official usage rather than the technical patterns of the system.

9.3.3 SUMMARY OF FORMAL ACCOUNTING SYSTEMS

This section describes the formal features of the two main accounting systems of the Ceylon Tea Services Limited, the financial accounting system and the management accounting system. The two formal accounting information systems can be described as highly developed. The financial accounting system is capable of providing a very detailed financial visibility of company operations. The system is governed by generally accepted accounting principles and accounting standards set by the Institute of Chartered Accountants of Sri Lanka. The management accounting system is capable of providing most of the information needed for decision-making.


As a whole, the integrated accounting system is more useful than the independent departmental accounting system that was in operation before the implementation of the new system. With the current fully computerised and integrated accounting system, decision making requires the authorisation of the relevant other personnel. As the Accountant stated:

You cannot make a payment unless the Goods Received Note is certified by the stores manager. Earlier such internal control systems were not operated. Now there is systems control through the integrated accounting system and a

physical control is also operated e.g. the stores manager controls the goods received. He should verify the fact that goods have actually come to the stores (Appendix D, p. 385).

EXHIBIT 9.2: DISTINCTIVE FEATURES OF THE ACCOUNTING SYSTEM AT DILMAH

Please see print copy for image



Source: e-mail contacts with the Financial Controller, Ceylon Tea Services Ltd, Appendix G, pp. 421.

The existing accounting system is regarded as a valuable source of information of company financial activities. The distinctive features of the formal accounting system of the company in terms of the nine distinctive features shown in Exhibit 9.1 are summarised in Exhibit 9.2. On one hand, the company's accounting system can be described as fulfilling a regulatory requirement and on the other hand, it provides valuable information regarding its performance, which is very significant to shareholders and investors. Particularly, the cost information derived by the accounting system is of profound importance to the managers in their decision-making.

9.4 CHAPTER SUMMARY

This chapter analysed the formal features of the management information systems of the Ceylon Tea Services Limited. A detailed summary of the major features of management information systems was provided in the chapter. Within the company management information systems, two types of formal accounting systems have been recognised, i.e. financial accounting and management accounting systems. The major features of these formal accounting systems have been discussed. In addition, a summary of the major features of the accounting information systems was presented. In Chapter Ten, the core control practices, the last component of the proposed theoretical framework, used by the company are discussed in detail.

CHAPTER TEN

CORE CONTROL PACKAGE OF MANAGEMENT CONTROL

10.1 INTRODUCTION

The focus of this research is on the control practices operating in the subject organisation and this chapter concludes the description and analysis of the patterns of management control. It does this by considering the core control practices, the last component of the proposed theoretical model of management control (Chapter Three). The chapter identifies several major mechanisms of management control, which can be labelled the 'package of core control' used by the company. This enables an evaluation of the patterns of management control of the subject organisation.

In this chapter the extent to which, and the ways, management control mechanisms are actually used within different departments and divisions of the head office and production plant are examined. It further analyses why those control techniques are used by the subject organisation. The objective of this analysis is to observe the level of significance of the core control practices operated within the organisation. The chapter concludes with a summary of the discussion and implications for chapter Eleven.

10.2 CORE CONTROL MECHANISMS

The discussion to follow presents an overview of the design and operation of core control practices of the company. It is based on interviews with managers and other employees of the company as well as e-mail contacts with managers and it reflects the situation in 1999 and 2000.

In order to achieve its strategic objectives, Dilmah uses a number of mechanisms developed to control the utilisation of limited material resources and to gain the cooperation of its employees. In the proposed model of management control, these mechanisms are elaborated as the core control package. They broadly represent both traditional (e.g. Anthony, 1965; Weber, 1947) as well as contemporary (e.g. Lowe and Puxty, 1989; Simons, 1995) control mechanisms. These core control mechanisms are:

- a) Departmental Budgets;
- b) Total Quality Management;
- c) Participative Management;
 - a. Teamwork; and
 - b. Employee involvement.
- d) Communication Efforts;
- e) Recognition of Achievement; and
- f) Formal Rules and Regulations.

The following sub-sections elaborate and explain each of these control mechanisms.

10.2.1 DEPARTMENTAL BUDGETS

As discussed in Chapter Nine, budgeting in the traditional sense does not play a major role in Dilmah's management control practices, however, departmental budgets are considered very important in channelling individual managers' and departmental efforts towards specific sales and cost goals. In effect, they are used as a means of directing company operations rather than evaluating managerial past performance. As the Marketing Director explains:

(f)ormal controls are by way of departmental budgets and in the case of production, formal planning. The core of our company is a contract document that controls the dissemination of order information through the business and brings all departmental roles together to achieve the common aim and allow departmental planning. There are a series of other department based control processes such as advertising budgets for markets, goals for each market and department etc (Appendix D, p. 414).

Since the company's production is contract based only and generates no surplus production, its departmental budgeting is market-constrained rather than production-

constrained. As the Financial Controller has revealed the company does not rely on a formal traditional budgetary control system and funds are allocated as necessary to specific projects based on the needs of different departments. Thus, the departmental budgeting system is the major tool of allocating the funds required to support agreed upon operational activities. Distribution of funds is based largely on discussion and negotiation among managers. Structurally, at the highest level, the Chairman allocates funds between different business units based on fund availability and strategic initiatives. Practically, the system does not use rigid formal formats for the preparation of budgets. A number of operational budgets are prepared for cost centres represented by the organisational chart.

Budgeting has traditionally been a central plank of most organizations' control mechanisms, as it is one of the few techniques capable of integrating the whole gamut of organizational activity into a single coherent summary (Otley, 1999, p.370). Traditionally, performance was defined necessarily as profitability and budgeting was used to keep input and output in the proper order. As such, the budgeting process was seen as responsible for directing managers' efforts towards a pre-established level of performance. Very often, an incentive scheme was attached to the budgetary system as a means of channelling individual and group efforts towards organisational goals and budgeting was viewed as integral to any management control process.

Evidence from Dilmah as revealed in the current chapter and in particular, in Chapter Nine, however, suggests that budgeting has neither been designed nor used as a means of explicit control over the managers' actions or decisions. Likewise, budgeting has not been seen as a form of distributing the performance and activity goals of a corporate plan.

At Dilmah, the budgeting process has been used only as a means of establishing initial spending requirements of different departments based on an agreed upon set of actions and activities in a particular period. Budgeting is also used as a means of passing information about incoming orders to various departments. Thus, budgeting is in effect a means of coordination rather than a means of control. In other words, budgeting is primarily a means of allocating funds to different projects. Although this process is effected through managerial discussions and negotiations, as revealed in the previous section, the Chairman retains the ultimate authority of allocating funds to different projects. The existing management style and culture do not encourage managers to seek out alternative ways of allocating funds in which they might achieve organisational goals and objectives in ways that are more useful. The limited use of middle and lower level managers' suggestions in resource allocation might be a hindrance to organisational effectiveness. In other words, the company might benefit with traditional budgeting with contributions of managers from different levels of the organisational hierarchy.

Similarly, in contrast to the traditional budgetary system, Dilmah's budgeting process is not combined with any kind of bonus incentive scheme, which rewards for achieving budget targets or punishes for not fulfilling budgetary targets. Although there is a formal performance appraisal system for managers and clerical staff, it does not make any reference to budgetary performance. Target setting, for both the process and the outcome, has been an important aspect of budgeting in traditional accounting literature combined with reward and incentive schemes. Otley (1999) further explains the usefulness of budgeting as a means of control:

The virtue of the budgetary control process is that it provides an encompassing framework by means of which all aspects of an organization's activity are

encapsulated into a single set of financial statements against which actual outcomes can be monitored (p.370).

Thus, budgeting can be regarded as an important coordinating mechanism of input and output. Dilmah, however, could also use budgeting as a means of control. The company could use budgeting in achieving strategic goals and resource allocation could be matched to strategic imperatives in ways that are more fruitful. Similarly, budgeting could be used to monitor and control business processes in better ways.

Regardless of the limited use of budgeting at Dilmah, the company has been very successful in achieving its strategic objectives. The prevailing management style, enriched with informal and social control practices, seems to channel individual and group efforts toward organisational goals. The executives believe that the main role of company budgeting is the allocation of resources and the coordination of departmental operations. Because company operations are mainly on a contract basis, resource allocation is of profound importance to support the executives' claims for budgeting. The budget priority is given to the project that is most needed and beneficial. In practice, however, cash rich Dilmah invests in all projects approved by the senior managers proving the strength of a family business. Dilmah relies on budgeting only as a means of planning its operations and informing its managers of forthcoming operations.

As the above discussion reveals the company's budgeting process is not very formal or traditional. The findings suggest that an organisation's management control system need not necessarily be based on traditional accounting control. Or the accounting system cannot accommodate the type and range of information that Dilmah managers need to make decisions throughout the organization. One reason for this may be the fact

that the company's goals are market driven rather than developed from production or forecasting. Under this situation, the need for accounting information for control purposes is very limited. The traditional budgeting process mainly is a means of forecasting and controlling. Dilmah operations are, however, not based on past performance. Dilmah operations are triggered by market requirements. Thus, budgeting at Dilmah does not play an main role. Furthermore, as the discussion in Chapter Nine reveals, accounting information at Dilmah fulfils a somewhat different role from that found in traditional accounting literature. Managers seem to treat accounting information as the main source of information. In effect, however, they do not view accounting and budgeting as a prominent tool of control. It seems that Dilmah's prevailing management style is enough to channel individual and group efforts toward organisational efforts. The history of the development of management accounting is closely linked to absentee ownership and a number of mechanisms such as budgeting and standard costing to keep the work force under control. So it is not surprising that one might not observe those controls at Dilmah where there is an owner-manager at hand in every aspect of company operations. As Miller and O'Learly (1987) explained the accounting emerged as a social and organisational practice and with the absent of the owner, control mechanisms such as standard costing and budgeting emerged:

In the nineteenth century discipline within the enterprise took the form of direct confrontations between the worker and the boss. In the twentieth century, and through the changes we will be referring to, the employee comes to be surrounded by calculative norms and standards, interposing between him and the boss a whole range of intermediary mechanisms. With this shift discipline comes to be seen to reside not in the will of the boss but in the economic machine itself, in the norms and standards from which the worker can be seen to depart. Accounting is, we argue, an important aspect of this development of a range of calculative programmes and techniques which come to regulate the lives of individuals at work in the early twentieth century (p.239).

The virtue of these novel practices lay in their capacity to routinely raise questions of waste and efficiency in the employment of resources, whether human, financial or material, at as many levels of analysis as required (p.20).

As such these mechanisms added concerns regarding the honesty and infidelity of individuals at work and they would contribute to the better control and directing of them. Dilmah's management style, however, is quite different from those large organisations in which owner is absent from daily to day operations. Thus, the need for accounting control is minimal at Dilmah. Likewise, if Dilmah employs an accounting system "that is embedded in the functioning of the organisation, co-existing and interdependent with such other aspects of the organisation as its strategy, structure, approaches to the segmentation of work and other organisational technologies and practices" (Hopwood, 1987, p.218) not existing as an isolated discipline, Dilmah managers might not have to exercise a high level of personal observation and supervision. Rather they might exercise control at a distance, both in time and space, a more anonymous and continuous means of surveillance instead of 24-hour camera surveillance. Such changes in the accounting system may turn out to be very successful. Such changes in accounting, however, should not be considered in isolation of its social, economic and institutional contexts. As pointed out by Napier (2001, p.26) "in terms of progress when they are working on a relatively small scale, so long as they recognise that what is progress for some may be degeneration for others, and what appears progressive at one point of time may not seem so with the benefit of hindsight". It may turn to be an episode of tragedy.

10.2.2 TOTAL QUALITY MANAGEMENT

The company highlights continuous improvement as everyone's responsibility and across all areas of its operations, e.g. production, quality, marketing, employee skills and customer relations and so on. The continuous improvement program has required special awareness in providing the required training of workers and in reducing waste and defective products. The company believes that the Total Quality Management

company while it directs its employees' productive involvement in company operations.

As such, the company's detailed attention to quality has become one of the most important and powerful control devices. Following the Japanese management style, Dilmah believes that customers can only be satisfied through quality products and sees quality assurance as the most important priority in manufacturing and marketing. Although as a family owned business profitability has an important role in the corporate plans, it is not the sole goal of Dilmah. Each business process and activity is tied with the goal of quality products and services. As the research findings show quality has become an everyday concept among the employees. With the growing awareness that the quality of products is a strategic competitive variable, Dilmah emphasises the need to provide customers with highly valued products through improvements in efficiency.

The development of quality programs at Dilmah, although now considered to be an inherent part of the company's management control system, has been a result of great dedication and effort on the part of its founder. This commitment to quality has resulted in a total quality management program implemented throughout company operations. The quality program is part of a cohesive system which together with the hard work of employees has brought about self-development and quality products. Arguably, the quality program at Dilmah is an integrated system combining constant vigilance from its Chief Executive Officer and support of its employees.

10.2.3 PARTICIPATIVE APPROACH TO MANAGEMENT

The company uses a participative management approach that fosters an environment characterised by teamwork and employee involvement in decision-making. A feature of

this approach is the rather high level of managerial interdependency. Managers often rely upon one another for accomplishing their tasks and objectives. While mutual interdependency is very strong within departments, it is apparent that managerial interdependency goes beyond departmental and divisional boundaries. The Marketing Director explained the nature of managerial interdependency when he stated that

... it has not been easy to put down the responsibilities here. We have broad guidelines such as the roles of managers but significant overlap can be seen in our roles since we emphasise teamwork and as a family business interact with each other with less concern for formality in areas of responsibility (Appendix D, p. 414).

As explained by the Director of Marketing, there is a high incidence of interdependence of responsibilities. There is inclusive commitment rather than discriminate functional compliance by managers. Thus, in contrast with the traditional management control based on hierarchical decision-making, there is a lack of significant hierarchical distinction in managerial roles in the company. Even though the Chief Executive Officer holds the power to make the majority of strategic decisions, the conventional demarcation between the strategy formulation and strategy implementation continuum has little relevance in the company's decision-making domain. This distinction derives primarily from Anthony's 1965 model, in which strategic planning is seen as the domain of senior management, whilst 'middle' managers are responsible for overseeing the implementation of these plans through the exercise of management control (Marginson, 1999, p.216).

As elaborated by the Director of Marketing there is no fixed span of control or bounded responsibilities for managers within the company although there is a formal organisational structure. Decisions are made on a mutually agreed basis. For example,

the Marketing Director explained his responsibilities and how he liased with the Chief Executive Officer as follows:

... (a)s the Director of Marketing, I have overall responsibility for the Marketing function and whilst I report to the Chairman, he does get involved in setting policy and direction. I would work within guidelines agreed between us, and direct my department accordingly (Appendix G, p. 414).

This loose approach to management control is reflected in the manner in which managerial accountabilities are directed. Although the formal organisational structure implies a hierarchical legitimate authority and accountability between different levels of management, in effect managers at different levels go beyond their domain and involve in activities as a group. For example, the Chairman is actively involved in both strategy formulation and strategy implementation. The Chairman does not take a back seat in day-to-day operational decisions. He walks down to the production plant and talks to the shopfloor workers when a need arises. He believes his managerial style is quick, friendly and flexible. The Accountant commented on the issue:

(e)ven the Chairman meets any worker he directly communicates with subordinates. It is a way of giving quick response. And the subordinates should not be afraid to talk to the Chairman (Appendix D, p. 386).

Similarly, Dilmah's middle managers are also heavily involved in strategic-related decisions through shared decision-making. Managers are allowed to put insights into the decision making process. These managers act as both formulators and implementers of strategic initiatives within the strategic framework established by top managers. Not only top-level managers but also lower level managers are also concerned with the possible effect of their actions and decisions on strategic issues such as productivity and customer satisfaction. Managers are free to make suggestions any time. The Shipping Manager offered an explanation of the relationship between his superior and himself:

If I want, I do suggestions. The CEO does not know what happens at the bottom line. So, I represent my subordinates (Appendix D, p. 386).

The participative approach to control at Dilmah has given managers the discretion to make effective and efficient decisions without prior hierarchical approval. It has led to improved morale and a sense of commitment among managers. Even the factory workers hold a feeling of responsibility and commitment towards the operations of the company. This practice is different in bureaucratic and centralised control systems. In such systems, central authorities keep much of the decision-making power resulting in low self-esteem among lower level managers and workers. The Assistant Production Manager commented:

I believe I should be open minded, firm and fair in doing my job. Once I sacked a machine girl on the spot. But it was after a period of three months of warning and watching her nasty behaviour. We have the authority to make decisions to sack careless and wrong doing workers without any hesitation. I have a responsibility to do my job to the fullest level possible. I believe everybody in the company has such a responsibility. Even the machine girls have a responsibility to commitment. They have built up that sense in their minds. For example, if I ask a machine girl to use tea or packaging materials different from what is specified in the order she will question me about it. They have been given the training to do their job properly. They have developed that sense of commitment in themselves. But this is not the case in the government sector. If the relevant manager has signed and given the authority to do something the employees will just do it. They are not concerned about quality or responsibility to the community. Employees will just do what the managers ask them to do. If the permission is given they will do anything without any hesitation (Appendix D, p. 390).

Although the Assistant Production Manager is satisfied with the autonomy in making important decisions within the company, it is questionable whether employees perceive such decisions are always fair. Without employee unionisation employees might not have the power to take appropriate recourse for the fired employee. Regarding company operations, it is advisable for managers to have autonomy in decision-making. As the Quality Manager forward:

... when there is a problem we have a form to be filled for that problem. The relevant personnel meet and discuss as a team for a solution. Decisions regarding systems errors are made by the quality manager and not by the Chairman (Appendix D, p. 388).

Another unique feature of Dilmah's management approach is the high level of employee involvement in operational decision-making. The company allows delegation of responsibilities to shopfloor workers. Employee views are given priority especially in the areas of short-run planning, quality issues, thefts, and maintenance. This has been a control mechanism used by the company almost since the beginning of its operations. Dilmah's overall managerial approach has been observed to be cooperative, and has been based largely on social rather than rigid administrative controls. For example, the Tea Consultant further explained his approach to gain the control of his subordinates:

Mainly I direct my staff. But I listen and discuss important issues and take the necessary course of action, which is best for the company (Appendix D, p. 382).

Because of the rather loose managerial approach no time delay has been observed to exist in handling operational or customer related problems at Dilmah. Whenever there is a need for an interdepartmental or interdivisional involvement, an immediate meeting is called by the relevant managers to discuss the matter. Thus, Dilmah's managerial approach is very participative and characterised by a high level of managerial interdependency and teamwork. A Senior Executive said ...

...(y)es, we consider our employees' views. They also have created ideas. Our management approach is very participative (Appendix G, p. 381).

The company uses several specific mechanisms of participative management; team efforts, employee involvement in decision making, and committee meetings. Of special significance are teamwork and employee involvement. A discussion of teamwork and employee involvement in decision-making and an analysis of the company's overall participative approach to management are presented in the following sub-section.

10.2.3.1 TEAMWORK AND EMPLOYEE INVOLVEMENT

The company's rapid growth over the years has created a new form of management style characterised by teamwork and employee involvement. This is especially due to the nature of the highly competitive business the company is involved in. As a marketing oriented firm, Dilmah has to be very flexible and responsive to the changes in consumer markets and customer requirements. This has created a need for making quick decisions at both strategic and operational levels. Apart from this requirement the company top managers believe that participation in decision-making results in better, reliable, and faster solutions to day-to-day problems faced by the company. The Marketing Director comments ...

... everything is done on a teamwork basis. Team based decision making provides us with fast and more practicable solutions. If there is a special complaint or something like that from a client then a meeting is called spontaneously. All the members of the team are expected to do his/her best for the achievement of the goals and objectives of the company (Appendix D, p.381).

Employee involvement is recognised as a key element in gaining employee trust and cooperation towards achieving strategic goals and objectives. It has been observed that employees are pleased with the opportunity to be involved in making important decisions, which will affect them. As a result, employees are willing to share responsibilities and creative ideas, and to be trained to get more opportunities. The company provides on-site training to shopfloor workers with an emphasis on teamwork. The Human Resources and Administration Manager believes that employees are a major resource and they should be given due respect ...

... our employees are the most valuable asset of the company. The efficiency of the manpower resource depends on how well they are motivated (Appendix D, p. 389).

The company believes that allowing employees to participate in decision-making is an important way of motivating their employees. This has also been a strong mechanism of employee empowerment. Since its early years, Dilmah has understood that its performance could be improved through empowering personnel. The top management believes that workers also have creative and important ideas, which can help the company accomplish set targets. The shop floor workers also have wide scope in making on-the spot decisions essential to the smooth flow of production. They can talk freely to the top-level managers including the Chairman when they are confronted with problems.

As such, teamwork and employee involvement are a norm within the company. In effect, there are no previously established teams within departments or divisions in the company. Whenever there is a need to solve a problem, a team is especially formed for that purpose. The structure of the team depends on the nature and the area of the problem. For example, to solve a customer complaint a team is formed and it may include the relevant personnel from different departments such as quality, production, engineering, tea and so on. Likewise, in the production plant, shopfloor workers are formed into several teams when there is a need for discussion regarding different aspects of operations such as theft control, passing production instructions, and preventing idleness and harmful behaviour of workers. For example the Director of Marketing pointed out that ...

... teamwork is very useful. Sometimes workers catch people stealing tea or harmful behaviour. They are rewarded very well. Sometimes for catching stealing tea worth Rs 10000.00 the catcher is rewarded Rs 5000.00. This is to encourage workers to be honest and reveal thefts (Appendix D, p. 381).

Employee involvement is encouraged in all areas of operations. The Tea Consultant described how his department is involved in participative management:

... we are very participative, not only at management level but also at operational levels. Suggestions are obtained from all employees and encourage participative decision-making (Appendix D, p.382).

Members in my department seek advice whenever they have a problematic issue. The awareness and interaction of members are very important. We encourage team-based decision-making (Appendix D, p.382).

The Security Manager explained the importance of teamwork in carrying out his duties:

I take decisions regarding security and take immediate action. Teamwork is very important to carry out the security duties (Appendix D, p. 383).

The Accountant adopted a similar view of team-based decision making:

...participation is of considerably high level. Teamwork basis is used to discuss problems. (Appendix D, p. 386).

Departmental level problems are solved by means of teams consisting of members within the department. The team members are given a prior understanding of the problem and techniques for problem solving. In some departments, teamwork is considered the most important control mechanism. The views of every member of the team are considered. Several managers commented on the importance of teamwork in the carrying out of departmental operations:

... everyone works as a team. Everyone is important. I cannot highlight any single person in my department whose work and ideas are not important. We discuss things as a team. My department, a service department, has no targets. We do not target anything. Do the same thing as a routine. It is a continuous thing. We have to do it without any failure. To achieve our goals teamwork is the most important thing. Not always, at times I see my subordinates as friends (Shipping Manager, Appendix D, p. 386).

We work as a team. Teamwork is very important to achieve high quality work targets. Personally, I like to improve and develop my subordinates. Guiding them is a very simple task. With kind words you can do a lot (Food Technologist, Appendix D, p. 387).

... we have smaller teams broken into different regional units. They work as a team. At the end of the day the entire marketing work is united as one. The team members are very cooperative. There are no misunderstandings among team members. I believe that participation could improve the quality (Area Manager of Logistics, Appendix D, p. 387).

As such, teamwork and employee involvement in decision-making has been a day-to-day managerial control practice within the company. At departmental level irrespective of the managerial hierarchy, cooperative decision-making and problem solving has become a norm, which cannot be excluded from the system. Interdepartmental and interdivisional levels also have team-based decision-making. The Quality Manager explained the procedure existing in her department:

... actually, we normally work as a team. Most of the time, we have to discuss with others and make a decision. There are some instances I can take my own decisions. It is a routine to discuss within the department as well as on an inter departmental basis. I consult higher managerial levels when appropriate (Appendix D, p. 388).

Perhaps, Dilmah's humanistic and participative approach to management has helped boost the morale of the workers. Managers at each hierarchical level consider employees as a great asset to the company. The company top managers encourage every employee to attend social events organised by the company. At these social events regardless of hierarchical positions everybody eats, drinks and dances together. This approach to management has created a reliable and loyal work force at Dilmah.

In the production plant, no apparent hierarchical gap was observed between the supervisors and subordinates. Everybody seemed to be cooperative and determined to achieve common targets. Managers and factory floor workers talked easily with each other. Managers emphasise teamwork and take care of their employees with dignity. The Assistant Production Manager said ...

... in my view, here we have a good spirit of teamwork. There are about 400 tea packers. My theory is to be firm and fair and give care to the factory workers. (Appendix D, p.390).

Employees at Dilmah are very cooperative. Unlike in other organisations in Sri Lanka, even the top-level managers visit the factory regularly and talk to the factory workers

freely. Senior managers are not strangers at all to the factory workforce. This also has boosted the shop floor workers' morale. However, not all managers are happy with this approach to control. Some believe in the hierarchical flow of control over subordinates. For example, a manager in the Finance Division commented on the Chairman's direct control of employee behaviour...

... this is good, but not all the time. If the chairman talks to the subordinates directly not through the relevant manager/s, it is not good sometimes. If he talks to somebody who works in my department without my knowledge, I lose my authority. In that sense, he will neglect the manager/s (Appendix D, p.386).

Nevertheless, some managers believe that senior managers should pay more attention to strategic issues rather than to operational matters. A manager in the Marketing division explains this may affect the company's strategic initiatives and proposes the use of a team to look in to strategic issues:

The real role that the top management should make (strategic decision making) can suffer sometimes if they are involved with operational decision-making. If the top managers do operational things, they cannot see the strategic things. So, they may not see the future. This may cause an information gap. There should be a team who will really see the future of the company – a strategic development process. There are teams at operational level, but there should be strategic level teams too. Mission (market mission) should be passed to everybody from top to bottom. It should be more effective. I feel there should be more involvement from different areas of the organisation contributing towards the development of strategies. We are not giving due attention to long term planning. There should be long-term plans so that everybody could be working towards achieving those objectives (Appendix D, p.384).

The rather loose approach to management control operating at Dilmah has created an environment, which encourages teamwork and employee involvement in decision-making. Indeed the idea behind this is that employees who take part in making decisions concerning different aspects of their jobs prove to be more satisfied and more productive than others. The purpose of this control mechanism has been to ensure that effective decisions are made by the right personnel in the organisation. In other words, it suggests that employees should also be given an opportunity to add input to decision-

making. At Dilmah teamwork and employee involvement in decision-making have been the major mechanisms used to ensure appropriate employee contribution to decision making. Senior managers at Dilmah believe that through participative management, the employees' contribution to the organisation can be significantly enhanced. In return, employees' skills, knowledge, abilities and autonomy are expected to be enhanced.

By the time the employee surveys were conducted in 1999, teamwork and employee involvement had become a norm in the company. Different task teams had been formed for decision-making and problem solving as needs arose. As explained in the previous section, these teams consist of employees at different levels of the organisational hierarchy from different departments. Senior managers including the chairman believe in teamwork because in a company this size, with international operations, performance is a team effort. The company regards all team members as of equal importance regardless of their organisational positions. In some teams, employees even at the bottom of the hierarchical structure are given the opportunity to be heard. As such, employee involvement in decision-making at Dilmah is a very important element of its management control system.

Especially, employee involvement in departmental problem solving takes a high stance. The theme behind Dilmah's teamwork is senior managers' awareness that employees like managers seek responsibility, personal development, a sense of pride and identity and the motivation to use their creativity and multiple talents. Further, they consider teamwork as a means of improving quality, increasing the speed of responding customers and enabling employees to alleviate boredom. As the Director of Marketing

points out in the previous section, Dilmah relies heavily on teamwork, which is not very common in Sri Lanka, and believes that team members work towards a common purpose and depend on each other for the final performance. This social control approach depends upon the norms of trust, co-operation and mutual accountability among team members.

At the production plant teamwork is adopted as a means of improving productivity and competitiveness. Very often, the Assistant Production Manager works as the co-ordinator of factory work teams to make sure all of the team members work to achieve a common goal and know what the others are doing. Managers at the production plant regard teamwork as an opportunity for shop-floor employees to make direct contributions to company decision-making in the area of continuous improvement and reduce delays and idle time. Team members are supposed to take collective responsibility for the efficient performance in the production plant.

Apart from the so-called social control practices, Dilmah, however, adopts traditional management control techniques also. Managers seem to believe that teamwork does not eliminate 'the control imperative' (Ezzamel and Willmott, 1998). Tools such as close supervision by production supervisors and the use of 24-hour surveillance cameras in the production plant can be described as the continuance of traditional control practices. The loose and participative approach to control, sometimes, may result in employee grouping, especially, in the production plant. Grouping may encourage plant workers to engage in misconduct such as stealing, idling, sleeping at work, and improper tea packing and so on. The awareness of such malpractices by workers has led managers to adopt traditional mechanisms of control. Thus, at Dilmah, teamwork in the production

plant is adopted as an extension of and supplement to traditional management control systems.

The production supervisors employed in the production plant are expected to facilitate teams to balance their work, to reduce defects and delays, to gain new skills and more specifically, to develop a “more customer focussed” approach to their work. This approach to management facilitates improving the product quality and collective output. At the shopfloor level the use of 24-hour surveillance cameras, inform workers that they are under constant surveillance and encourage proper behaviour at the plant. This approach on the one hand, can be identified as a preventive managerial approach rather than remedial. Preventing employee misbehaviour is important for the employees and the company. Theft revealing by team members at the production plant assures the management that plant employees are not organised into strong groups and they are not a threat to the smooth management of the company. On the other hand, the use of surveillance cameras can be described as a means by which employees are put under constant pressure. It is, thus, questionable whether Dilmah has created a caring environment for its workers with its use of 24-hour surveillance cameras to observe the employees’ behaviour. This practice reflects the norms of administrative control.

As the above discussion reveals, the company’s loose approach to management control has been accepted and supported by its employees. There have been no major thefts or any other severe malpractices reported at the company in its history. Managers believe that performance in terms of product quality, in time delivery, and reduction of waste is at an acceptable level. So overall, the company’s participative management practices might have supported the smooth running of daily business operations at Dilmah.

10.2.4 COMMUNICATION EFFORTS

The company uses both formal and informal means of communication and considers communication as a key element in its management control practices. As put forward by the Human Resources and Administration Manager, “(w)e believe that communication is very important to the proper functioning of the work towards achieving organisational goals and objectives” (Appendix D, p.389). One of the major objectives of the communication efforts is to provide employees, especially, shopfloor workers with information regarding the operations and to motivate them. As already mentioned in Chapter Nine, the company relies heavily on the integrated computerised management information system. Apart from this formal communication system, informal forms of communication such as regular meetings, newsletters, telephone conversations, e-mail contacts as well as personal visits play a vital role in Dilmah’s communication process.

Information generated from the formal computerised system is available to all managers in the company. The executive managers do not solely possess the information and computational capacity. Instead, the style of control prevalent within the company allows the easy accessibility of information to the relevant managers at any level. Even access to the accounting information is not restricted. The Financial Controller reveals that the ...

... availability of financial information as a database is not restricted. But since very few know how to retrieve the information there is an automatic restriction (Appendix D, p. 421).

The integrated information system has been very useful at the interdepartmental level of communication. Fast retrieval of data has been very useful in saving time and

making decisions in time. The Accountant comments on the usefulness and challenges of the formal communication system ...

SYMIX is an American system. We had to customise certain areas. Accounting systems in Sri Lanka are different from those of in America and we modified the system according to our requirements. That will create a problem in the future when updated versions come. We can use the updated version with modifications. Then every time there is an updated version we will have to modify the whole computer system. We will face that modification problem. Sub-files will need to be modified (Appendix D, p.385).

Among the means of communication, meetings are important. Both formal and informal meetings are used to communicate among organisational participants. Meetings are a very common means of communication between senior and middle managers. The rather flexible social control approach adopted by the company encourages face-to-face interaction between managers. According to the Director of Marketing:

(f)ormal interaction amongst managers is at a daily operations meeting for the Operational departments, and for each department, in the form of weekly administration meetings or daily meetings. The Marketing departments, for example review communications daily in a meeting. We do have frequent small group activity with teams set up informally to handle particular issues. Our management control systems are therefore not highly formalised and structured. The informal approach is more flexible and effective than the formal approach in our opinion. Senior Management level meetings are held once every two weeks and they focus on non-routine issues such as staff transport, sports functions, festivities, employee issues, legal and finance issues that would not fall into the usual departmental meeting process (Appendix G, p.414).

The Human Resources and Administration Manager also accepts the fact that informal communication is more beneficial than formal means and very useful in communicating with teams when he states ...

... informal communication is more effective than formal communication. Informal communication helps improve team spirit because we communicate one to one (Appendix D, p. 389).

In some departments, meetings are formal and regularised, especially, in the tea, quality, marketing and production departments where regular meetings are held to

communicate between the members. For example, the Tea Consultant said, “(o)nce a week we have a meeting to discuss the quality of tea” (Appendix G, p.382). In the production department regular informal meetings are held to communicate production instructions to the shop floor workers. The Assistant Production Manager together with other staff members in the production department holds these regular meetings. The Assistant Production Manager stated that ...

... there is a factory operation meeting daily at 9. 30 am. This meeting is very useful in transferring the tea filling and packing instructions to the factory floor workers. I appreciate the communication developed by the company (Appendix D, p.399).

The meeting held in the production plant daily helps in developing skills and motivating factory workers. Many issues such as quality considerations, work instructions, decisions about welfare and other facilities are discussed at these meetings. The management’s decisions are discussed openly at these meetings and employees are happy about it. These meetings are also important for building strong relationships among the work force.

Production instructions are given in simple and easily understandable language. Written (formal) and verbal (informal) instructions are given to production workers. Machine girls, quality checkers and supervisors are trained to read and understand the instructions correctly. Formal communication is of profound importance for the effective and efficient process of production. Defects in the communication system could result in very harmful effects on the flow of smooth production.

In the Marketing Division, regular meetings have been of profound importance in reviewing performance, and developing new markets. Monthly marketing performance reviews are conducted using formal formats for a number of categories such as regional

sales performance, product performance and contribution, new product performance price analyses, distribution and advertising performance and so on (see Exhibit 10.1 for a sample of a performance review document). Several managers explained the different means of communication used by their departments as follows:

(w)e have information reviews, meetings, and information sessions on regular basis. We prepare monthly market reports (about competition). Monthly reviews are done in the areas of advertisements, sales – rise and fall, and competition (Business Development Manager, Appendix D, p. 384).

(there is a marketing meeting every other day, an informal meeting together with the Marketing Director and Production Supervisors. There is a monthly marketing review. It is a very formal meeting with top-level managers. We meet to discuss to assure that everyone does the same thing (Area Manager of Logistics, Appendix D, p. 387).

every three months a management review meeting, a formal meeting, is held to see the effectiveness of the quality activities (quality and other related matters). The Chairman and Senior Managers attend it (Quality Manager, Appendix D, p. 389).

Apart from meetings, notices have been a very effective form of communication within the company. The Accountant explained the importance of notices as a means of communication:

Notices and meetings are very important means of communication at our Company. For example, for Christmas there is a grand party. Workers are informed by means of notices. So everybody knows that s/he has to contribute to it. E-mail and telephone are also very useful means of communication. Telephone is very useful in communicating with the managers within the company. For different levels of the work force, I have to use different means of communication. For factory staff –notice board is the mostly used means (Appendix D, p. 386).

Overall, meetings, notices and telephone are the commonly used means of communication within the company. The Shipping Manager explains that:

... (w)e hold small meetings very often within the department. Face to face talk is very useful. The telephone is very useful in interdepartmental communication (Appendix D, p. 386).

Another very common and widely used means of communication is face-to-face conversation. As already pointed out communication between the Chief Executive Officer and the Factory worker is very smooth and easy. The tradition of Dilmah

communication is highlighted by its managers' direct communication with the relevant departments and employees. Many employees appreciate this open approach to communication. This has resulted in a close friendly atmosphere in the organisation. As discussed earlier managers are called by their given names, something not very common in Sri Lankan organisations. For example, the Marketing Director's secretary addresses him by his given name, "Dilhan". There is a harmonious employer-employee relationship developed especially through this open approach to communication in the company.

Some departments use formal means of communication extensively while others use informal means to a greater extent. The company's security department uses both a formal and a well-organised informal communication system. Under the Security Manager, there are 5 supervisors (ex army and navy personnel) and 33 guards. The Security Manager is responsible for the security of the whole organisation; work places, the housing complex, and the Chairman's bungalow. As revealed by the Security Manager, communication and information is the key to fulfilling his responsibilities and informal communication is very effective in some instances:

I make decisions regarding security and take immediate actions. In this regard, information is very useful to our department. The security service has specially selected people (trustworthy and honest) from the work force to communicate with them. They give information secretly on what happens in the plant. This special force links with the security personnel. Apart from this, the security personnel do not have any contacts with the labour force unless there are special situations to be intermediated. Similarly, we have an island-wide operation to collect information on frauds. Information on frauds such as selling tea to tourists with the Dilmah trademark is collected through overseers. For example, some had sold tea in Kandy and they were caught and brought to the courts. I use the telephone to a greater extent to communicate with others in and out of the company. We use memorandums, White Boards, notices to communicate with internal people and fire alarms and fire engines in case of accidents (Appendix D, p.383).

As previously described, the company's communication system has been changed greatly with the introduction of the integrated computerised system. The integrated computerised system has enhanced the internal communication to a greater extent. Regular state-of-the art plant meetings inform the employees of production requirements and other related matters. Departmental meetings are very useful in problem solving and directing future operations. All departments hold regular meetings at which relevant issues are reviewed and problems are solved. Bulletin boards throughout the plant/office complex give information regarding job openings, announcements, employee development and recreational activities.

According to the managers, the company's communication systems, both formal and informal, are very open and effective. On one hand, the formal system is very useful in carrying out technical and operational procedures and programs. Without formal communication, the company is not in a position to undertake formal procedures in production, marketing, quality control, shipping, and financial functions. On the other hand, informal means of communication plays a major role in gaining support, trust and control over employees. This system guards against information misinterpretation and gives quick responses. One reason for this is that Dilmah is a family owned and family managed organisation. Accepted mutual managerial interdependency has led senior managers to use an informal means of communication to a greater extent because of its flexibility, quickness, and effectiveness. In effect, at Dilmah informal communication is more effective and useful in controlling human resources while formal communication is more effective and useful in controlling material resources.

In the past few years, Dilmah has witnessed an enormous economic growth reflected in a wave of strategic alliances with several other key players in the tea business. To keep up with its economic growth, the company is continuously in search of new products, new technology, new markets, and new ideas. To achieve its goals of developing, producing and marketing quality products and services, the company has to integrate information on key issues and communicate it to the correct personnel at the correct time. In this regard, as already mentioned in the previous section, formal and informal meetings play a key role in passing information to internal personnel. On particular, team brief meetings are widely used for passing informing to team members on relevant issues. The company management relies on team brief meetings heavily because they enable:

- a) face-to-face contact;
- b) two-way information flow;
- c) keeping a small number of participants;
- d) meeting regularly; and
- e) focussing the issues relevant to the task.

Informal meetings are also a very popular means of communication used by senior managers at Dilmah. Management by walking around is able to keep in touch with relevant personnel specifically without interfering with their work. They are able to communicate key points without time delays. In particular, Dilmah's chief executive officer practices this approach and can communicate with almost anybody in the company. It is the factory shopfloor people who know what is happening minute-by-minute and day-by-day in the production plant. Through informal meetings, the chief executive officer gets the opportunity to know what is happening at the premises in detail and to show his interest, enthusiasm and commitment to all the workers in the

organisation. This approach has been the key reason for the popularity of the chief executive officer among shop floor employees (interviews with employees).

Of significant importance, is Dilmah's excellence in communication. Dilmah has developed a flexible system of communication to interact with people in many different ways. Different approaches, which are mainly based on open and interactive means, are used to communicate with employees at different levels of the organisational hierarchy. It is believed that this approach inspires trust, respect and motivation among organisational participants. There are, however, some negative impacts emanating from the existing informal communication system, particularly on employees at the lower level of the organisational hierarchy. There is no secure environment for them to express their true feelings about the decisions managers make regarding their work. This situation could depress the employees and create dissatisfaction in the workforce if continued for a long period. Similarly, there are sometimes, conflict between the formal rules and informal procedures.

10.2.5 RECOGNITION OF ACHIEVEMENT

Since its early years, Dilmah has understood that its performance could be improved through continuously motivating employees and improving their skills. The company undertakes regular performance appraisals for its employees in order to recognise their achievements and undertake relevant training programs to improve their skills and work related abilities. The human Resources and Administration Department is responsible for undertaking performance evaluation and training programs. These performance appraisals are used to motivate employees and improve their skills rather than just to inform or blame. These appraisals are basically for rewarding employees rather than

punishing them for their mistakes. On performance appraisal, Mr. Jayasooriya, Human Resources and Administration Manager commented:

Actually, we believe more in rewards than punishments. We believe that motivating employees is the key to the success of the organisation (Appendix D, p. 389).

As the Human Resources and Administration Manager explained Dilmah believes that rewarding an employee for his/her high performance motivates not only that employee but also others in the group. Thus, performance appraisals are used as a means of reinforcing the self-esteem of employees. Managers believe that punishment for an employee normally does not create a positive feeling in the employee towards the manager and the organisation as a whole. Punishment tends to alienate the workforce. The results may be harmful for the smooth running of company operations. Thus, the managers do not encourage punishment. In cases where employee performance is poor, mechanisms such as training and instructional sessions are administered.

Different appraisals and training programs are held for different categories of employees within the company. A regular formal performance appraisal is conducted for both managers and clerical grades. As the Tea Consultant explains, “evaluations are undertaken based on performance data – every three months for permanent employees and yearly for beginners”. The relevant departmental managers undertake the appraisal because they are supposed to have a depth of understanding of a subordinate’s overall performance to make an informed and meaningful evaluation. This appraisal is supposed to be meaningful with the review being centred on training and development requirements. Commenting on this issue the Director of Marketing explained:

Managers have a quarterly appraisal process where each employee is reviewed for performance and other factors such as attendance etc. This is a document prepared by the manager and then discussed with the employee with a view to correcting and addressing issues that are present (Appendix D, p.414).

EXHIBIT 10.1: PERFORMANCE APPRAISAL – MANAGEMENT AND CLERICAL GRADES

Annex 14-HR/AD-PA-01
 Rev No. 00
 Rev Date
 Page 01 of 02

MJT GROUP	PERFORMANCE APPRAISAL - MANAGEMENT & CLERICAL GRADES
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Appraisal Period:	Appraisal Date:
Employee Name:	Job Title:
Company:	Dept:
Age:	Years in Company:
Appraiser Name/Title:	Appraiser Signature:

Has Appraisal been discussed with Employee: YES/NO, if YES, employee signature: _____

I PERFORMANCE IN CURRENT JOB

- i) To what extent has employee realized the agreed objectives of the job during the period under review?
 Indicate strengths and areas for improvement. Continue overleaf if needed.

ii) Assessment of overall performance during period under review. Be objective and critical.
 A) OUTSTANDING B) ABOVE AVERAGE C) AVERAGE D) BELOW AVERAGE

II ABILITIES (Use A, B, C, D scale as above). Circle score. Be objective and critical.

- | | |
|--|--|
| 1. KNOWLEDGE
Degree of knowledge and skill acquired for present job. | A B C D |
| 2. JUDGEMENT
Quality and wisdom of decision making | A B C D |
| 3. PLANNING
Ability to plan and organise work in accordance with objectives. | A B C D |
| 4. COMPLEXITY
Ability to cope with many things simultaneously even under pressure. | A B C D |
| 5. DEDICATION
Degree of dedication to work | A B C D |
| 6. INITIATIVE
Imagination and drive in seeing the need for action and promoting it. | A B C D |
| 7. FLEXIBILITY
Receptivity to new ideas, systems and adaptability to change. | A B C D |
| 8. CREATIVITY
Ability to think in a creative way and to stimulate new developments. | A B C D |
| 9. CONTACT
a) Ability to co-operate effectively and harmoniously within work environment with:
Supervisors (if relevant)
Colleagues
Subordinates (if relevant)
b) Ability to represent Company in contacts outside company environment | A B C D
A B C D
A B C D
A B C D |
| 10. LEADERSHIP
Ability to lead and motivate others (articulating, influencing, creating team spirit, ability in appreciating subordinates) and to make an impact on events. | A B C D |
| 11. ATTENDANCE & PUNCTUALITY
Refer to Time Entry System data | A B C D |
| 12. COMMUNICATION
Ability to express himself or herself in a clear, concise and businesslike way | A B C D |

Managers use performance appraisal to monitor the progress of employees against a series of measures. The emphasis of this appraisal is on a number of key issues such as creativity, flexibility, dedication communication and knowledge rather than budgets or financial measures (Exhibit 10.1 shows the performance appraisal document). Most managers hold an optimistic attitude towards the performance appraisal system.

The training and development program for managers and clerical staff is linked with performance appraisal. Thus, this appraisal is not just for an evaluation of past performance. Based on the results of the performance appraisal, training is provided where necessary to improve the employees' skills and abilities.

The training is given on the job, in house, and externally. The relevant department manager decides the type and duration of the training required. Once such training is provided, a follow up appraisal is conducted in which the departmental managers comment on the impact of the training provided and any further requirements needed. A sample of the training requisition document is shown in Exhibit 10.2.

As the Human Resources and Administration Manager pointed out, "(t)raining is an important aspect of our programs and the company has been spending a substantial amount on training every year" (Appendix D, p.389). The company believes that training is a good way of rewarding its employees. Company employees are rewarded through both monetary and non-monetary measures such as welfare and medical benefits which in certain circumstances extend to their families.

Training is considered as such a non-monetary reward and is expected to improve employee job satisfaction. The Human Resources and Administration Manager explains how training motivated employees:

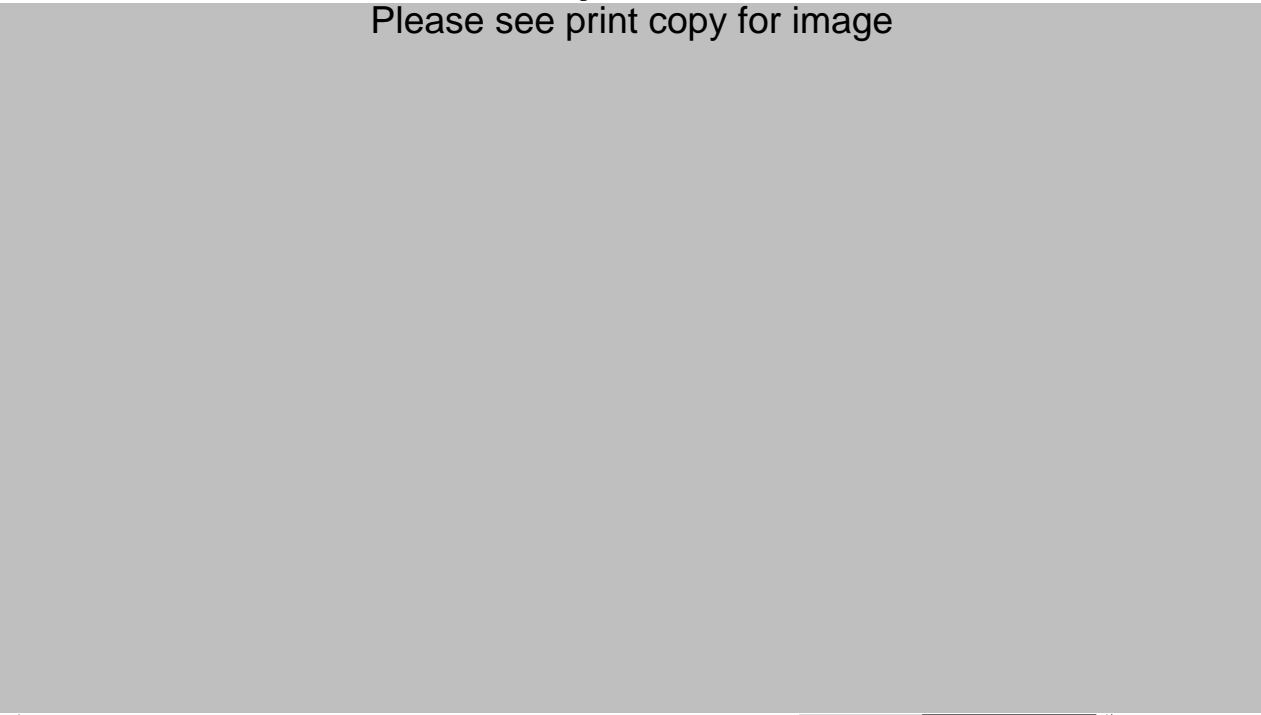
... it is due to the job satisfaction they get and also the benefits they receive and the working environment. Training provides the employees with environmentally friendly working conditions. Our work conditions are very appealing (Appendix D, p. 389).

The Assistant Production Manager believes that in order to motivate the work force they should be understood and treated well:

In the last two decades (after 1980) Sri Lanka has changed a lot. Specially, the younger generation is ready to work. They are very confident within themselves. We as managers should understand this factor and make an environment for them to work easily and comfortably (Appendix D, pp. 389).

EXHIBIT 10.2: EMPLOYEE TRAINING REQUEST

Please see print copy for image



Source: Ceylon Tea Services Ltd.

The company conducts different training programs for different categories of its employees. For example, special training is given to the security staff. According to the security Manager:

We conduct instruction classes on how to carry out the security service duties. These classes help find out their difficulties. They are a means of finding out the needs of the service force as well as informing them of the company needs (Appendix G, p.382).

Similarly, special training is provided for production workers. Machine girls (tea packers) are especially trained for their jobs. They are trained to operate tea-bagging and packaging machines and particular instructions are given on how to make decisions in case of a problem with the machines such as a breakdown. They are given special training to be honest and trustworthy. A unique aspect of the Dilmah shop-floor worker training program is job rotation. Tea packers are trained and promoted to quality checkers and quality checkers are trained and promoted to production supervisors. Machine operators (males only) are trained to deal with problems with machinery.

The training provided by the company is regarded as adequate and beneficial to both the employees and the company (discussions with Human Resources and Administration Manager). The company is keen to provide the required training for its employees with the changes in its operations. It has recognised the need for strong on-going- skill development programs to address technical and non-technical skills required on the job. While the Human Resources Department organises training programs, each business unit provides initial training in the required area as new employees are hired. For example, the clerical staff is given training on the use of computer technology.

Performance appraisals are directly linked with training and they are results oriented rather than process oriented. Actual experience and skills in the work is evaluated through performance appraisal. The Assistant Production Manager, who has worked in

a State Corporation in Sri Lanka pointed out the difference between his former organisation and the current organisation with regard to the recognition of experience:

In the former organisation, there was no requirement of work experience in terms of work skills and knowledge. The work experience was counted in terms of the period of time involved with the organisation. This is not the case with the current organisation. The experience is counted with reference to the work skills acquired in improving the system (Appendix D, p.399).

As the Assistant Production Manager further put forward, “Dilmah recognises the contribution s/he has given to the organisation’s operations and the skills or knowledge acquired by the employee. Much consideration is given for innovative ideas”. As such, the company pays much attention in recognising the achievement of its managers and other employees and the improvement in their work related skills and abilities.

The above discussion clearly shows Dilmah’s attempts to recognise its employees’ achievement and provide them with the required training as necessary. When running appraisal sessions the company uses formal reports with a number of work related issues such as abilities, knowledge, creativity and so on. They are used as counselling sessions, rather than as bureaucratic punitive control mechanisms. Both the manager and the subordinate concerned are expected to discuss selected aspects of the subordinate’s performance on the job. This enables both the manager and the employee to relate the comments to the task that has been undertaken and the performance levels achieved and gives an opportunity to see how well the subordinate’s work related skills and abilities have been improved. Both the manager and the subordinate are expected to come to an agreement regarding the implications for the future such as the allocation of future work and further training.

The fact that performance appraisal is linked with training has generated positive feelings about appraisal among the employees (discussions with employees). The workforce at Dilmah, especially the factory workers and clerical staff, is very young. They are very ambitious to improve their skills and are looking for opportunities for career development. The training provided by the company brings competence, which in turn brings confidence to the employees. In fact, most managers and subordinates hold a fairly optimistic attitude towards the company's performance appraisal system. They regard the appraisal, with the review focussed on training and developmental issues, as informed, meaningful and useful. Overall, performance within Dilmah's appraisal system can be described as a fruitful mechanism of control, which has provided the company with a loyal and satisfied work force.

10.2.6 FORMAL RULES AND REGULATIONS

In addition to the above discussed control mechanisms Dilmah relies on formal rules and regulations as a way of gaining control and cooperation from its employees. Since it is a highly integrated and diversified organisation, the MJF Group has been applying some structural control techniques to make sure that operations are under control and directed towards established goals and objectives. In this regard, the Ceylon Tea Services Limited resembles Weber's (1947) bureaucratic control system. The company has a precise hierarchical authority structure (Exhibit 6.9, in Chapter Six) and administrative code of behaviour that emphasise rules and procedures, and these define the duties of employees at different levels of the hierarchy. This hierarchical structure clearly identifies the responsibilities (job descriptions) of office bearers at different levels (Exhibit 6.8 in Chapter Six). The Quality Manager explains the structural stance of the company:

We have a highly formal structure. Everything is documented. Organisation structure has been finalised. Thus, we have a formal organisation structure. Duties and responsibilities of each employee have been necessarily documented. All procedures and work instructions have also been documented. So we carry out our activities according to the documented procedures. For example, in the production plant work instructions are displayed (Appendix D, p.389).

Organisational positions are specialised with clearly defined job specifications. For example, Engineering and Chemistry graduates are sought for managerial positions in the production department. The Assistant Production Manager holds a Bachelor's Degree in Engineering with specialisation in Chemical Engineering and similarly, senior positions in the accounting department are normally held by qualified accountants. All other positions have clear job specifications and they require the relevant qualifications and experience.

In theory, the relationships between organisational members are very formal. There is a hierarchical flow of authority in decision-making. Approval for important decisions has to be granted by the relevant higher rank officials. For example, the annual financial reports prepared by the Accountant and his staff are initially to be approved by the Financial Controller, and then by the Director of Finance. Thus, decision-making and communication follow a chain of command and control. Similarly, the Area Manager of Logistics is responsible to the International Marketing Manager. Simply, as expressed by the Marketing Director, the company's operations are quite formalised in every aspect. It is understood that lower level managers are responsible to the relevant upper level managers and should follow the guidelines set by them. For example, the Security Manager summarised his relationship with his immediate superior as follows:

I have to give feedback to my supervisor (Appendix D, p. 383).

The Shipping Manager also put forward a similar view:

I am responsible to the Chief Operations Officer. He does operational activities. And I am responsible to him. I follow his guidelines (Appendix D, p.386).

The company has established clear operational procedures and guidelines in almost every area of operation. Firm and strict guidelines are followed in the production plant. Operational departments such as tea tasting, flavouring, quality control, marketing, shipping and transportation and so on are governed by a large number of procedures, rules and regulations. These departmental operations have precise control structures. For example, there are regular quality checking processes and special quality assurance processes in the production plant. Manufacturing operations are supervised continuously. Production and marketing plans are prepared on a regular basis. Thus, many managers believe that the company is rationally organised with clear structures and operational guidelines. According to the Area Manager of Logistics (Australia and New Zealand), the rational control practices have been very successful:

... we are a rational organisation. We have set rules and structures. Structures are laid down and we just follow them. The system has always been very successful and there is no reason to go against it (Appendix D, p. 388).

Similarly, the Site Manager (Information Technology) points out:

(t)his organisation is almost rationally and formally organised (Appendix D, p. 383).

As already discussed, the company uses formal control devices such as video surveillance and direct supervision to better control its operations and employee behaviour. For example, the Security Manager's office is fitted with a surveillance camera and a television (known as CCTV). The camera focusses at several main points within the office/ factory complex: the main entrance and production factory. At night, a security service is operated in the complex except at the main gate. Between 7.00pm and 6.00 am, the surveillance camera is turned on. Another surveillance camera, aimed

at the production plant, is installed in the Production Department. This is operated 24 hours. Any employee misbehaviour such as falling sleep can be detected from these videos and necessary actions can be taken accordingly. This has been a very useful direct control technique, which prevents employees, particularly factory workers from engaging in malpractices. Similarly, direct supervision by security staff is considered a very effective control mechanism. As the Security Manager states:

... control is mostly done through direct supervision (catching stealing) (Appendix D, p. 383).

As pointed out in a previous section, these formal control mechanisms are expected to warn and guide employees to be honest and truthful rather than as means of finding fault with them. Managers believe in preventions rather than precautions. Although the company emphasises formal patterns of structural control, in practice these command and control procedures are not implemented in their original sense (as explained in the literature). As discussed earlier in this chapter, the participative approach to management control adopted by the company has reduced the effect of the formal structural control resulting in a loose approach to control. The high level of managerial interdependency goes beyond formal lines of authority. The Food Technologist put forward her views of the company's rather loose control structure:

... (the) company is not very structured which I like very much. Even the top managers are not very formal. We call each other by the first name. It helps us to be more open. We have a humanist approach to management (Appendix D, p. 387).

The Business Development Manager is optimistic about the flexible nature of the company structure:

... (w)e have a very flexible structure. We can easily communicate with the top management to discuss matters. And the top management is hands on in operational activities on a daily basis, which makes decision making more effective. Top managers are easily accessible (Appendix D, p.384).

Accordingly, some managers believe that the company has a formal and natural organisational structure, which is very productive. For example, the Assistant Production Manager espoused the view:

At CTS there are different level of hierarchy, which are flexible. Our system is user friendly. I appreciate the communication and innovation developed by the company. I believe in formal natural systems. I have to be 90% formal. I want to be fair to everybody. For the remaining 10%, I want to consider the informal issues such as culture and humanity (Appendix D, p. 389).

The Assistant Production Manager, a former government employee, further explains that Ceylon Tea Services Limited is results oriented rather than functional oriented. He pointed out that a substantial difference has been observed existing in the organisational structure and culture in the two organisations he has worked for:

The government sector organisation structure was rather rigid and difficult to follow. The culture at the CTS is flexible and the manager prefers it to that prevailed at the state corporation. It is easy to maintain and adapt to the culture of CTS, which is not governed by 100% rigid rules and regulations. The government sector is functionally oriented and this private sector organisation is target oriented. There is a huge difference between strategies of the two organisations. At CTS, there are targets to be achieved. The rules, regulations and procedures may or may not be followed all the time. The main objective is not to follow the strategies but to achieve the goals and objectives (Appendix D, p.389).

The evidence gathered from the interviews with company managers and direct observation indicates that the company does not rely 100% on formal rules and regulations. Senior managers believe that formal procedures are very useful in directing company operations and worker behaviour to a great extent but informal patterns of control (social control mechanisms) are more useful than formal administrative control approaches. Thus, many of the traditional structural administrative control mechanisms adopted by the company are departures from the 'norm' in many respects. This may result in conflicts among rule makers and rule followers. At Dilmah, however, such situations are controlled by the continuous vigilance of the senior managers and conflicts are very rare.

10.3 CHAPTER SUMMARY

In this chapter, the patterns of core control within the Ceylon Tea Services Limited have been examined. Several traditional and non-traditional control mechanisms have been recognised and the extent to which, and ways, these control mechanisms have been used by different managers has been assessed. The analysis leads to the conclusion that the company relies on both structural and non-structural means of control in obtaining the cooperation of its members. Further, the analysis in this chapter, shown that senior managers efforts are directed toward the acceptance of informal, social control mechanisms rather than formal traditional administrative forms of control. In particular, the influence of the senior managers has resulted in a humanistic approach to management control at Ceylon Tea Services Limited. This chapter has concluded the discussion of the five components of the management control model developed in Chapter Three. The effect of the overall management control system that exists within the company on organisational effectiveness is considered in Chapter Eleven. An integrative model of management control for family controlled business organisations is also developed.

CHAPTER ELEVEN

TOWARD AN INTEGRATIVE MODEL OF MANAGEMENT CONTROL

11.1 INTRODUCTION

As has been stated in the introductory chapter, one of the objectives of this research has been to identify the type of management control system, which describes the patterns of management control in family managed businesses. For this purpose, the current research initially developed a tentative research model based on a review of the literature of management control, and this was used as a guiding perspective in an attempt to answer the research questions posed at the beginning of this study and to describe research findings. It was noted, however, that the developed management control model was very helpful in recognising the nature of management control in the research organization in Sri Lanka, a developing country. This theoretical model was based on several management control models developed in developed western countries. The research findings at Dilmah could analysed using this management control model although it is very western-centric.

As such, the theoretical model did play a role more than just served as a guiding perspective. Based on the research framework the patterns of management control at the research organisation were recognised and research findings were presented in several chapters. It was noted that his model could be modified according to the empirical observations found at Dilmah for future research purposes. This chapter will

attempt to develop an integrative model of management control relating to family controlled businesses in emerging economies.

This chapter is organised in four major sections. It first reviews the research questions and tries to formulate answers to these questions. In the second section, it examines the nature of the overall pattern of management control that exists at the research organisation with relation to the research framework. This is followed in the third section by a discussion of the major characteristics of the management control system, and attempts to identify the type of management control system extant at the research organisation. Finally, it proposes a theoretically more practicable model of management control for understanding the patterns of management control in family managed businesses in emerging economies. The chapter concludes with a brief summary.

11.2 ANSWERING THE RESEARCH QUESTIONS

This section of the chapter is organised by the research questions undertaken in the study. For each of the research questions an attempt is made to present the data collection methods and summaries of the findings. It is acknowledged that these answers are not intended to be precise and/or concrete, but are used only as a guide in order to organise research material. Turning to the data concerning Dilmah, each of the research questions will be addressed in turn.

- Research question a): What particular patterns of management control did exist in Ceylon Tea Services Ltd?**
- b) How were these particular patterns of control used by the managers?**

In order to answer these two research questions, the researcher used a number of data sources: interview data, email contacts with managers, non-participant observation, company annual reports, documentary evidence, and company marketing information. The answers to these questions are presented in Chapters Five to Ten. In organising data in these chapters, the tentative model developed in Chapter Three is used as a guide.

The analytical framework presented in Chapter Three consists of five major components of management control; corporate strategy, organisational structure, corporate culture, management information systems and core control mechanisms. These are regarded as important contextual factors of a management control system used in a typical owner controlled business in an emerging economy. The research findings regarding the experience of Dilmah generated consistent evidence of the components of the extant management control system. They suggest that the overall pattern of the company's management control system can be explained and analysed based on the tentative research framework.

These data suggested that basically two management control systems are operating at Dilmah, formal and informal. The formal system is used to indoctrinate participants within the organisation. It is intended to direct individuals and it provides them with a means to operate under prescribed conditions. The system, further, is instructional and persuasive and it encourages individuals to be punctual and to follow directions. The formal system signifies the general direction to which the company is heading.

Concerning the complexity of the company's production and marketing operations and the competition it has to face, it has no choice but to use a formal control system.

The informal system operating at Dilmah is similar to what traditionally has been known as the human resource approach and more recently as employee empowerment. In other words, the company control system is ruled by a social and cooperative approach. It is represented by informal meetings, discussions and negotiations, teamwork, employee involvement in decision-making and social interaction programs. In addition, the easy access to company senior managers by any employee creates a very cooperative relationship between them. As a result, 'the level of trust between the senior managers and subordinates'; a prominent feature of the informal control system, exerts important positive effects on company performance. It has been found that the informal system is used as a supportive approach and is suppressed, in the event of unexpected and complicated situations.

As discussed in these chapters, the extant management control system at Dilmah consists of a number of mechanisms. The results support Simons' (1990) views that management control systems are more than devices of constraint and monitoring. It is observed that the company uses a number of specific tactics to gain the cooperation of its employees and managers and develop its human resource. The company's system of management control represents both Western and Japanese techniques of control. Overall, the top-level managers use a very hands-on quick mode of response in handling company operations. As the research findings suggest the pattern of control extant at Dilmah has derived because of the founder-manager's approach to management

control. Dilmah was founded as a small family owned business and over the years it grew into a giant in the tea export industry. The commitment and dedication of the founder have been the foundation stones for the success of the business. The founder heavily relies on his employees' cooperation and trust in carrying out day-day operations. He is involved in every aspect and stage of the company's growth. Even today, regardless of the fact that Dilmah is the largest value added tea manufacturer and exporter in tea growing countries, the founder is actively involved in company control activities ensuring the smooth functioning of activities. A detailed assessment of the patterns of management control existing at the company is provided in the second section of this chapter and it explains how and why these particular patterns of control are used.

Research question c): How the patterns of management control have changed in recent years.

In order to answer this research question, two types of data have mainly been gathered: interview data and employee opinion survey data. As revealed by the research, two major areas of management control have been through significant changes during 1997. These two areas are the company management information system and the quality assurance system. In 1997, the company's information system was out-sourced in order to assist company operations with expert knowledge in information handling. Similarly, since 1997, the company's information system has been fully computerised and integrated. This can be considered a major change in the company's management control system because the improved information handling has resulted in fast and accurate decision-making. Likewise, in 1997, the company revised its quality policy

emphasising quality consciousness in each and every aspect of its operations. This has yielded high quality and less defective products and services. At present, quality is considered a very important aspect of the extant management control system. Dilmah's quality consciousness is described in detail in Chapter Eight.

Changes in the management information system and strict adherence to quality have triggered structural control at Dilmah. These changes have diminished the discretion of managers and subordinates regarding information handling and quality; two critical areas of the management control system at Dilmah. The increase in the extent of structural control cannot be considered a hindrance in gaining subordinate cooperation because the company is operating smoothly and profitably. In the analysis of research findings, the computerised management information system is considered a major component of management control while quality is considered a mechanism of control in the cultural component.

The current research pays special attention in evaluating the changes in corporate culture resulting from changes in management control practices in recent years and conducted a survey to discover employee opinion in this regard. As explained in Chapter Four, the survey was conducted at the end of 1999. The employee survey data have been used to assess, in particular, organisational values and climate factors; a component of organisational culture.

Organisational values and climate, as a dimension of organisational culture, are assessed using a survey instrument extracted from Dearstone's (1989) thesis.

Dearstone's (1989) survey consists of a set of ten factors considered the most salient dimensions of organisational climate and values. The survey instrument (Appendix E) had been previously validated and tested for reliability. This researcher used the same survey instrument (minor adjustments are made in items, including adding two factors and changing two factors) to measure the change in employee perceptions of organisational climate factors between 1997 and 1999. Exhibit 11.1 presents the summary data comparing the 1997 and 1999 percentages of favourable responses for each of the 42 items representing organisational climate and values. It has not been considered important to conduct any specific statistical analysis of the survey data because this survey was conducted only as a supporting device to the case study research and was expected to provide a general idea of the trend.

Exhibit 11.1 shows summary data on the ten climate factors of the employee survey for both 1997 and 1999. In interpreting these data, the current research uses the following guide: (it should, however, be noted that this guide do not represent a firm measure to interpret survey data).

10% or more change = major change;

5% or less than 10% change = significant change; and

Less than 5% change = minor change.

Overall, employees felt there was been a substantial improvement in organisational climate and value factors. All the subscales under "Organisational Performance", "Skill Development", "Working Conditions", and "Compensations" show major improvements in 1999. "Communication" and "Performance Review" also indicate major improvements in 1999 except for "Upward Communication" and "Performance

EXHIBIT 11.1 RESULTS OF SURVEY OF ORGANISATIONAL CLIMATE AND VALUES

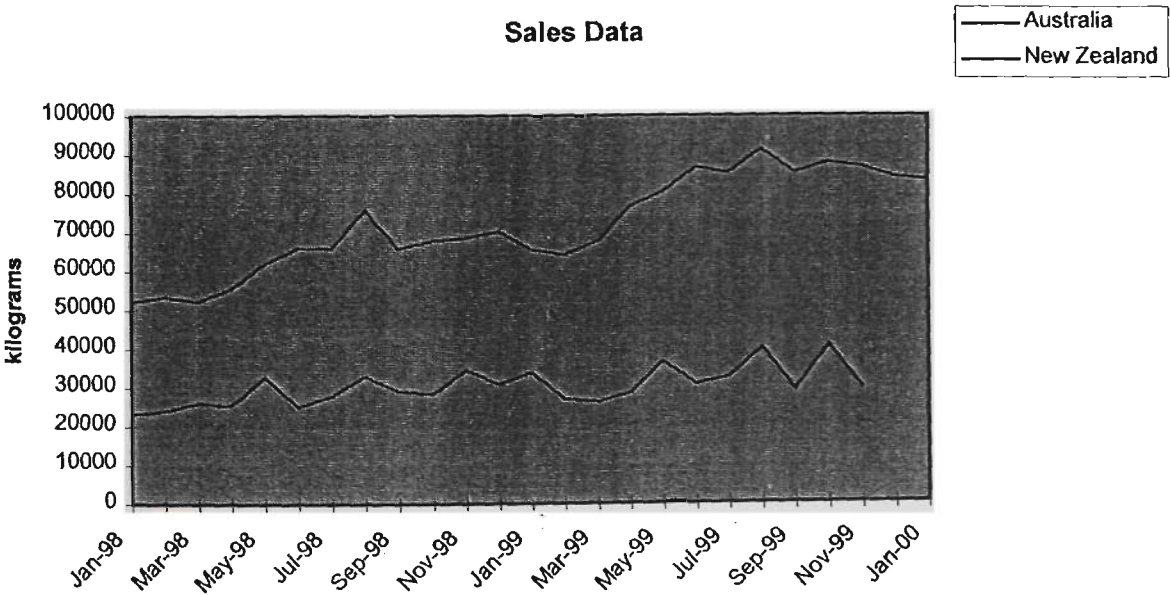
	% Favourable	
	1999	1997
1. MANAGEMENT		
a. Openness of Managers	65	54
b. Managerial Communication	70	60
c. Managers' Handling of Suggestions	64	52
d. Managerial Leadership	71	63
e. Managerial Planning	65	60
f. Managerial Delegating	64	52
g. Managerial Decision Making	55	50
h. Managers' Support for Development of Subordinate Skills	59	51
2. MANAGEMENT CONTROL		
a. Relationship between Managers and Employees	66	52
b. Ease of Communication with Managers	70	61
c. Rules and Regulations	65	62
d. Pressure of Budgets and Plans	55	50
e. Deadlines	59	52
f. Rewards/Punishments	62	64
3. COMMUNICATION		
a. Upward Communication	57	53
b. Downward Communication	67	54
c. Interdepartmental Communication	65	52
d. Openness of Communication	59	45
4. ORGANISATIONAL PERFORMANCE		
a. Commitment to Quality	75	53
b. Innovation	66	52
c. Development and Growth of Individuals	60	50
d. Customer Orientation	69	52
e. Responsibility to the Community	56	44
5. SKILL DEVELOPMENT		
a. Training and Development	62	51
b. Advancement Criteria	61	45
6. WORK ITSELF		
a. Workload	63	51
b. Task Structure	51	61
c. Interest in the Job	54	42
d. Challenge	65	51
e. Sense of Accomplishment	66	52
7. WORKING CONDITIONS		
a. Departmental Climate	67	51
b. Overall Climate	66	56
c. Participation in Decision Making	68	51
d. Job Security	55	45
e. Physical Environment	68	51
f. Recreation and Learning Opportunities	59	48
8. COMPENSATION		
a. Pay	67	54
b. Praise	57	45
9. PERFORMANCE REVIEW		
a. Performance Planning	56	52
b. Performance Evaluation	64	50
c. Recognition of Achievement	66	52
10. TURNOVER		
a. Turnover	50	51

Planning” subscales. “Work Itself” also shows a major improvement except for the “Task Structure” in which there is a major decline in 1999. “Turnover” does not show much improvement in 1999 compared to 1997. “Management” shows major or significant improvements in 1999 in all the subscales. “Management Control” (except for “Rules and Regulations” and Rewards/Punishments”) shows major or significant improvements in 1999. “Relationship between Managers and Employees” subscale shows a major improvement. Thus, as described in Exhibit 11.1, the employees have generally felt that there has been a positive change in organisational values and climate factors as measured by the ten survey factors over the three-year period.

Research question d): How has organisational effectiveness changed in recent years?

Organisational effectiveness as defined in this study is measured in terms of the company’s financial performance data and employee job satisfaction.

EXHIBIT 11.2: RECENT SALES DATA



Source: Contacts with Ceylon Tea Services Ltd.

The discussion of financial performance includes the analysis of turnover and net profit, shareholders' funds, value added, fixed assets and investments, and accounting ratios. These data have been extensively discussed in previous chapters. In addition, Exhibit 11.2 shows the recent trend in company's sales in two of its traditional markets, Australia and New Zealand.

As can be seen in Exhibit 11.2 the company is in a favourable position in its performance. The company has been able to increase its sales in these two major markets. In addition, as discussed in previous chapters, the company has been continuously penetrating non-traditional markets. This has resulted in increased sales and profits. Overall, as discussed in previous chapters, the company's operating results are satisfactory and improving in most dimensions. In other areas, the company has been able to maintain the previous years' results.

As already pointed out, as a measure of organisational effectiveness, the current research conducted a survey aimed at measuring employee job satisfaction using a 50-item opinion survey administered in November 1999 (Appendix E). The comparison between the 1997 and 1999 percentage for each of the 50 items representing job satisfaction is shown in Exhibit 11.3. In interpreting these data, the researcher uses the following guide:

10% or more change = major change;

5% or less than 10% change = significant change; and

Less than 5% change = minor change.

As shown in Exhibit 11.3 all the items show an improvement in 1999 compared with 1997. Employees felt that all items in the survey has shown a positive improvement in 1999 compared to 1997. Sixteen factors showed a major improvement:

- The company is a better place to work now than when I first started here.
- I like my physical working conditions.
- I feel very secure in my job.
- I am satisfied with my general working conditions.
- My immediate manager tells me when I have done a good job.
- I am encouraged to make decisions, which affect my job.
- When I need information, I know who to see.
- I believe my immediate manager is interested in me.
- My immediate manager tells me what he/she thinks of my work.
- My immediate manager asks for suggestions from me.

EXHIBIT 11.3

RESULTS OF EMPLOYEE JOB SATISFACTION SURVEY

	% Agree	
	1999	1997
The company is a better place to work now than when I first started here.	67	56
The people in my department cooperate with each other and work together as a team.	68	64
The equipment in my department is satisfactory.	66	64
I like my physical working conditions.	70	60
I feel very secure in my job.	66	54
I am satisfied with my general working conditions.	66	55
My immediate manager tells me when I have done a good job.	62	52
Considering the skill and effort I put into my work, I am satisfied with my pay.	67	60
I am satisfied with the amount of praise I get for the work I do.	57	55
Higher management ask for suggestions from employees.	68	52
I am encouraged to make decisions, which affect my job.	62	50
When I need information, I know whom to see.	58	48
Management lets me know about changes before they are made.	65	60
Management gives me accurate information.	67	65
Communication problems between departments are handled well.	64	62
My immediate manager listens to my suggestions with an open mind.	60	59
My immediate manager does a good job of handling my complaints.	54	50
I believe my immediate manager is interested in me.	61	51
My immediate manager is helping me reach my goals with the company.	56	52
My immediate manager treats employees with the kind of respect a person deserves.	66	61
I think my immediate manager is a good leader.	68	59
My immediate manager does a good job of assigning responsibility.	59	52
My immediate manager asks my opinion before making decisions, which affect me.	65	59
My immediate manager tells me what he/she thinks of my work.	67	56
My immediate manager asks for suggestions from me.	68	57
My immediate manager takes responsibility for acting on suggestions I have make.	65	60
My immediate manager does a good job of getting answers to the questions I ask.	70	64
Changes are often made because of my suggestions.	57	50
My immediate manager lets me know what has been done about suggestions I made.	56	45

I am satisfied with my immediate manager.	67	61
The amount of work I am asked to do is fair and reasonable.	59	54
The number of hours I have spent doing my job is fair and reasonable.	65	55
I usually have a clear idea of what is expected of me on my job.	67	60
I like my job.	76	69
On most days I feel I have accomplished something important on my job.	66	60
I am satisfied with the things I do on my job.	65	60
The company promotes those who have earned it.	58	54
I am satisfied with my chances for getting ahead.	57	53
I think the company's performance reviews result in the kind of recognition I deserve for my job performance.	67	61
I think the company's performance reviews are fair.	66	62
This year I will look for a job with another company.	40	50
Safety rules are carefully observed, even if it means work is slowed down.	68	58
I understand how my job relates to the overall objectives of the Division.	70	61
I know what career opportunities are available in my company.	67	50
There is too much concern for the quantity of work rather than the quality of work.	48	52
I am bored with the rules and regulations set on work.	58	59
The managers use very formal control strategies.	67	64
There is no place for an informal means of communication.	46	58
Formal communication is essential to accomplish my job.	68	61
I do not like the very formal meetings and agendas.	54	52

My immediate manager lets me know what has been done about suggestions I have made.

The number of hours I have spent doing my job is fair and reasonable.

This year I will look for a job with another company.

Safety rules are carefully observed, even if it means work is slowed down.

I know what career opportunities are available in my company.

There is no place for an informal means of communication.

Similarly, there are nineteen organisational values and climate factors with a significant positive change from 1997 to 1999:

Considering the skill and effort I put into my work, I am satisfied with my pay.

Higher management ask for suggestions from employees.

Management lets me know about changes before they are made.

My immediate manager treats employees with the kind of respect a person deserves.

I think my immediate manager is a good leader.

My immediate manager does a good job of assigning responsibility.

My immediate manager asks my opinion before making decisions, which affect me.

My immediate manager takes responsibility for acting on suggestions I make.

My immediate manager does a good job of getting answers to the questions I ask.

Changes are often made as a result of my suggestions.

I am satisfied with my immediate manager.

The amount of work I am asked to do is fair and reasonable.
I usually have a clear idea of what is expected of me on my job.
I like my job.
On most days I feel I have accomplished something important on my job.
I am satisfied with the things I do on my job.
I think the company's performance reviews result in the kind of recognition
I deserve for my job performance.
I understand how my job relates to the overall objectives of the Division.
Formal communication is essential to accomplish my job.

According to the opinion of employees, there are 15 organisational values and climate factors with a minor improvement in 1999 compared to 1997:

The people in my department cooperate with each other and work together as a team.
The equipment in my department is satisfactory.
I am satisfied with the amount of praise I get for the work I do.
Management gives me accurate information.
Communication problems between departments are handled well.
My immediate manager listens to my suggestions with an open mind.
My immediate manager does a good job of handling my complaints.
My immediate manager is helping me reach my goals with the company.
The company promotes those who have earned it.
I am satisfied with my chances for getting ahead.
I think the company's performance reviews are fair.
There is too much concern for the quantity of work rather than the quality of work.
I am bored with the rules and regulations set on work.
The managers use very formal control strategies.
I do not like the very formal meetings and agendas.

Overall, according to these responses there has been a positive change in employee job satisfaction over the three-year period. Employees believe they are better off than their counterparts in other organisations in Sri Lanka. In conclusion, while the company is doing well in its operations, employees are also satisfied with their work and compensation and related issues. It should, however, be noted that there are inherent limitations associated with this single survey administered at one point in time. The

survey results may be bias due to a number of reasons such as the participants' knowledge that the research had contacted the owner and his family in granting the access to the research site.

The current research has also collected some evidence regarding 'Dilmah' products through a small-scale customer opinion survey. The results show that customers are satisfied with the most important features of Dilmah products. The questionnaire inquired about the quality, freshness, price, package, availability, and variety of Dilmah products. The survey results have not been analysed using any particular method, because it is considered only as supporting evidence for the case study research. The responses are summarised here:

There is no doubt that Dilmah is a high quality product. Since we have tried many other brands of tea before started using Dilmah, we are certain that none of the other brands that we have tried in Australia come close to Dilmah tea in terms of quality. Having used Dilmah for almost a year, I am very sure that the company that produces Dilmah takes a special interest to maintain the freshness and high quality flavour. I think Dilmah tea is very reasonably priced specially when I consider the price in relation to its quality. According to my understanding, its prices are at par, if not less, with other comparative brands and are affordable to any Australian customer. Personally, I would give a very high rating to the packaging of tea in tins. I am sure that attention has been paid to ensure that customers who buy Dilmah tea can enjoy its taste for a long time without having a change of flavour, owing to the frequent contact of air with the product. The two lids used in the tin minimise air exposure to the tea. As a result, tea can be preserved for a long period of time without its flavour being affected. The design of the package is attractive too, I guess. In my opinion, packaging of Dilmah could be considered excellent specially when it is compared with the other Sri Lankan products available in foreign markets. Availability: Generally good. However, very often, not all varieties are available in one place. In a number of occasions in the past, we have had difficulties in finding loose tea packets. However, I believe that there is no problem with the availability of Dilmah tea in tea bags. Variety of the brand "Dilmah": There seem to be many varieties of Dilmah including green tea. However, since we have been using one particular product, which is very good in terms of flavour, quality, freshness, packaging and the price, we have not used or tried many other varieties of Dilmah products. I guess, there are lots of varieties available, giving customers a greater choice. Overall, my impression about Dilmah is very positive. Furthermore, Dilmah products have been praised by number of my friends; Australians, Japanese, and Sri Lankans as well. Their opinion in regard to

all aspects of Dilmah products are very positive. Having heard about these complements, and used this product for almost a year, I am of the opinion that Dilmah is a product that Sri Lankans can be proud of (Appendix H, p. 440).

We do serve some Dilmah teas, mainly peppermint and camomile. As far as customers go, we do get a very good response regarding the peppermint tea, it has a good strength, aroma and colour. Availability is good. Packaging is in the convenient bags, rather than loose leaves (Appendix H, p. 441).

I think it is quite fresh when compared to other tea leaves. Although it is well packed, packaging can be further improved via using attractive designs, better boxes and so on. Dilmah is available in big stores, but not all stores in Australia. Variety of brand Dilmah: I believe that for some Australians the name does not matter. Therefore, I believe Dilmah tea should also be packaged in different brand names so that Dilmah tea will be available and appeal to a wider community (Appendix H, p. 442).

As these customers point out Dilmah is reasonably priced and of high quality and freshness. The packaging is good. However, the availability is somewhat restricted. As the Marketing Manager explained, the company is targeting a selected group of customers and as a result, the products are not available in small outlets. This survey data cannot be used in gaining an unbiased opinion of the company's products. The objective of this survey actually was to get some views of the customers. It is not advisable to interpret the survey results as having important implications about Dilmah products.

As the above discussion reveals overall, organisational effectiveness at Dilmah is significantly high. The Company is performing well in its area of operations. Employees are quite satisfied in their jobs, and customers are satisfied with the company products. These factors ensure that the organisational effectiveness at Dilmah is of a significantly high level.

Research question e): Who is behind the whole scenario of control at the Ceylon Tea Services Ltd?

This question explores the impact of any particular person's influence upon company operations. As discussed in the previous chapters, the most influential single person on the company operations is the Founder and Chief Executive Officer of the company, Mr. Merrill J Fernando. Thus, this research suggests that the impact of Mr. Fernando is crucial for the company's success and survival. In effect, the current research is concerned with recognising the type of control system extant at Dilmah and the answer to the above question will be an important guide in this regard. The founder's impact on Dilmah's management control system, design and operation is enormous, and in fact the control system is a reflection of the founder's philosophy and vision.

Research question f): What control system type best describes a family controlled businesses?

As already discussed in Chapters Six to Ten, the company's practices of management control consist of well-established procedures, techniques, and systems. These patterns of management control are consistent with the Otley et al (1996) framework of management control. The evidence at Dilmah shows that all the following important features of management control described by the Otley et al (1996) model exist:

- a) Planning and rational decision making as the mode of management control and continuous comparison of actual and expected outcomes of the system (Closed Rational Systems);
- b) Minimising external impacts on organisational components (Open Rational Systems);
- c) Emphasising organisational participant behaviour through rewards and punishments (Closed Natural Systems); and
- d) Establishing and maintaining group activity norms and external social impacts in achieving negotiated levels of goals and objectives (Open Natural Systems).

In the current research, an attempt has been made to label the management control system that exists at Dilmah according to the four types of organisational as explained by Otley et al (1996). Some of the managers interviewed were asked to comment in this regard. The responses of some managers follow:

We are a natural organisation (Marketing Director, Appendix, D, p.381).

It is a natural organisation. We do not work toward set goals. (Accountant, Appendix, D, p. 385).

We fall into a more Natural organisation. We are a combination of both natural and rational (Business Development Manager, Appendix, D, p. 384).

Rational, We have set rules and structures. Structures are laid down and we just follow them. The system has always been very successful and there is no reason to go against it (Area manager Logistics, Appendix, D, p. 388).

We are a natural organisation. We are very results oriented. Rather than procedure or policies, we insist on results (Shipping Manager, Appendix, D, p. 386).

Our organisation has rational system characteristics and natural characteristics. In other words, we are not a rigid organisation. We are adaptable to the changing environment and circumstances internally and externally (Human Resources & Administration Manager, Appendix D, p. 389).

Mixed responses were given by the respondents to the question regarding the nature of the organisation. The practices at Dilmah consist of control devices under all four types of organisations. Thus, it is the opinion of the researcher that it is not possible to classify the research organisation as natural/rational or open/closed. Dilmah's organisational and control characteristics are a mixture of all of them. In order to elaborate the answer to the above question an overall assessment of the pattern of management control at Dilmah is undertaken in the next section.

11.3 ASSESSMENT OF THE PATTERNS OF MANAGEMENT CONTROL

As has been revealed in previous chapters, Ceylon Tea Services Ltd is an export oriented value added tea manufacturer and marketer with a unique name in the market. The company has achieved substantial financial growth over the years of its operations and has been enjoying a continuously increasing market share. Among other factors are

the company's access to relatively cheap labour and other resources and its reputation for high quality products, and these contribute to the company's winning strategy. A key point of the company's management style is the constant involvement of its founder in almost every aspect of company operations, from tea growing to customer complaint handling. The image of the company can be likened to the founder's image. For instance, every Dilmah product carries a message from the founder, very often with a picture of the founder. Dilmah television advertisements essentially include a picture of its founder (see Appendix P for a sample TV advertisement). Similarly, the majority of Dilmah online publications are about its founder and his involvement in developing Dilmah into a global brand. Even the brand name "Dilmah" carries the founder's two sons' names and it was his idea to do so. Thus, it should be emphasised that any discussion regarding "Dilmah" cannot exclude its founder. Therefore, at this stage it is important to note that the company's system of control is represented by a patriarchal control system.

The major techniques of management control are well developed and typical of those in a well-managed and well-organised company operating in a reasonably predictable environment (Archer and Otley, 1991). The Company operating results indicate that the company has succeeded through efficient production and marketing of well-established products in well-established markets. The top management has been strengthening the company management control system through the experience gained over the years. The assessment of the company's management control system is carried out using the approach taken by Marginson (1999).

As already pointed out a key aspect of the current research has been the observation of how the company seeks to channel its participants' efforts in achieving established goals and objectives or simply its strategic agenda. At a glance at the company's day-to-day operations, the researcher was able to see that the company's management control system is a combination of both traditional structural control mechanisms and contemporary social control mechanisms. As pointed out by some managers, Dilmah believes in a number of structural control mechanisms. For instance, the company operating procedures and rules and regulations are well documented and strictly followed. There are strict procedures and rules governing the quality control function of the company.

Similarly, there are strict codes of conduct relating to employee behaviour at work. As this case revealed, there were instances employees were punished when they went against the established rules of conduct. Similarly, The company has a number of accounting responsibility centres and systems of performance appraisal. In performance appraisal a number of performance indicators are used and they reflect what the company sees as important dimensions of performance. As already discussed in Chapter Ten, in their design and practice both the accounting control system and performance appraisal system depart from the 'norm' prescribed in the traditional management control literature and appear to be influenced by the presence of informal and social forms of control rather than rigid formal controls. These views are elaborated in depth in the following subsections.

11.3.1 STRATEGIC PLANNING, MANAGEMENT CONTROL, OPERATIONAL CONTROL, AND ACCOUNTABILITY

A unique feature of the management control system at Dilmah is the deviation of managerial accountability from the traditional framework of management control. The traditional framework of management control, especially that of Anthony (1965) distinguishes management control from strategic planning and operational control. The essence of this framework has been the hierarchical distinction between the processes of strategy formulation and strategy implementation. Strategy formulation is seen as the domain of senior managers while the middle managers' task is to oversee the implementation of these strategies. Managers at the lowest level of the organisational hierarchy are responsible for the day-to-day operating activities.

The evidence found at Dilmah, however, contrasted largely with the traditional views of management control. Proving the recent views of some academics that the same manager may be responsible for some elements of strategy formulation, management control, and operational control (Otley, 1999), top managers at Dilmah have been observed to be heavily involved in management control and operational control in addition to strategy formulation. In particular, the Chief Executive Officer takes a leading role in every aspect of managerial activities from strategy formulation, strategy implementation and operational control. In effect, the Chief Executive Officer looks into the day-to-day operating activities and plays an active role in company operations. Similarly, middle managers are largely involved in strategy related decisions through teamwork. Thus, they act as both formulators and implementers of various strategic initiatives (Marginson, 1999). Managers at the lowest level of the organisational

hierarchy are also involved to a certain extent in strategic and management control activities. The dominant mode of decision making at Dilmah is teamwork and any manager is able to input into the company operations. These inputs have sometimes developed into strategies while others have been discarded at a root level. The findings at Dilmah, thus, add to the knowledge that the concept of hierarchical distinction between strategy formulation-implementation is losing its meaning in modern organisations.

The concept of accountability has also been observed to be losing its traditional meaning at Dilmah. The traditional view of legitimate authority implies that managerial accountability is sequential in nature (Marginson, 1999). Under this notion a person at a lower level should be accountable to his/her immediate superior for his/ her actions and in turn, the superior should be answerable to his/her superior and so on. At Dilmah, however, accountability has a rather loose meaning with a mutual interdependence of responsibilities. Although the accountabilities transcend from the formal organisational structure with individuals being accountable to people at the immediate hierarchical level or in the same business unit or sometime in other business units, there are many instances in which accountabilities did not follow a hierarchical sequence. As discussed in previous chapters, sometimes top-level managers have been involved with the managers at the lowest level or factory workers without the knowledge of their superiors. Likewise, lower level managers attend meetings to discuss strategically important issues without the presence of middle managers. Thus, very often, managers interact with other managers and factory workers outside the normal line relationship prescribed by the organisational structure. Perhaps, this may a direct result of the

friendly behaviour by the CEO and top executives. Top managers have not created an aristocratic pattern of management using their wealth and power. Their humble mannerism is admired by most of the employees (informal talks with employees). Employees are happy to work with the company. This somewhat loose approach to management represented by teamwork and participative management has resulted in a loose meaning of managerial accountability. At Dilmah accountability is mutual and depends heavily on social and personal controls rather than on administrative controls. The approach found at Dilmah is very similar to what Marginson (1999) describes "as a system of social control to help ensure that each individual 'did his bit' (217). At Dilmah both managerial and non-managerial staff seem to be bound by a sense of mutual cooperation and a view 'do our best for the company'.

One feature of Dilmah accountability, however, has taken a form that supports the traditional framework of management control. The company carries out a formal system of performance appraisal for managers and clerical staff. These appraisals are designed to provide an opportunity to evaluate their performance in relation to what is expected from them. Formal appraisals are conducted annually for permanent staff and every three months for temporary staff. These appraisals are centred on training and development and take a form of counselling rather than evaluation of past performance based on biased norms.

11.3.2 ACCOUNTING CONTROL SYSTEM

In the traditional management control literature, accounting control has been considered to be the most influential and integral form of control (Anthony, 1965). In other words,

management control appears to rely primarily on accounting control (Berry et al, 1991). Accounting is considered the language of business that can provide information regarding all organisational activities. With this heavy emphasis on accounting, management control became largely synonymous with management accounting (Otley, 1999). Under an accounting control model, systems of budgeting and responsibility accounting had been given a prominent place in channelling individual efforts towards a specified set of goals, often presented in financial terms. Evidence from Dilmah suggests that accounting may not play such a crucial role in goal congruence and it is only one form of a control mechanism. At Dilmah, accounting information is not designed or used to effect any form of explicit control over managerial decisions or actions. This case suggested that organisations may not need to rely on highly sophisticated accounting systems to meet stakeholder demands and managerial needs for information. Thus, this empirical study in fact supports the findings of Abernethy and Chua (1996) and Marginson (1999).

Similarly, budgets are not a sub-set of the corporate plan and they were not supposed to impose any structural controls over managers' actions. Instead, budgets are used as a means of establishing a guide for company spending for different projects. In other words, budgets are used for allocating company resources and very often, they resembled agreed upon actions, which resembled managers', especially top level managers', intentions and actions.

Operational budgets are the main medium for allocating funds to different projects or agreed upon actions. Structurally, these budgets are centred upon different

responsibility centres represented by the organisational chart. For example, a marketing operational budget allocates the required funds for marketing operations and so on. Allocation of funds through operational budgets is one of the major tasks of management. In addition, it is through negotiations and discussions among departmental and sectional managers, that allocations are made. Very often senior managers allocate funds among strategic business units on the basis of requirements. In reality, what happens is that funds are allocated on the priority of requirements. Being a private sector family controlled business at Dilmah most of the fund allocation decisions are made by the Chairman and the Board of Directors. Two of the Board of Directors are the Chairman's sons and very often the cash rich company allocates funds where necessary with limited or no restrictions based on the agreed upon commitments for the forthcoming period.

Another significant feature of the company budgeting procedures is that there are no bonus systems linked to the operational budgets. Thus, the relevant departmental or sectional managers are not individually or collectively rewarded for achieving budgetary targets. However, individual managers and clerical staff members are subject to a periodical performance appraisal. This is a formal monitoring or a review of performance and it is designed and implemented to recognise employees' strengths and weaknesses and to develop their skills where necessary. This system does not make any reference to budgetary performance. Instead, managers and other employees performance is controlled by social and other forms of informal control reflected through mutual discussion and negotiation.

Another important feature of the company accounting system is that accounting is an information system rather than a control system. This system provides important information regarding the operations of the company in terms of turnover, profits, fund allocations and so on. The company, however, does not have a formal system of management accounting as assumed in the traditional management control literature. No system of variance analysis or budgetary control has been implemented to control the actions of managers and operations. Rather accounting information at Dilmah fulfils a role, which is somewhat different from what would be normally suggested by academics and researchers in management control (Marginson, 1999). At Dilmah, accounting is one part of the information system. It is true that accounting information is used in planning and controlling organisational activities. It is, however, not considered by managers as a major mechanism of management control as presumed in the popular literature. By and large, they do not view such information as a control tool, either for controlling their own activities nor a mechanism of control over others (Marginson, 1999, p.215). Thus, the evidence found with Dilmah regarding accounting and control supports the debate into the limited use of universal applicability of control models dominant with accounting information system.

Another significant feature of the control system at Dilmah is the detailed attention to its culture. The culture at Dilmah is rich with norms and values that give organisational participants a sense of belonging. The culture at Dilmah encourages both managers and subordinates to develop improved relations. A unique feature of Dilmah culture is the level of trust between the managers and employees. In effect, this factor can be considered a very influential moderating factor of the company's management control

system. Especially, the humble behavioural patterns of the founder have built a strong bond between the founder and the employees. This bond has grown beyond the founder-employee level and has reached an employee-manager level as revealed by the research findings.

Overall, the results of the study suggest that formal and informal control mechanisms interact and jointly affect the performance of the company. They are not limited to conventional technical/rational views of control. Rather, the control mechanisms extant at Dilmah are a combination of closed, open, natural and rational views of organisational and control theory. As observed by Otley (1999, p.379):

Organizational control systems are more like packages. Different elements are added by different people at different times.

This may be true of Dilmah. Its control system elements consist of a number of traditional as well as modern mechanisms of control. In the next section, an attempt is made to recognise the type of control extant at Dilmah.

11.4 CONTROL SYSTEM TYPE: MAJOR CHARACTERISTICS OF THE CONTROL SYSTEM

As revealed in Chapter Three, the characteristics of control systems are applicable to individual/group as well as strategic business unit levels in organisations. These characteristics can be applicable to more than one type of control system. Yet, Whitley (1999) suggests four distinctive control systems based on these characteristics; bureaucratic, output, delegated, and patriarchal. The current research tries to distinguish the control system type by analysing these four major characteristics.

11.4.1 THE DEGREE OF FORMALISATION: RELIANCE ON FORMAL RULES AND PROCEDURES

A control system may rely either on impersonal regulations with extensively codified rules and procedures or direct personal control over operations and participant behaviour at work. As the research findings suggest, the control system existing at Dilmah is characterised by much more personal and informal relations between managers and subordinates, with comparatively little reliance on rigid codified rules and procedures. The founder-manager at Dilmah, Mr. Merrill J Fernando prefers to rely on direct supervision and personal contacts in monitoring and controlling individuals and departmental activities avoiding formal procedures and rules where necessary. A unique example is his involvement with factory floor employees where he bypasses relevant departmental and/or business unit managers. In effect, the attention that is paid to the organisational hierarchical structure is minimal. Following the personal and informal approach of the Chief Executive Officer, other managers also prefer to create cooperative and harmonious relationships with their subordinates. This does not, however, mean that these managers do not follow the established formal rules and regulations, which are essential for the smooth flow of operations. Rather, this "implies greater personal discretion and a tendency to take more features of the specific situation into account in monitoring and evaluating performance" (Whitley, 1999, 510). At Dilmah, there are very strict formal rules and procedures, particularly relating to production and quality control, but personal mannerisms of individuals involved are also considered as important as the written formal rules and procedures. Therefore, in particular, decisions relating to human resource management such as performance appraisal and subsequent actions are not dominated by formal and rigid procedures

remote from the relationships involved. Similar to the evidence revealed by Marginson (1999), Dilmah evidence also shows that the main controlling influences are social rather than formal administrative in nature. Managers in all areas of the company reveal that a good deal of control activity is conducted, based on shared, unwritten norms and rules. Thus, on the basis of the degree of formalisation the extant control system at Dilmah resembles a patriarchal control system.

11.4.2 CONTROL OVER BEHAVIOUR

Another important characteristic of a control system is the level of control over participant behaviour. As discussed in Chapter Three, a business unit, group and individual behaviour may be tightly prescribed and controlled or it may be loosely handled. The degree of formalization of the control system is often allied to the level of control over behaviour (Whitley, 1999). As revealed in the previous discussion, the control practices at Dilmah are not very formalised. Participant behaviour is not monitored through highly detailed monitoring of tasks and processes. Although there are formal procedures and detailed instructions for doing work, they do not imply a high reliance on them in monitoring and controlling work. At Dilmah, however, because of the direct personal supervision over operations by the Chief Executive Officer and his two sons, a form of tight control is exercised informally. According to some members of the company, an extensive supervision of work is implemented at Dilmah through the personal involvement of the founder's family. Senior managers including the Chief Executive Officer exercise a form of hands-on control over day-to-day operations of almost every aspect of company operations and retain considerable personal/family discretion in making decisions. One particular result of the personal

control exercised by the founder and other senior managers, is the very limited discretion subordinates and lower level managers can exercise over work. Similarly, the control system applies close supervision of work processes in order to ensure they are effectively integrated. There is considerable evidence to suggest that individual discretion at Dilmah is very limited. Based on the second characteristic of control systems also Dilmah is very similar to a patriarchal control system.

11.4.3 INFLUENCE OF SUBORDINATES IN CONTROL

The third characteristic of management control systems recognised in the theoretical framework is the extent of employee and subunit involvement in the control process. This characteristic is symbolised by the degree of subordinate involvement in activities such as target setting, problem solving and monitoring and evaluation of performance. According to Whitley (1999), subordinate involvement is normally negatively associated with the extent of tight control over subordinate behaviour such as observed existing at Dilmah. Evidence from Dilmah, however, suggests that the extant control system contrasted with Whitley' 1999 model of control systems regarding the subordinate influence in control. The presence of high levels of shared expectations and unwritten norms and rules appear to have led to a very participative approach to management control. The high incidence of teamwork and group activities in problem solving, as discussed in previous chapters, has created a participative and cooperative control environment at Dilmah. The founder-manager believes in mutual trust and the importance of gaining the support of all involved for the success of his company. Therefore, over the years a cultural norm, which basically means that everybody in the company should deliver his/her best effort to the company's well being has emerged at

Dilmah. It is generally understood, although the personal control over subordinate behaviour is very tight, it has not hindered the founder's participative approach to management control. Rather, the presence of mutual trust and interdependency among organisational participants has created an environment that reflects the company's needs and purposes rather than the individuals' personal needs. One significant feature of the control system at Dilmah is the contribution management approach. In effect, Dilmah's control system resembles a partially delegated control system, which grants considerable subordinate involvement in control activities.

11.4.4 SCOPE OF CONTROL SYSTEM

The final characteristic of the control system recognised in the theoretical framework is the scope of the information used by the control system in performance appraisal and recognition of achievement. As explained by Whitley (1999), the scope and immediacy of control mechanisms can vary significantly from daily piecework based reward systems to long-term reward schemes. The evidence found by the current research reveals that the company's reward system is very wide in scope. The nature of business with which the company is involved is heavily dependent on employee commitment and skills, especially, because the company is involved in a contract basis export business, and therefore employee commitment is of paramount importance in fulfilling orders on time and with an expected level of quality. The social and personal nature of control prevalent at Dilmah has encouraged it to be more elaborate and of wide scope, and this system ranges from praise to long-term training and development. For instance, as revealed in previous chapters, factory workers are rewarded for revealing theft or misbehaviour by colleagues. The use of surveillance cameras in the company premises

as a means of controlling employee behaviour has put enormous pressure on employees and reminds them to be honest and trustworthy. Similarly, a significant feature of the company control system is the attention given to the training and development of employees. The company senior managers' concern for employee training and development is derived from the fact that up-dating employee skills can bring substantial rewards to company operations. Performance appraisals are used primarily as a means of recognising employee skills and weaknesses rather than as a means of evaluating past performance. As such, the company's control system is very broad in scope and it resembles a patriarchal control system as described by the Whitley (1999) model.

In summary, Dilmah is a family controlled business where owner-managers directly control the operations. The founder and his two sons prefer to retain considerable discretion over strategic as well as operational decisions. They do not wish to be subjected to the constraints of formal administrative rules and procedures. They are more likely, though, to exercise strong control over subunit performance and to supervise directly subordinate activities (Whitley, 1999, p.515) creating tight control over subordinate work. However, because commitment and dedication from subordinates is very influential in the proper functioning of company operations and is the preferred participative nature of the founder's approach to management there is substantial subordinate involvement in decisions. Finally, the scope of the control system is very broad in nature.

Turning to the relations between control system characteristics and the type of control system, the most commonly noted features of Dilmah's control system are the low reliance on formal administrative control, a high degree of control over subordinate behaviour, and the wide scope of the management control system. These features resemble a patriarchal control system. However, because of the senior managers' preference for social and personal forms of control it is noted that there is a considerable amount of subordinate involvement in decisions through teamwork. The next section attempts to modify the research framework based on the findings of the current research.

11.5 AN INTEGRATIVE MODEL OF MANAGEMENT CONTROL

We now turn to the analytical framework presented in Chapter Three. This framework consists of five major components of management control; corporate strategy, organisational structure, corporate culture, management information systems and core control tools. It also identifies four characteristics of a management control system (presented in Section 11.2 of this chapter). In the previous section, the control system at Dilmah is recognised as a patriarchal control system. In this section, based on the evidence found at Dilmah, the current study presents an integrative model of management control in Exhibit 11.4.

Exhibit 11.4, an integrative model of management control for a family controlled business, summarises the findings regarding the patterns of management control at Dilmah. The data suggest that the control system that exists at Dilmah is a patriarchal control system. The evidence generated by the research is consistent in regard to the

mechanisms of control revealed in the tentative theoretical framework (Exhibit 3.1: The Model of Management Control). The data, further, suggest that Dilmah uses a number of traditional and non-traditional mechanisms of control and they are a mixture of formal and informal control mechanisms. These control mechanisms are designed and implemented in a very similar way as explained by the theoretical framework. Thus, it is possible to discuss the control system at Dilmah under four major components:

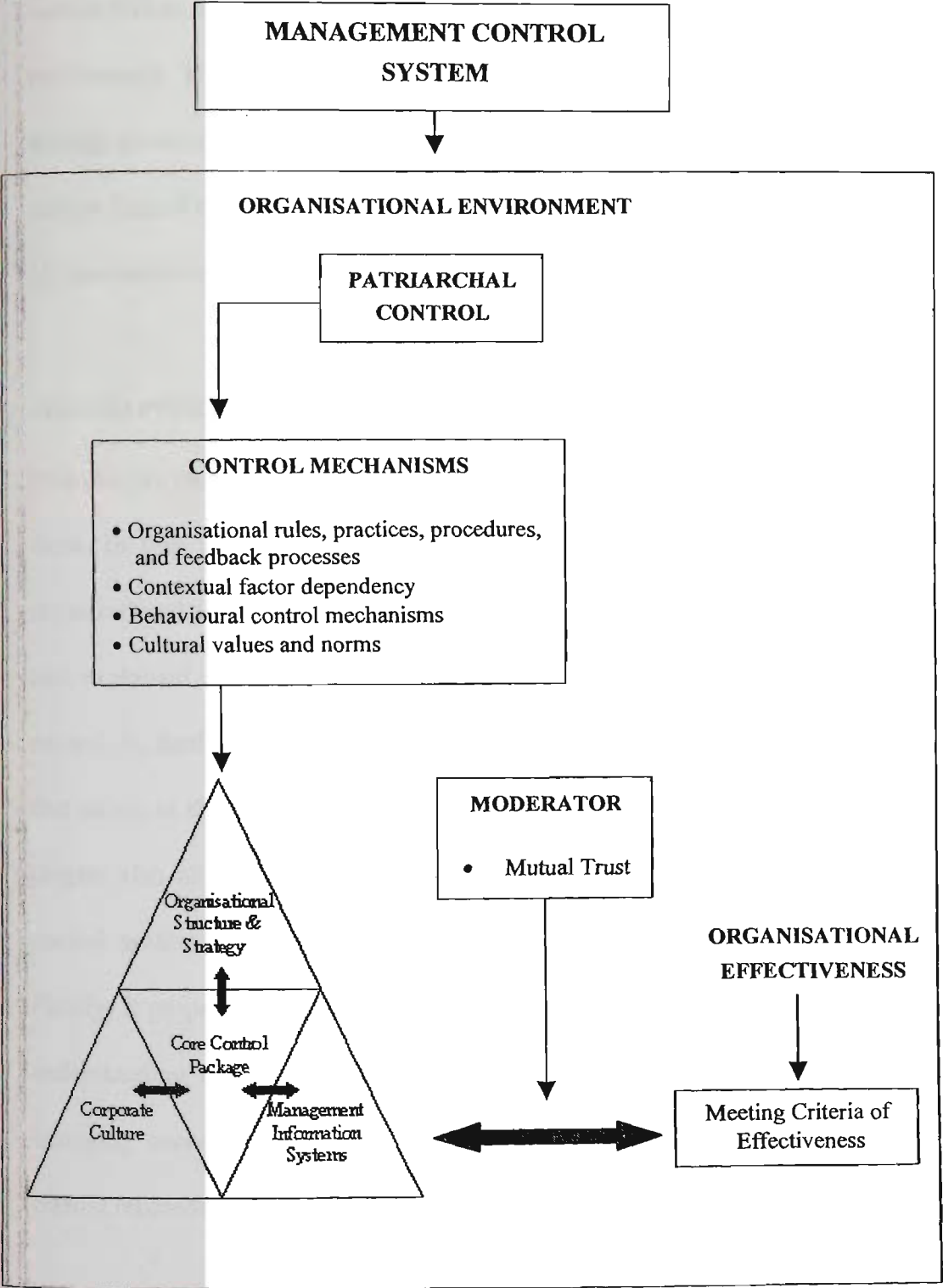
- a) Organisational Structure and Strategy;
- b) Corporate Culture;
- c) Management Information Systems; and
- d) Core Control Package.

Further, the evidence found at Dilmah suggests that there is a positive relationship between the patterns of management control and organisational effectiveness. Organisational effectiveness is seen to be a variable of the organisation's management control system.

Thus, in Exhibit 11.4 organisational effectiveness has been included as a variable within the control system. Though the data found are not sufficient to allow a test of the relative importance of each component of the control system in shaping organisational effectiveness, they suggest that the overall pattern of management control is highly related to efficient and effective functioning of the organisation.

The evidence suggests that mutual trust has been very influential in the patriarchal control system existing at Dilmah. Therefore, it is recognised as an alternative control mechanism, which moderates management control and organisational effectiveness at Dilmah and is included in the revised model of management control. This moderating

**EXHIBIT 11.4: AN INTEGRATIVE MODEL OF MANAGEMENT CONTROL FOR A FAMILY
CONTROLLED BUSINESS**



factor is very influential in the effective control of organisational activities. It directly affects organisational effectiveness as well. In conclusion, this study suggests that various formal and informal control mechanisms interact and jointly affect the company performance. These control mechanisms have created a form of power which operates through freedom as illustrated by Miller and O'Leary (1987). It further indicates that neither formal nor informal control mechanisms can individually achieve a high level of organisational effectiveness.

11.6 CHAPTER SUMMARY

This chapter first reviewed the research questions and attempts to formulate answers to them. In this attempt, the chapter discussed employee survey results in terms of organisational values and climate factors and employee job satisfaction. The chapter also explained the relationship between organisational effectiveness and management control. It, further, examined the nature of the overall pattern of management control that exists at the research organisation with relation to the research framework. The chapter also attempted to discuss the major characteristics of the extant management control system at Dilmah and to identify the type of management control system. Finally, it proposed a theoretically more practicable model of management control for understanding the patterns of management control in family managed businesses in emerging economies based on the evidence found. The next chapter concludes the current research report.

CHAPTER TWELVE

CONCLUSIONS OF THE STUDY

12.1 INTRODUCTION

The purpose of this study has been to gain a fuller understanding of the patterns of management control prevailing at Ceylon Tea Services Limited. The study has addressed several basic questions, namely, - how did the company achieve organisational control, what are the practices of management control and why did the company use those specific techniques of control? These questions are very important because management control has been and continues to be a major concern in modern organisations, especially, profit oriented private enterprises.

In addressing these problems management control is viewed as any technique or practice used to gain the cooperation and control of organisational participants. In the literature, the concept of management control is used in a broad sense encompassing diverse ideologies and practices. While the mainstream thinking of management control emphasises structural control as a means of coordination, modern control theory emphasises social and humanistic means of control. Traditional management control considers management accounting, particularly, budgeting as a rational control mechanism. According to the views of contemporary researchers and theorists of management control, behavioural and social aspects of control are prominent means of control. They believe in gaining the cooperation and control of organisational

participants, not only the technical/functional aspects of control but also that social and political views should be considered. It is accepted that a management control system should consist of a number of different practices and techniques in order to achieve control to the fullest level. As such, the traditional dominant perspective of management control, that structural and functional means of control are more useful, is rejected by the contemporary views of management control. It is exchanged for a view that management control practices are socially constructed. More and more researchers have pointed out the importance of understanding and investigating the design and use of such control practices in their social settings.

In Chapter One, it was noted that the available published research about the experience of management control is very limited. It was, further revealed that the knowledge of management control practices in emerging economies is even more limited. Similarly, despite the great concern of management control researchers, very few studies reveal the total experience of management control in an organisational setting. In Chapter One, it was argued that a study of real world experience of management control could contribute to the history of management accounting over the years. Accordingly, the current research has focused on the practices of management control of a private sector organisation in Sri Lanka, an emerging economy.

In Chapter Two, the notion of control from different aspects was discussed. It saw management control as a principle of management as well as a means of gaining

subordinate cooperation. The chapter discussed the orthodox view of management control, especially that of Anthony (1965) and how it restricts the subject of control. This view abstracts management control from the social and political relations of production and presents a series of activities such as planning, coordination, evaluation and communication. The essence of control, according to Anthony (1965), is to ensure that day-to-day tasks performed by organisational participants are put together as a coordinated set of activities towards the achievement of goals. Essentially, the traditional view of management control takes a structural and financial form with special reference to accounting techniques such as budget based financial performance evaluation.

As Otley et al (1996, p.6) comment about the unnecessary overemphasis on objective accounting techniques in performance evaluation, "Anthony's textbooks concentrate upon planning and control through accounting rationales and contain little or no discussion of social-psychological or behavioural issues, despite his highlighting the importance of the latter". Similarly, Puxty and Chua (1989, p.126) are critical of the use of budgets and accounting in performance measurement when they say, "Not only can the redoubtable plan, for example the annual budget, be used to close off unwanted alternatives and to advance one's own agenda, it may obscure class-based issues". In Chapter Two, it was observed that universal mechanisms of organisation and coordination based on structural control are constructed to maintain owners' and managers' position in the organisation. Chapter Two, therefore, discussed contemporary issues, which are critical of the orthodox views of management control. These views

stress management control as a broad set of mechanisms designed to assist the regulation of organisations and their participants (Otley et al, 1996). It was seen that although accounting plays an important role in management control, it should not be the main focus.

In Chapter Two, in order to elaborate on the theoretical framework, several specific underlying theoretical models of management control were discussed in detail. The chapter discussed the theory of organisations as relevant to the empirical study of the patterns of management control. Among others, the typology of management control as described by Macintosh (1994) is of particular interest. Macintosh (1994) outlines nearly twenty frameworks of management control systems under five distinctive paradigms of organisations and society: structuralist, functionalist, interpretivist, radical structuralist, radical humanist and postmodernist. Macintosh points out that an organisational sociology approach to the study of management control would give a much better understanding of the behavioural and social aspects of control systems rather than that of technical and procedural approaches. The chapter also discussed the perspectives of open/closed and rational/natural systems and finds them to be very useful for doing research in management control.

In the chapter, it was established that the two frameworks provided by Otley et al (1996) and Whitley (1999) are relevant for the current research. Otley et al (1996) summarised management control research using the typologies of open/closed and rational/natural. Otley et al conclude “(t)raditional approaches to management control have been

valuable in defining an important topic of study, but they have been predicted on a model of organizational functioning which has become increasingly outdated” (1996, p.14). It was found that different models of management control use different sets of control mechanisms. Whitley (1999) identifies four types of control systems based on their key characteristics. He explains how “broader societal and organizational factors constrain and guide the development and effective institutionalization of distinct modes of management control” (Whitley, 1999, p.509). The chapter recognised several variables as relevant to the current empirical study.

In Chapter Three, a tentative theoretical framework was developed as a guiding perspective for studying the patterns of management control in a family managed business. It was based on the perspectives of management control developed by Otley et al (1996) and Whitley (1999). The model consisted of four components, which described different forms of control. It, further, recognised different core mechanisms of control under four perspectives.

Chapter Four argued for the particular research methodology adopted in the current study. It detailed the diversified research approaches used in accounting and the appropriateness of case study method in doing research in management accounting. Since the purpose of this study was to observe how and why the practices of management control in terms of the techniques, procedures etc. are used within the subject organisation, the case study method has seemed appropriate for the research questions addressed.

The framework was applied to a case study of the patterns of management control in the Ceylon Tea Services Ltd headquartered in Sri Lanka. Chapter Five described the context of the subject organisation in detail and the economic situation in Sri Lanka. It also outlined the importance of the Tea Industry to the Sri Lankan economy.

Following the tentative research framework, research findings were presented in Chapters Six to Ten. Chapter Six described and analysed the nature of corporate strategy and organisational structure. A detailed analysis of the three major functional strategies; production, marketing and finance, was undertaken in Chapter Seven. The chapter considered the differential uses of control in practice by managers at different levels of the organisation. Chapter Eight focused on the dynamics of the company's corporate culture and how they have become important techniques of control. It identified several inherent cultural characteristics of the organisation. Chapter Nine considered the nature and use of management information systems within the company. It recognised that although accounting, mainly financial reporting was used as a main source of management information, the company does not rely on budgeting as a control mechanism in the sense as discussed in the literature. Chapter Ten was concerned about the major techniques of management control, which are labelled 'core control package' in the tentative theoretical framework.

In Chapter Eleven, concluding the current research study, an attempt was made to develop an integrative model of management control for a family managed business organisation in an emerging economy. The chapter discussed organisational

effectiveness in terms of financial performance data and employee job satisfaction to justify the importance of the procedures of management control that are in use within the company. It, further, assessed the overall patterns of management control that existed at the company in accordance with the research framework. The chapter recognised the extant control system as being similar to a patriarchal control system. Finally, the chapter developed an integrative model of management control for a family managed business, especially applicable in emerging economies.

The next section of this chapter presents an overview of the major findings of the study in terms of the research framework. In the third section, strengths and weaknesses of this particular study are explored. The fourth section of this chapter presents the implications from this study for future research. Finally, the chapter concludes with some overview comments.

12.2 MAJOR FINDINGS

The major empirical findings of the current study are discussed in this section. First, the evidence found at Dilmah shows that traditional models of management control, especially the epistemological roots of the Anthony (1965) model, are found to be very restrictive and inadequate in reflecting the control practices that exist at Dilmah. The hierarchical distinction between the processes of strategic planning, management control, and operational control, as explained by Anthony (1965), are observed to be different from Dilmah's practices. As with any family controlled business, the founder and primary shareholder wants to maintain a hand in every aspect of the business

insisting on participating in both strategic planning and operational management. Further, the evidence at Dilmah shows their systems of control are interdependent to a very significant level. The hierarchal distinction is very often limited to the organisational chart and in effect, managerial activities are highly overlapping. One reason for this might have been the excessive involvement of the Fernando family in every aspect of the business. As a result, the accountability at Dilmah is mutual in nature.

These findings suggest that an organisation's management control system should not necessarily be based on accounting as suggested by the traditional control theory. As Miller and O'Leary (1987, p.263) pointed out, recent developments in accounting has generated new forms of control systems in organisations with "a freedom for the individual to have an informal life within the organization, to deviate from criteria of rationality, to brood on personal problems, and to be influenced by the environment outside the firm". In other words, under the notion of the governable person, social and humanistic forms of control may be considered an integrated part of the management control system.

At Dilmah although accounting is not considered an integral part of the management control system, it functions as an important managerial information system, which provides financial information for decision-making. The accounting system is not, however, designed to effect any form of explicit control over participant behaviour. As a result budgeting is not considered an important means of management control. Rather,

budgeting is used in the allocation of funds for different projects. Budgets are not linked with any rewards or punishments. Similarly, the company does not use variance analysis in controlling its activities.

Another important feature of Dilmah management control, which contrasts with the traditional theory of management control, is the performance appraisal system. The performance appraisal system is not related to any budgetary performance. It is used as a means of recognising job related skills and weaknesses of managers and subordinates. Thus, this system is designed to connect the training and development processes of the company. The control system through its training and development programs concerns the personal development of employees.

The dominant control system existing at Dilmah is based on flexible social forms of control rather than rigid administrative controls. It is noted, however, that there are some forms of administrative control such as rules and regulations, that guide operations. This system, however, is not administered completely. The social control system always comes forward when it is necessary. The social control system at Dilmah is based on mutual trust, cooperation, and mutual accountability. The prevalent culture has created a sense of mutual trust and accountability among employees and managers. In particular, mutual trust between senior managers and employees is a significant feature of the control system. Similarly, the control system at Dilmah is both formal and informal as a means of control. Overall, findings with Dilmah suggest that administrative and social

control mechanisms interact and jointly affect organisational performance (effectiveness).

The results of this study are consistent with the tentative theoretical framework developed in Chapter Three. The pattern of management control at Dilmah is able to be recognised in terms of the components of the proposed model. Furthermore, this research recognises the management control system at Dilmah as patriarchal. Mutual trust between managers and employees is recognised as a very influential moderating component of the management control system. The current research finally develops an integrative model of management control for a family managed business applicable in emerging economies. The findings suggest that management control theories and models that have been created in developed economies may be applied similarly with modifications, in order to observe the practices of management control in these countries. Equally, is the fact that the practices implemented to gain control over their organisations by their founders are nourished into well developed mechanisms over time. As demonstrated in early chapters, the founder's practices to control such as commitment to quality, passion and dedication, concern for consumers, concern for employees, concern for innovation, social responsibility, and concern for the environment have become well developed mechanisms of control at Dilmah.

12.3 STRENGTHS AND WEAKNESSES OF THE STUDY

In recent years, a number of academics and theorists in the field of management control have presented new ideas regarding the context and use of practices of management

control and their impact on organizations/organisational effectiveness. Many of these ideas have been presented in this report in Chapters Two. As pointed out in the introduction to the study, few published case studies exist to prove or disprove the use of these theories, suppositions, and models in order to gain more understanding of the real world experiences of management control. This case study has followed the major concepts of many of these theories in management control. The major strength of the current study is the fact that it uses these concepts as a means of developing an appropriate model so as to test its viability in understanding the experience of a real organisation. Many of these theories have been developed in developed countries. This study answers the question “Can the views of these theorists be applied in understanding the control practices of a real company in the market oriented export industry of an emerging economy?” The analytical framework of the current study is built upon the work of researchers and theorists and describes how the research organisation uses particular patterns of management control in realising its goals and objectives. In addition, this study pays some attention to organisational effectiveness because it is improvements in organisational effectiveness that most organisations seek when implementing a control system.

Another strength of the current study is the use of the case study method. According to some prominent researchers in the field of management control, case based studies are more likely to play an important role because they can include observations of a wide range of control practices (Otley, 1999). The current study has not been confined to a limited number of hypotheses, as the case in survey methods, and it reports a wide range

of control practices using a broad research framework. The use of the case study method has been very useful in reporting the research findings.

The current study also contributes to the field of management control by observing the efforts of the Chief Executive Officer, Merrill J. Fernando, and his pattern of management control in a family managed export oriented business. One may observe that Mr Fernando's style of management represents "management by wandering". Regardless of the label assigned to his pattern of control, his company is considered a very successful business entity in Sri Lanka.

The main strength of this study, therefore, is the fact that a model based on previous models and theories of management control has been used in this investigation. It provides a detailed and descriptive analysis of a real organisation that seeks organisational efficiency through the systems of management control.

Similarly, several limitations of the current study are acknowledged. The major limitation of the current research is the fact that it is a single case study. Thus, as explained in Chapter Four: The Research Methodology conclusions drawn from this case study cannot be generalised by other similar organisations in a "statistical" sense. However, the research findings can be transferred to other similar organisations in an analytical sense. This means inductive reasoning can be employed to provide meaningful insights in an attempt to understand the patterns of management control used in these organisations.

The empirical research reported has been based on data gathered mainly from interviews with members of the organisation. Thus, another potential weakness of this study is the possibility that the interviewees could have been motivated to present either a positive or a negative view of the practices of management control during the interviews in order to insure their continual employment.

This research presents the situation for the period between 1997 and 2001. More specifically, the interviews (a major source of research data) were conducted at the end of 1999. In 1997, the company took strategic initiatives to install a computerised management information system. Similarly, an increased emphasis was placed on quality consciousness in 1997. Therefore, the current research has been concerned more with the period between 1997 and 1999 and the two surveys reflected that period. Although this was a significant period for the company, it continues to live and change in many aspects. In general, this report includes only a portion of the changes and interventions in the company's control system for a short period of time. Therefore, the time period of the research can be considered another weakness of this study.

12.4 FUTURE RESEARCH DIRECTIONS

Finally, several suggestions that will extend this study and overcome several of its limitations are offered for future research. While this case study provides one example of the practices of management control, other examples are needed in order to "complete the picture". Particularly those with similar characteristics so that a more acceptable model of the pattern of management control could be developed. Additional

research should investigate whether similar patterns of management control exist in other family managed businesses within emerging economies.

Further research on Ceylon Tea Services Ltd, the subject of this study, would also be very helpful in understanding the full potential of control practices. This study focuses on a very short period, and although management control has been observed it is inevitable that new developments in control practices will be inevitable in this dynamic organisation. Hence, it is recommended that future research on this subject organisation includes changes in its control practices.

This study suggests that formal and informal control mechanisms interact and jointly affect organisational performance. Future research should pay more attention to the informal aspects of control, particularly, the manager-employee trust relationship, teamwork, and other forms of social control. Valuable insights into the dynamic relationship between the major controller and management control can be gained from studies that trace formation of informal control practices in detail over time. This will contribute to the knowledge of management control significantly, because there is not much evidence of informal control practices reported.

In addition, the research model derived from this research needs to be tested by using single case and multiple case study strategies from different economies. This study reveals the patterns of management control that exist in an emerging economy using a single case study. It is advisable to explore the situation in developing countries using

the proposed model of both single and multiple case study strategies in order to gain more evidence of the patterns of management control. Thus, in order to capture the dynamic characteristics of control practices, investigations of experiences of different countries, cultures and economies are suggested.

12.5 CONCLUSIONS OF THE STUDY

This study has been concerned with the patterns of management control within the Ceylon Tea Services Limited (Dilmah), headquartered in Sri Lanka. The study explores Dilmah's management control practices using a management control perspective. The study develops a tentative model of control drawn from different theoretical perspectives on control. The study, however, relies heavily on the models developed by Otley et al (1996) and Whitley (1999) in formulating the tentative theoretical framework. This framework takes a plurality of theoretical aspects consisting of traditional/rational and modern views of social control. The scope of the study has been wide and so it has been possible to encompass a wide range of control activities that exist within the research organisation.

The research adopts a variety of data collection methods using a single case study approach in conducting the empirical study. This has enabled an in depth observation of control practices. The research has found that Dilmah's control system is a mixture of formal and informal controls. It further reveals that this system consists of administrative and social control. The conventional meaning of accounting based control has little relevance for Dilmah. Budgeting and performance appraisal systems

are in contrast with those of a traditional view. Managerial processes and accountability have also contrasted with those discussed in the conventional literature.

The study has developed an integrative model of control for family managed businesses based on the research findings. It discusses the weaknesses and strengths of the current study and provides direction for future research. Moreover, the research reveals how the practices implemented by senior managers, and particularly by founders in their day-to-day activities have become historically important mechanisms of control over time proving that ...

History does not happen but is caused to happen by people going about their daily lives, often with no plan, yet at the distance of time it is possible to discern patterns and reasons why they did what they did (Williams, 1997, p.5).

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APPENDIX A: INTRODUCTORY LETTER



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To Whom It May Concern

Ms Siriyama Kanthi Herath

Ms Herath is studying in the Doctor of Philosophy program at this University. Currently she is visiting Sri Lanka to conduct research for her PhD thesis which is concerned with the use of management information systems in management control.

It would be appreciated greatly if you could assist her with this project.

Yours sincerely,

Dr Robert Williams
Supervisor

APPENDIX B: MANAGEMENT CONTROL SYSTEM RESEARCH GUIDE (1)

DEFINITION	AUTHOR AND SOURCE
<p>MANAGEMENT CONTROL</p> <p>1. Management control is the process by which manager assure that resources are obtained and used effectively and efficiently in the accomplishment of the organisation's objectives.</p> <p>2. Management control is concerned with ensuring the achievement of a negotiated level of welfare for an organisation and its contributors consistent with maintaining boundary conditions for that enterprise, in relation to its environment, such that its long-run survival is provided for.</p> <p>MAJOR AREAS OF MANAGEMENT CONTROL</p> <p>1. Programming 2. Budgeting 3. Operating and Measuring 4. Reporting and Analysis</p> <p>ORGANISATIONAL EFFECTIVENESS</p> <p>Effectiveness is "the degree to which the actual outputs of the system correspond to desired outputs".</p> <p>BENEFITS OF THE RESEARCH TO YOUR ORGANISATION:</p> <p>1. It may raise the level of managerial effectiveness. 2. It may raise the justifiable level of confidence, which manager brings to his/her job. 3. It may raise the level of organisational effectiveness.</p>	<p>Anthony, R. N., (1965), <i>Planning and Control Systems: A Framework for Analysis</i>", Division of Research Harvard University, p.17.</p> <p>Lowe, T., and Chua, W.F. "Organisational Effectiveness and Management Control", in Lowe and Machin (Ed), (1988) <i>New Perspectives in Management Control</i> 2nd edition, Macmillan Press London, (pp. 271-287).</p>

APPENDIX C: INTERVIEW GUIDE (2)

INTRODUCTION

Your kind assistance is requested in getting information about the Management Control Systems in your organisation for an academic research. The objective of this interview is to obtain your views of the overall Management Control Systems used in the organisation over the last three years (1997-1999).

Any information you give to me at this interview will strictly be confidential. It will not be made available in detail to anyone either within or outside your company. The information gathered during this interview would be assembled and used as a summary for academic research purpose only. In order to capture everything you tell me, I would like to tape record this interview session and take notes as you talk. Is this O. K? Have you got any questions or comments?

Identification – used for validation only.

- a. Your Name: (Optional).....
- b. Job Title:
- c. Name and address of the organisation:
- d. Department:
- e. Date Interviewed: -- -- 1999.

INTERVIEW QUESTIONS

Please answer the questions with reference to your organisation/department/ business unit/section.

SECTION 1: ORGANISATION STRUCTURE

Organisation structure is the hierarchical relations among members of the organisation. It consists of reporting relationships and lines of authority and communication among the personnel in the organisation.

The objective of the questions in Section 1 is to identify the nature of the structure of your organisation as a whole.

- 1. To what extent is your organisational structure formally defined? Please express your views using the following as a guide.
 - i. No formal structure: Reporting relationships and lines of authority are not formally defined.
 - ii. Slight formal structure: Reporting relationships are not defined but are informally understood.
 - iii. Partially formal structure: A portion of the reporting relationships and lines of authority are formally defined.
 - iv. Highly formal structure: All reporting relationships and lines of authority are formally defined.

2. Here are a definition and a summary of the characteristics of Rational Organisations:

Organisations are highly formalised collectivities designed to achieve specific goals. A structure is formalised to the extent that rules governing behaviour are precisely and explicitly formulated and to the extent that roles and role relations are prescribed independently of the personal attributes of individuals occupying positions in the structure.

- i. The organisation is an instrument deliberately constructed to attain specific goals.
- ii. There are formal structures with those norms and behaviour patterns that exist regardless of the characteristics of the individual members.
- iii. Vague goals do not provide a solid basis for the organisation.
- iv. The behaviour of the organisation can be viewed as actions performed by purposeful and coordinated agents.
- v. Work design and implementation are given an important place.
- vi. Formal information is essential for effective operation of the organisation.
- vii. Much attention is paid to the efficiency in performance and optimisation of goals.
- viii. Constraints, rules and regulation, directives, performance programs and coordination imply that the rationality of behaviour within the organisation takes place within clearly specified limits.
- ix. Much attention is focused on decisions – designs or proposals for action – as if they were the principal outcomes.

Using the above views as a guide, can you please describe the nature of the structure in your department/section/business unit/organisation?

3. To what extent do your organisational members follow the formal structure?

4. To what extent is your organisation structure centralised or decentralised?

5. Here are a definition and a summary of the characteristics of Natural Organisations:

Organisations are collectivities whose participants share a common interest in the survival of the system and who engage in collective activities, informally structured, to secure this end.

- i. Organisations are collectivities whose participants share a common interest in the survival of the system.
- ii. Organisation structure is an instrument, which can be modified as necessary to improve performance.
- iii. Goals are conceptions of desired ends. They vary in precision and specificity of their criteria of desirability. Specific goals supply criteria for selecting among alternative activities. They guide decisions about how the organisation structure is to be designed, what tasks are to be performed, what kinds of personnel are to be hired, and how resources are to be allocated among participants.
- iv. Actual outcomes are more important than what were planned.
- v. The organisation considers the behavioural patterns of participants.
- vi. The social structure of the organisation consists of the formal structure and an informal structure: informal life is itself structured and orderly.
- vii. Formal structures purposefully designed to regulate behaviour in the service of specific goals are greatly affected - supplemented, eroded, transformed – by the emergence of informal structures.
- viii. Informal structures are those based on the personal characteristics or resources of the specific participants.

- ix. Participants within formal organisations generate informal norms and behaviour patterns: status and power systems, communication networks, social structures, and working arrangements.
- x. Informal structures increase the ease of communication, facilitating trust, and correcting for the inadequacies of the formal systems.
- xi. Highly centralised and formalised structures are ineffective and irrational because they waste the organisation's most precious resource: the intelligence and initiative of its participants.

Using the above views as a guide, can you please describe the nature of the structure in your department/section/business unit/organisation?

6. Here are a definition and a summary of the characteristics of Open Systems Organisations:

Organisations are systems of interdependent activities linking shifting coalitions of participants; the systems are embedded in – dependent on continuing exchanges with and constituted by – the environments in which they operate.

- i. Organisations are coalitions of interest groups highly influenced by their environments.
- ii. Open systems are capable of self-maintenance based on a throughput of resources from the environment.
- iii. The environment is perceived to be the ultimate source of materials, energy, and information, all of which are vital to the communication of the system. Indeed, the environment is seen to be the source of order itself.

Using the above views as a guide, can you please describe the nature of the structure in your department/section/business unit/organisation?

7. Here is a definition of a closed system organisation. Do you think that your organisation is a closed system?
Close systems models restrict attention (by definition) to the internal characteristics of organisations.
8. Here is a summary of the characteristics of organisations with an emphasis on participative Management. To what extent do you believe your organisation has changed over the past three years relative to these characteristics?

- i. The organisation promotes involvement of all employees and encourages decision making at the lowest possible level.
- ii. The hierarchical structure becomes more horizontal, as a team approach towards problem solving is implemented and accepted.
- iii. We have the flexibility to manage change by utilising a structure that minimises barriers and functional boundaries.
- iv. The organisational structure integrates the concept of quality as a value rather than as a function.
- v. Job designs are flexible to accommodate changing needs. Most jobs are becoming complex and challenging as technology increases. Training is provided to ensure that employee skills continue to match job requirements.
- vi. Our structure provides the means for good communication with the customer, the corporation and the community.

(Source: Macintosh, 1994)

SECTION 2: MANAGEMENT CONTROL

The objective of the questions in this section is to identify the philosophy underlying the control systems in your department/section/business unit/organisation.

1. Below are several managerial approaches a manager can use to achieve organisational goals. Using these approaches as a guide, can you describe how you view the philosophy of control in your department/section/business unit/organisation?
 - i. Emphasise very complete and detailed business and operating plans.
 - ii. Install detailed budgeting systems and carefully monitor comparison between actual and a standard.
 - iii. Provide procedures to insure that business activities are performed as directed by management.
 - iv. Institute reward/ punishment systems based on performance.
 - v. Protect the organisation from disturbing external influence.

PARTICIPATIVE MANAGEMENT:

Our management approach fosters an environment characterised by:

- Open interactive communication
- Decision making at appropriate level
- Full awareness of division values and goals
- Teamwork

INTEGRITY

Our business and interpersonal relationships are carried out with words and actions that are consistent with our beliefs. We treat all people fairly. We respect the rights of the individual. We believe the ethics of the division are based on honesty, trust and equality for all employees.

COMMITMENT TO QUALITY

We believe in building quality into every product and service we provide. We do this by fostering an environment where all people are responsible for the quality of their work. In this environment, quality is built in, not inspected in.

INNOVATION

Innovation is the creativity that leads to the development and implementation of beneficial change. Innovation is encourage by recognising new and diverse ideas and opinions, and encouraging “possibility thinking”. Intelligent risk taking is supported – and we learn from our mistakes.

DEVELOPMENT AND GROWTH

In keeping with our beliefs that people are our prime resource, we foster an environment for individuals to achieve their potential, while balancing the needs of the individual with the needs of the organisation. This is characterised by:

- Job Satisfaction
- Training and Development
- Internal Opportunities and Promotions.
- Challenging Objectives
- Recognition of the Whole Person
- Fun

RECOGNITION OF ACHIEVEMENT

By recognising contributions, we create an environment that encourages the growth and development of both the individual and the group. Through frequent and timely feedback, we acknowledge individual and group contributions.

RESULTS ORIENTATION:

Results orientation describes a motivation and commitment to achieve a set of objectives supporting division goals in a timely manner. Results orientation means, “we do what we say we will do” – on time.

CUSTOMER ORIENTATION:

Anyone who receives the output of our work is a customer. Therefore, everyone has a customer. A customer can be either internal or external to the division. Our commitment is to deliver products and services that fully satisfy our customers’ needs.

RESPONSIBILITY TO THE COMMUNITY:

As a corporate citizen, we desire to be a positive economic, intellectual, and social influence in our community. We foster active participation within these areas. We believe in the dignity of the individual. We are committed to the fair, honest, professional, and equal treatment of all individuals and organisations by maintaining a well trained and educated work force and by employing the best engineering safeguards and controls.

(Source: Dearstone, 1989)

Please describe your Management Control Systems relative to scope, extent and mechanisms.

APPENDIX D: INTERVIEW DATA**Mr Dilhan Fernando, Director Marketing (1999-11-24)**

Formalised everything. Everything is team based (Fast decision making more practicable solutions). Every client thinks that he is a king. We always try to provide what our clients want, when they want it and at a reasonable price. Everything is done on a teamwork basis. If there is a special complaint or something like that from a client then a meeting is called spontaneously. All the members of the team are expected to do his/her best for the achievement of the goals and objectives of the company. No trade unions are needed. Trade unions try to represent all. But it is always only two or three peoples' views not everybody's. We are open and if they have a problem, they can come to see us directly. We dance at the parties with them. We have good relationships with the staff. When there are trade unions, managers will see the employees as bad and employees will see managers as bad. If somebody has a problem, s/he can talk to us openly anytime. We are here all the time except we travel overseas. Unlike some managers in the government sector, we do not play golf while others are working. We work very hard. Sometimes I am here even before 6.00 am and leave most of the time after 7.00 pm. They have a feeling that we are also hard workers. We have two 12-hour work shifts. Overtime payment is 1 1/2 times of the normal wage. These girls are from far away places and they live in boarding houses. They have nothing to do at boarding houses. So they are happy to work overtime and earn some more money rather than wasting their time. Many of the girls in the production plant are young and straight from school. Yes, some have returned. Because other companies do not care for employees in the way, we do. Yes, we consider our employees' views. They also have created ideas. Our management approach is very participative. Teamwork is very useful. Sometimes workers catch stealing tea or harmful behaviour. They are rewarded very well. Sometimes for catching stealing tea worth Rs 10000/= the catcher is rewarded Rs 5000/=. This is to encourage to be honest and to reveal thefts. Innovation is an everyday thing at Dilmah". We are a natural organisation.

Ms Rohini Dassanayake, Lady Security Officer (LSO) (24-11-1999)

The company does not allow organising Trade Unions. Once two truck drivers wanted to start a strike. The Chairman said that I have earned enough. I am doing this business for your own wellbeing. Keep the keys on the table. You can quit or I will close the company. The drivers kept quiet and everything returned to normal soon. The company gives toothpaste, soap and uniforms to the workers. They give grand presents for weddings of the employees. On the Chairman's and two sons' birthdays, Birthday Cake is given to everybody at the company. Once a year there is a grand celebration at the company- a get together. On the 20th of this month (November, 1999) our company's Silver Jubilee (25th anniversary) was celebrated. Even the Chairman and the two sons danced with employees at the party. They greet everybody in the morning. A custom. On the New Year Day, they get off the cars and greet (Say Ayubowan: Longevity) and wish a happy New Year to everybody. But some other managers are not like Chairman and his sons.

Mr Mahendra Rasaratnam, Tea Consultant (An Australian) (20-11-1999)

We export and market our own production. Our business is centred on packaging and marketing our own brand for exports. We have markets all over the world. Quality of our products is very important. We are very quality conscious, because we sell our own brand. We look forward to improving our standards all the time. Tea tasting is of paramount importance to the export industry. Tea tasting is

done for each variety. The company uses latest technology to ensure quality of its products. We are an ISO 9002 certified company. Our core business is exporting packaged tea. We take all possible measures to ensure that ours is the best tea in the world. We always put customers in the first place. Our company represents both rational and natural features. Participative management: we are very participative not only at management level but at operational levels. Suggestions are obtained from all employees and encourage participative decision-making. Performance based data – every three months for permanent employees and yearly for beginners. Mainly I direct. But I listen and discuss important issues and take the necessary course of action, which is best for the company. Everything is computerised. We use very advanced technology. Once a week we have a meeting to discuss the quality of tea. We are responsible for the correct functioning of the tea department. Members in my department seek advice whenever they have a problematic issue. (Participants discuss important issues. The awareness and interaction of members are very important. We encourage team-based decision-making. Communication is very vital amongst tea members. Integrity is of high standards. We are customer and results oriented. We are very keen in developing and the growth of the company. Recognition of achievement is also considered a very important area. People are rewarded if their performance has been excellent. Vision and motivation towards work is the secret of our company's success. We look in to the future to find and create new markets with a totally different approach and whilst doing this we have to fight with multinational companies. Dilmah has become very strong because of the strong commitment by the Chairman. This company has grown to great height, we are looking to achieve more, and more heights in the years to come for these constant changes are necessary. The Tea department has a work force of about 23 tea boys, clerks, and executives. Everyday tea tasting is done –about 200-300 cups a day. We produce tea and buy tea from tea auctions. Tea auctions are held once a week. I myself attend tea auctions because we want to make sure that the best quality teas are bought. All company activities are directed towards fulfilling consumer needs in the best possible manner. We are customer oriented.

Mr B.C.F. Mendis, Security Manager (99-11-26)

Duties I am responsible for the security of the whole organisation.

We have several sites:

Work Places = Paliyagoda, Maligawatta

Stores = Kadawatha Handala

Housing Complex = Akuregoda

Chairman's Bungalow = Kalapaluwawa

I was an ex-police officer – since January 1996 I have been working as the security manager. Earlier I was the Chief Security Officer and got promoted.

Organisation Structure

Security Manager: (I have 1 Assistant ex –air force personnel).

Chief Security Officer, 5 supervisors (ex-army and navy Personnel). There are 33 Guards and 3 Lady Security Officers. In the Security Manager's room there is a TV + Dec (Known as CCTV). Its coverage is limited to certain areas: the entrance and the factory. If anything wrong happens immediate action can be taken. At night there is security service except at the main gate so between 7.00pm and 6.00am the TV is turned on and any wrong doings or faulty can be detected in the following morning and necessary action can be taken. The security manager is responsible to Director Administration. We conduct instruction classes on how to carry out the security service duties. These classes help to find out their difficulties. They are a means of finding out the needs of the service force as well as informing them of the company needs.

I make decisions regarding security and take immediate actions. In this regard, information is very useful to our department. The security service has specially selected people (trustworthy and honest)

from the work force to communicate with them. They give information secretly on what happens in the plant. This special force links with the security personnel. Apart from this, the security personnel do not have any contacts with the labour force unless there are special situations to be intermediated. Similarly, we have an island-wide operation to collect information on frauds. Information on frauds such as selling tea to tourists with the Dilmah trademark is collected through overseers. For example, some had sold tea in Kandy and they were caught and brought to the courts. I use the telephone to a greater extent to communicate with others in and out of the company. We use memorandums, White Boards, notices to communicate with internal people and fire alarms and fire engines in case of accidents. ... control is mostly done through direct supervision (catching stealing).

I use the telephone to a greater extent to communicate with others in and out of the company. There is a Magee board in the Security Manager's room. It has got information about the forth-coming court cases. We use memorandum, fire alarms and fire engines in case of accidents. I have to give feedback to my supervisor. I make decisions regarding security and take immediate action. Teamwork is very important to carry out the security duties. I am giving my maximum to the best satisfaction of this company because the company is looking after us very well. And job satisfaction is there. Most certainly I am happy to work with the company.

Mr M. Riazzi, Site Manager (Information Technology), (1999-11-26)

Since November 1997, the company has out-sourced the information technology through EDS Technology Services. The site manager is responsible for administration and programming of information technology services at the company. Earlier there was an Information Technology department at the Company and it was taken out. The company now uses Symix (American Software), Computer systems, software and hardware. Back up by the company's IT department. This organisation is almost rationally and formally organised.

Mr. Ronal Rubera, Business Development Manager (1999-12-01)

I have been 11 months with CTS. I have worked in several companies in Sri Lanka as a marketing manager.

Role: Developing new markets for our brand; US, Canada, China. Korea.

India, Australia, New Zealand. Asia Pacific Region. Under business development – new areas- (create and handover to markets). I handle certain markets. The heart of our business is to satisfy the consumer. Our business was started 10 years ago. In the beginning it was a hard battle. We have two main business areas: retail service and catering.

Catering – food service. Airlines – E.g. Ansett Australia, Quotas, Sri Lankan Air Lines, Polish air Lines, emirates, and Singapore Air Lines' lounges and several other airlines. The catering service helps to remove additional costs – e.g. advertising, and promotion. What we do is generally to cut costs.

Packaging cost is very high. To cut cost we do a general packaging – (low involvement product- tea). So what we do is give a tea bag.

- a good cup of tea.
- Food services are the final decision-maker and no extent packaging.

Retail Service

In retail consumer is the decision-maker. Thus, the physical presence of the product is very important. So we spent a lot of resources on packaging. We are concerned with value added packaging. To attract initial impression.

We gather information about new markets through marketing research and overseas agents (monthly reports)

From ACNielsen -the global leader in marketing research - information and analysis. They collect information through on-line scanning data. About which what the competitors do. Regarding every product: state-wise, town-wise, and customer-wise, quantity, brand.

We gather information about new markets through marketing research and overseas agents. Mainly from ACNielsen - the global leader in marketing research information and analysis. They collect information through on-line scanning data about what the competitors do and the changes of consumer demand and so on. The information is regarding every product: state-wise, town-wise, and customer-wise both on quantity and brand.

Monthly Market Reports

- about competition.

Own Internal Reports - Symix, We have information reviews, meetings, and information sessions on regular basis. We prepare monthly market reports (about competition). Monthly Reviews – Monthly reviews are done in the areas of advertisements, sales – rise and fall, and competition For Australia, which is Westernised we use formal information collecting methods. And for Russia we use informal means, through grapewines (distributors). We are not a formal multinational company. We are more a dynamic entrepreneurship, that makes strategic decisions based on how the market forces operate. Thus, we do not have objectives formalised in the manner some multinationals have. For my area of decision making computerised systems are very useful.

Information about competitors is collected through agents, sales force and distributors. Retailer information is from ACNielsen -scanned data. I would like to have more information about competitors. For less sophisticated markets computerised systems are more helpful.

Relationship between MIS and MCS. It helps to control activities in the division professionally. I wish it could be more user friendly than it is. Also If they could generate more specific sales and market. We have a very flexible structure. We can easily communicate with the top management to discuss matters. And the top management is hands on in operational activities on a daily basis, which makes decision making more effective. Top managers are easily accessible. The real role that the top management should make (strategic decision making) can suffer sometimes. They are involved with operational decision-making. If the top-level do operational things they cannot see the strategic things. So he may not see the future. (This may cause an information gap).

There should be a team who will really see the future of the company – a strategic development process. There are teams at operational level, but there should be strategic level teams too. Mission (market mission) should be passed to everybody from top to bottom. It should be more effective. I feel there should be more involvement from different areas of the organisation contributing towards the development of strategies. We are not giving due attention to long term planning. There should be long-term plans so that everybody could be working towards achieving those objectives. Management is very effective at the operational level but not at the strategic level. We fall into a more Natural organisation. We are a combination of both natural and rational.

Mr S. Ramabhadra, Accountant (1999-12-02)

In Sri Lanka, those management accounting techniques are not fully used.

(He has been working at the CTS for 21/2 years. Earlier he has worked at Pacific Dunlop and Kelani Cables in Sri Lanka. He had started work as a trainee and got promoted to the position of an Accountant. At CTS, he has worked as the Inventory Accountant and after the restructuring of the

company his position has been changed to Accountant. He is responsible to the Director Finance. All payments of both tea and non-tea companies of the MJF group are under his supervision).

Prior to the 1998 the reporting system at the MJF group was not fully computerised. The company accounting was isolated. The activities were also isolated; pricing, marketing. There were separate accounting systems for separate departments. For example, tea, shipping, marketing, investment departments had their own separate accounting systems. Since 1998, the operations were fully integrated using the Symix system. With the Symix system, all activities are fully integrated and in making decisions, integrated information is considered. In purchasing those who are responsible should communicate with the pricing section and production people should communicate with the finished goods section and so on. Integrated accounting information is available to the authorised people. In the beginning, the company had a manual accounting system, which was not very effective. With the current fully computerised and integrated accounting system, the authorisation of the relevant others is required in making decisions. "You cannot make a payment unless the Goods Received Note is certified by the stores manager. Earlier such internal control systems were not operated. Now there is systems control through the integrated accounting system and physical control is also operated e.g. the stores manager controls the goods received. He should verify the fact that goods have actually come to the stores. The new computerised system is very effective and there are no loopholes. The honesty of the individuals involved in the accounting system is very important to keep the system under control. Without honest and trustworthy people no accounting system can be controlled effectively and efficiently.

None of the companies in Sri Lanka except Ceramics Corporation use ABC technique.

We are the largest tea production company in the world. Not the first of that sort. The secret behind the success of the company is the Chairman's vision. CTS is the first foreign company to enter into the Russian tea market. Marketing, technical insights and dedication all share the successful operations of the company.

The new computerised information system is very effective and very useful. Decisions can be made very quickly. Feedback is also very quick. Control has been easier with the new MIS.

Communication and Quality

We are an ISO certified company. Once a month we have an internal system audit and once a year we have an external audit system. Even at lunchtime also I have observed they talk about the problems with machines. Everybody from management to the factory floor is concerned about the quality of work.

Innovations come from the CEO and we are driven by them. They also give innovative ideas if they have. But the CEO has new ideas all the time. His decisions have never gone wrong.

It is a natural organisation. We do not work toward set goals. We continuously try to do work in the best possible way. Spontaneous decisions are of tremendous importance at our organisation.

The new computerised system Symix started in February 1998. The previous system was not fully integrated and after much discussions and feasible studies the new system was installed. The new system is operating well. There are three integrated computer information systems. SAP = General Motors.

BANN = Large industries. Symix = Small and medium industries.

Symix is an American system. We had to customise certain areas. Accounting systems in Sri Lanka are different and we modified the Symix system according to our requirements. That will create a problem in the future when updated versions come. We can use the updated version with modifications. Then every time there is an updated version we will have to modify the whole computer system. We will face that modification a problem. Sub-files will need to be modified.

IT is outsourced Maintenance of software and hardware is outsourced.

The use of the new integrated computer system is very handy. Manually you cannot even think of our operations. Necessarily we need some sort of computerised system. Symix is perfect. Backup is done. Retrieval of everything is very easy. IT group takes a full back up of the whole system daily. So we will not lose our data.

The new computerised information system is very effective and very useful. Decisions can be made very quickly. Feedback is also very quick. Control has been easier with the new MIS.

Means of Communication

Notices and meetings are very important means of communication at our Company. For example for X'mas, there is a grand party. Workers are informed by means of notices. So everybody knows that s/he has to contribute to it. E-mail and telephone are also very useful means of communication. Telephone is very useful in communicating with the managers within the company. For different levels of the work force, I have to use different means of communication. For factory staff –notice board is the mostly used means.

Even the Chairman meets any worker he directly communicates with subordinates. It is a way of giving quick response. And the subordinates should not be afraid to talk to the Chairman. A different culture from that of many other organisations. This is good. But not all the time. If the chairman talks to the subordinates directly not through the relevant manager/s. It is not good sometimes. If he talks to somebody who works in my department without my knowledge, I loose my authority. In that sense, he will neglect the manager/s.

Participation is of considerably high level. Teamwork basis is used to discuss problems.

Mr Sanjaya Perera, Shipping Manager (1999-12-03)

Symix is more useful in preparing documents than the manual system. I create customs and customer documents. In doing so, I use the information other departments have put on the system to create my documents.

Interview Guide

Basically, all these things are there.

Quality policy is in everybody's head. They are intended to do the work according to it.

Everyone works as a team. Everyone is important. I cannot highlight any single person in my department whose work and ideas not important. We discuss things as a team.

We are a natural organisation. We are very results oriented. Rather than procedure or policies, we insist on results. Shipping department has no targets. Do the same thing as a routine. It is a continuous thing. We have to do it without any failure. Service department. We do not target anything. To achieve our goals teamwork is the most important thing. Not always, at times I see my subordinates as friends. As a team, we all work for a common goal. The success of our company depends on the brand and high quality. Price is high. But we can compete with the multinationals. I am responsible to the Chief Operations Officer. He does operational activities. And I am responsible to him. I follow his guidelines. If I want I do suggestions. The CEO does not know what happens at the bottom line. So, I represent my subordinates. We hold small meetings very often within the department. Face to face talk is very useful. The telephone is very useful in departmental communication. (He has worked for the Company for two years).

Ms Dilrukshi Seneviratne, Food Technologist (1999-12-6)

We are working on behalf of the materials requirement department. We are responsible for ensuring that the flavouring requirements of the contract are met. We do the laboratory testing of the teas. It involves the testing of teas from the time of buying up to finished bags. Through a number of analyses such as ISO 3720 analysis to identify the toxic elements, Microbiological Analysis Test.

My department's duties involve the: Selection of flavours (15 different types of flavours) incoming flavours to the agreed upon standard, supplier evaluation, sample testing. Our department approves the suitable flavours. The final approval of flavour, however comes from the Chairman. Symix system

is basically useful in ordering teas. All flavours are imported from USA. 85% of the tea is normal black tea and 15% is flavouring. There are 15 different types of flavours. Flavours are added according to the particular standards.

I also handle customer complaints. Earlier it was done manually. Through the new computerised data processing system ordering is easy now. Earlier we relied on other people's reports. Now we can just plug into the system and see the reports. Now it is very quick, fast, and easy apart from that we can use data at our own pace. There are four workers under me in the laboratory analysis and flavouring units. With kind words, you can do a lot. We work as a team. Teamwork is very important to achieve high quality work targets. Personally, I like to improve and develop my subordinates. Guiding them is a very simple task.

Not very structured which I like very much. Even the top managers are not very formal. We call each other by the first name. It helps us to be more open. We have a humanist approach.

We need more innovation.

Quality: Although we (Sri Lanka) have been marketing a unique product for hundred years, there has been very little emphasis given in the tea trade to the quality of the product. Simply, because Ceylon tea held unique position in the tea market. But this company has so far elevated the standards of tea from the given value addition to the tea as well as emphasis given to maintain the product. This has become a very important factor in the company. We are further implementing an HACCP system to give the customer a very safe and hygiene product. And so far, no other company has given to the customer such a product.

Hazard Analysis of Critical Control Point (HACCP). This is the first company to be accredited with that requirement.

Mr Dilshan Boteju, Area Manager of Logistics (Australia and NZ) (1999-12-02).

He is responsible to the International Marketing Manager

Information System: I must say I get information from Symix, an updated, on-line, integrated system. It is a user friendly, system. The older system was not so user friendly.

But I do not use Symix much. Basically, I use Excel. We prepare our own reports, monthly reports for each region.

There is marketing meeting every other day, an informal meeting together with the marketing director and production supervisors.

There is a monthly Marketing Review. It is a very formal meeting with top-level managers. We meet to discuss to assure that everyone does the same thing. This is a one-man business. The Chairman makes most strategic decisions. The respective managers make operational decisions. Commitment to quality is very high. It is the reason behind the success of the company. Innovations also come from the Chairman. It has always been successful. The Chairman's experience and passion to the brand have contributed to the success of the company. Everybody from Chairman to the workers dedication is to the fullest amount. Here everybody is slightly overworked. Fully work. No time to gossip. Hard working as well as rewarding is there. Easy access to the top management is a privilege. It may be because this company is in the private sector. The Chairman is very successful. Recognition is there. People are rewarded well. The salary level is super. Hard working as well as rewarding is there. I believe that participation could improve the quality.

We have smaller teams broken into different regional units. They work as a team. At the end of the day the entire marketing work is united as one.

The team members are very cooperative. There are no misunderstandings among team members. "I believe that participation could improve the quality.

Our salary is above average.

Yes, managers have also come back. If they have done a good job here they can come back always.

Rational, We have set rules and structures. Structures are laid down and we just follow them. The system has always been very successful and there is no reason to go against it.

Information requirements are sufficiently fulfilled.

The company is very successful; this is a sole owner company.

We have had no strikes. If employees are not happy unions are created. Here the employees are happy and work harder. There is no reason for them to organise as unions.

Ms Vajira Karunaratne, Quality Manager (1999-12-06)

If we identify any complaints from customers we carry out studies on a continuous basis to maintain continuous improvement, in addition to daily meetings.

Based on a sampling plan incoming materials are inspected lot by lot. We have predetermined quality standards and we check the acceptability of incoming materials ISO 2859.

On the basis of a sampling plan; Incoming materials and finished goods are checked. Special sample checking is carried out in the production plant. Packaging materials are also checked for quality (ISO -2859). For the quality management system, the company is an ISO 9000 certified company.

... we have a policy of Total Quality Management (TQM). TQM is a new way of managing to improve the effectiveness, flexibility and competitiveness of a business as a whole. It involves the whole enterprise getting organised in each department, each activity, and each person in every department. For an organisation to be truly effective, every single part of it must work together because every person and every activity affects and in turn is affected by others. TQM includes commitments to customer (internal and external) satisfaction, continuous improvement and planning processes.

In the production plant on line, inspection of finished goods and processing is carried out.

We have to have documented evidence to ensure the predetermined inspection levels. We should prepare the relevant documents. Every 6 months there is an external audit. So, we should have formal documents. Everything, which affects to quality, is connected in a formal manner. We prepare hard copies supply-wise regarding quality defects. Quality Inspection: for weight and material type, packaging; paper, colour,

Participative Management

Actually, we normally work as a team. Most of the time we have to discuss with others and take a decision. There are some instances I can make my own decisions. It is a routine to discuss within the department as well as on an inter departmental basis. I consult higher managerial levels when appropriate.

Quality

We have a policy of total commitment to quality. Every department and every employee is important to achieve our quality target. We are combined in a customer-supplier chain.

Quality Policy is displayed in every department simply for the reason without knowing it they cannot achieve it. This was introduced in 1997.

Quality information is important at three levels:

1. Analyse customer complaints.
2. Analyse internal complaints.
3. For internal audits (quality)

We have trained a team of internal auditors. An audit plan is prepared. Independent audit is done. It is very important to ensure the quality of our products and production system.

We have a number of quality improvement programs. When there is a problem, we have a form to be filled for that problem. The relevant personnel meet and discuss as a team for a solution. Decisions regarding systems errors are made by the quality manager and not by the Chairman. We collect all such forms for a month and analyse using quality Check techniques such as Pareto analysis. We

identify the important areas to which we should pay more attention. We carry out monthly quality improvement meetings to discuss all necessary matters with several managers and directors.

It is an informal meeting; group quality controller and quality manager necessarily attend it. Every three months a management review meeting is held to see the effectiveness of the quality activities (quality and other related matters, the Chairman and senior Managers attend it) It is a formal meeting. We have a highly formal structure. Everything is documented. Organisation structure has been finalised. Thus, we have a formal organisation structure. Duties and responsibilities of each employee have been necessarily documented. All procedures and work instructions have also been documented. So, we carry out our activities according to the documented procedures. For example, in the production plant work instructions are displayed. 5). Yes.

Mr Bennet Jayasooriya, Human Resources & Administration Manager (13, 11, 1999)

Our organisation has rational system characteristics and natural characteristics. In other words, we are not a rigid organisation. We are adaptable to the changing environment and circumstances internally and externally. Computer system is very beneficial. ... our employees are the most valuable asset of the company. The efficiency of the manpower resource depends on how well they are motivated. We believe that communication is very important to the proper functioning of the work towards achieving organisational goals and objectives. Informal communication is more effective than formal communication. Informal communication helps improve team spirit because we communicate one to one. Actually, we believe more in rewards than punishments. We believe that motivating employees is the key to the success of the organisation. It is due to the job satisfaction they get and also the benefits they receive and the working environment. Training provides the employees with environmentally friendly working conditions. Our work conditions are very appealing. Training is an important aspect of our programs and the company has been spending a substantial amount on training every year.

Mr Asoka Bandara, Assistant Production Manager (12, 11, 1999)

In the assistant production manager's opinion, almost all organisations in the public sector and some in the private sector have very formal organisation structures. They establish rules, regulations, and norms for each and every activity. But the results gained from such formalities are not very high. At CTS there are different level of hierarchy, which are flexible. Our system is user friendly. I appreciate the communication and innovation developed by the company. I believe in formal natural systems. I have to be 90% formal. I want to be fair to everybody. For the remaining 10%, I want to consider the informal issues such as culture and humanity. In the last two decades (after 1980) Sri Lanka has changed a lot. Specially, the younger generation is ready to work. They are very confident within themselves. We as managers should understand this factor and make an environment for them (workers) to work easily and comfortably. The manager has worked in a government corporation (Ceylon Petroleum Corporation) before joining the CTS. He has worked for CTS for 2 years. According to him, there is not much difference between the two organisations in terms of financial benefits. There is, however, a big difference between the organisational structure and culture in the two organisations. The government sector organisation structure was rather rigid and difficult to follow. The culture at the CTS is flexible and the manager prefers it to that prevailed at the state corporation. "It is easy to maintain and adapt to the culture of CTS which is not governed by 100% rigid rules and regulations. The government sector is functionally oriented and this public sector organisation is target oriented. There is a huge difference between strategies of the two organisations. At CTS, there are targets to be achieved". The rules, regulations and procedures may or may not be followed all the time. The main objective is not to follow the strategies but to achieve the goals and objectives. Government sector does not have any considerations with regards to any of the headings

listed in the interview guide. According to the assistant production manager, "There was no innovation at all".

No quality requirements.

"Not result oriented".

No consideration for the community responsibilities.

Only the time spent with the organisation is considered as "experience". E.g., 2 years or 5 years of work experience means the employee has spent with the organisation for the relevant period of time. The contribution s/he has given to the organisation's operations or the skills or knowledge acquired by the employee is not considered at all. No consideration for innovative ideas at all.

At CTS, too there are different levels of hierarchy. "But I appreciate the communication and innovation developed by the company".

"I believe I should be open minded, firm and fair in doing my job". Once I sacked a machine girl on the spot. But it was after a period of three months of warning and watching her nasty behaviour. We have the authority to make decisions to sack careless and wrong doing workers without any hesitation. I have a responsibility to do my job to the fullest level possible. I believe everybody in the company has such a responsibility. Even the machine girls have a responsibility to commitment. They have built up that sense in their minds."

For example, if I ask a machine girl to use tea or packaging materials different from what specified in the order she will question me about it. They have been given the training to do their job properly. They have developed that sense of commitment in themselves. But this is not the case in the government sector. If the relevant manager has signed and given the authority to do something the employees will just do it. They are not concerned about quality or responsibility to the community. Employees will just do what the managers ask they to do. "If the permission is given they will do anything without any hesitation".

Human Relation Building

A meeting is held in the production plant daily to develop human resource. Many issues such as quality considerations, work instructions, decisions about welfare and other facilities are discussed at these meetings. An important factor about these meetings is that management's decisions are discussed very openly at these meetings. These meetings are also important in building relations among the work force.

Teamwork

"In my view, here we have a good spirit of teamwork".

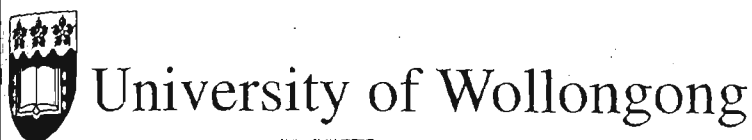
There are about 400 tea packers. "My theory is to be firm and fair and give care to the factory workers". Senior Management encourage innovation because our products are mainly for export markets and quality is the number one priority of company operations

Interview Questions

1. What is your job title?
2. What are your job responsibilities?
3. What kind of decisions do you make?
4. How do you get information to make your decisions/ do carry out your tasks?
5. Are you happy with the formal information system? (regarding quality, quantity and speed)
6. What relationship can you see between your job and the management information system?
7. Can you please comment on the nature of communication, teamwork and participation in decision making?

APPENDIX E: COVERING LETTER AND EMPLOYEE OPINION SURVEYS

COVERING LETTER



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17 September 1999

Dear Sir/Madam,

The questionnaires on the back of this letter have been prepared as part of my doctoral research project. The purpose of them is to identify your company's values, climate factors, and your job satisfaction. We would sincerely appreciate your completing the survey, which will take about 15-20 minutes. All information will be held in strict confidence.

When you have completed the questionnaires, please seal them in the enclosed self-addressed envelope and return it to your departmental/sectional manager or supervisor.

Thank you for your invaluable support.

Sincerely,

Kanthi Herath

EMPLOYEE OPINION SURVEY: VALUES AND CLIMATE FACTORS

Company Name:.....
 Employee name: (Optional)
 Department/Section:.....
 Date:

Instructions: In this questionnaire we ask you to describe the nature of values and climate factors in your organisation in 1997 and 1999. (If you were not an employee in the company in 1997 please disregard that year). In doing so, we would like you to indicate whether you agree or disagree with each of the following statements. Please select the appropriate numbers for each year from the following scale and place them on the line before the statement you are considering.

	1	2	1	2
	Favourable	Unfavourable	Favourable	Unfavourable
	1999		1997	
1. MANAGEMENT				
a. Openness of Managers	---	---	---	---
b. Managerial Communication	---	---	---	---
c. Managers' Handling of Suggestions	---	---	---	---
d. Managerial Leadership	---	---	---	---
e. Managerial Planning	---	---	---	---
f. Managerial Delegating	---	---	---	---
g. Managerial Decision Making	---	---	---	---
h. Managers' Support for Development of Subordinate Skills	---	---	---	---
2. MANAGEMENT CONTROL				
a. Relationship between Managers and Employees	---	---	---	---
b. Ease of Communication with Managers	---	---	---	---
c. Rules and Regulations	---	---	---	---
d. Pressure of Budgets and Plans	---	---	---	---
e. Deadlines	---	---	---	---
f. Rewards and Punishments	---	---	---	---
3. COMMUNICATION				
a. Upward Communication	---	---	---	---
b. Downward Communication	---	---	---	---
c. Interdepartmental Communication	---	---	---	---
d. Openness of Communication	---	---	---	---
4. ORGANISATIONAL PERFORMANCE				
a. Commitment to Quality	---	---	---	---
b. Innovation	---	---	---	---
c. Development and Growth of Individuals	---	---	---	---
d. Customer Orientation	---	---	---	---
e. Responsibility to the Community	---	---	---	---
5. SKILL DEVELOPMENT				
a. Training and Development	---	---	---	---
b. Advancement Criteria	---	---	---	---
(Continued on next page)				
6. WORK ITSELF				
a. Workload	---	---	---	---
b. Task Structure	---	---	---	---
c. Interest in the Job	---	---	---	---

d.	Challenge	---	---	---	---
e.	Sense of Accomplishment	---	---	---	---
7.	WORKING CONDITIONS				
a.	Departmental Climate	---	---	---	---
b.	Overall Climate	---	---	---	---
c.	Participation in Decision Making	---	---	---	---
d.	Job Security	---	---	---	---
e.	Physical Environment	---	---	---	---
f.	Recreation and Learning Opportunities	---	---	---	---
8.	COMPENSATION				
a.	Pay	---	---	---	---
b.	Praise	---	---	---	---
9.	PERFORMANCE REVIEWS				
a.	Performance Planning	---	---	---	---
b.	Performance Evaluation	---	---	---	---
c.	Recognition of Achievement	---	---	---	---
10.	TURNOVER				
a.	Turnover	---	---	---	---

EMPLOYEE OPINION SURVEY: JOB SATISFACTION

Company Name:.....
Employee name: (Optional)
Department/Section:.....
Date:

Instructions: In this questionnaire we ask you to give your opinion of job satisfaction for the period between 1997 and 1999. (If you were not an employee in the company in 1997 please disregard that year). In doing so, we would like you to indicate whether you agree or disagree with each of the following statements. Please select the appropriate numbers for each year from the following scale and place them on the line before the statement you are considering.

	1999		1997	
	1	2	1	2
	Agree	Disagree	Agree	Disagree
1. The company is a better place to work now than when I first started here.	---	---	---	---
2. The people in my department cooperate with each other and work together as a team.	--	---	---	---
3. The equipment in my department is satisfactory.	---	---	---	---
4. I like my physical working conditions.	---	---	---	---
5. I feel very secure in my job.	---	---	---	---
6. I am satisfied with my general working conditions.	---	---	---	---
7. My immediate manager tells me when I have done a good job.	---	---	---	---
8. Considering the skill and effort I put into my work, I am satisfied with my pay.	--	---	---	---
9. I am satisfied with the amount of praise I get for the work I do.	---	---	---	---
10. Higher management ask for suggestions from employees.	---	---	---	---
11. I am encouraged to make decisions, which affect my job.	---	---	---	---
12. When I need information, I know whom to see.	---	---	---	---
13. Management lets me know about changes before they are made.	---	---	---	---
14. Management gives me accurate information.	---	---	---	---
15. Communication problems between departments are handled well.	---	---	---	---
16. My immediate manager listens to my suggestions with an open mind.	---	---	---	---
17. My immediate manager does a good job of handling my complaints.	---	---	---	---
18. I believe in my immediate manager is interested in me.	---	---	---	---
19. My immediate manager is helping me reach my goals with the company.	---	---	---	---
20. My immediate manager treats employees with the kind of respect a person deserves.	---	---	---	---
21. I think my immediate manager is a good leader.	---	---	---	---
22. My immediate manager does a good job of assigning responsibility.	---	---	---	---
23. My immediate manager asks my opinion before making decisions, which affect me.	---	---	---	---
24. My immediate manager tells me what he/she thinks of my work.	---	---	---	---
25. My immediate manager asks for suggestions from me.	---	---	---	---
26. My immediate manager takes responsibility for acting on suggestions I make.	---	---	---	---

(Continued on next page)

27. My immediate manager does a good job of getting answers to the questions I ask.	---	---	---	---
28. Changes are often made as a result of my suggestions.	---	---	---	---
29. My immediate manager lets me know what has been done about suggestions I made.	---	---	---	---
30. I am satisfied with my immediate manager.	---	---	---	---
31. The amount of work I am asked to do is fair and reasonable.	---	---	---	---
32. The number of hours I have spent doing my job is fair and reasonable.	---	---	---	---
33. I usually have a clear idea of what is expected of me on my job.	---	---	---	---
34. I like my job.	---	---	---	---
35. On most days I feel I have accomplished something important on my job.	---	---	---	---
36. I am satisfied with the things I do on my job.	---	---	---	---
37. The company promotes those who have earned it.	---	---	---	---
38. I am satisfied with my chances for getting ahead.	---	---	---	---
39. I think the company's performance reviews result in the kind of recognition I deserve for my job performance.	---	---	---	---
40. I think the company's performance reviews are fair.	---	---	---	---
41. This year I will look for job with another company.	---	---	---	---
42. Safety rules are carefully observed, even if it means work is slowed down.	---	---	---	---
43. I understand how my job relates to the overall objectives of the Division.	---	---	---	---
44. I know what career opportunities are available in my company.	---	---	---	---
45. There is too much concern for the quantity of work rather than the quality of work.	---	---	---	---
46. I am bored with the rules and regulations set on work.	---	---	---	---
47. The managers use very formal control strategies.	---	---	---	---
48. There is no place for informal means of communication.	---	---	---	---
49. Formal communication is essential to accomplish my job.	---	---	---	---
50. I do not like very formal meetings and agendas.	---	---	---	---

APPENDIX F: DIRECT OBSERVATION

FACTORY TOUR WITH THE ASSISTANT PRODUCTION MANAGER (12, 11, 1999)

Packing Divisions

There are two production plants, in two separate buildings. One for the MJF Group and the other for Ceylon Tea Services. I visited only the CTS Tea Packing Factory. This company produces and packs tea only for export purpose only. Very recently one particular local customer, Keels food City has got the privilege to become a very special local client of CTS.

Overall there are about 400 employees in the company. There are only female tea packers, machine operators and quality checkers. It is a unique feature of the CTS shop floor employment. The CTS production plant consists of six production lines. All the tea-bagging machines have been imported from IMA in Italy. They are fully automated.

Production Line No. 1

There are 10 tea bagging machines of similar type in line no. 1. They are relatively old machines. The special characteristics of the tea bags produced by these machines are; a tag, paper bag, the tag is attached to the string and the string is stapled to the tea bag. The speed of the machines in this line is relatively slow. Naked paper tea bags are produced in this line. Packing is done manually. Lemon flavoured tea is produced by this production line. Auto tea filling and manual packing. Teacup bags are produced here.

Production Line No. 2

There are 8 tea bagging machines in this line. Two different types of machines are here, IMA 21 – premium and IMA 23 – a new model. A machine can produce 220 naked tea bags per minute. An important feature of packing in this line is the use of envelopes for teacup bags. These envelopes are in two forms, paper envelopes and foil envelopes (relatively recent development in tea packing). These foil envelopes are for Australian and New Zealand markets.

The same naked tea bag is inside the envelope. The envelope is for keeping the freshness of tea. Tea in the envelope is of higher quality and more durable than that of the in the naked paper bag. The paper envelope is good. But the foil envelope is better than the paper envelope because air cannot enter into the foil envelope. The envelope is sealed fully (unlike the paper envelope). The same tea bags are inside the envelopes. But “Bergamot” – a special flavoured tea is in the foil envelope. The envelopes, both paper and foil, give the following message to the customer (IN THE BACK OF THE FOIL ENVELOPE)

Thank you for choosing Dilmah.
 Dilmah is a very special tea.
 Its founder had dedicated 46 years to tea and learned
 a great deal about it. He guides his family
 business passionately and caringly.
 Now, you can't buy that.
 Ceylon's freshest & finest tea is even
 fresher & fine in foil.
 Fresh tea is rich in antioxidants.
 Speciality teas like English Breakfast
 became famous for their taste.
 The world's finest teas always come from Ceylon.
 The British knew that and,
 In the past, used Ceylon tea extensively.

But now times have changed.
And in Ceylon, Dilmah created its own selection
We scoured the plantation to
Recreate that original taste.
And we called them Classics!
Growing our own tea makes a world of difference.
PURE CEYLON TEA,
PACKED IN SRI LANKA

Front of the Foil Envelope Dilmah Logo Dilmah 100% PURE CEYLON TEA

CLASSIC

EARL GREY
Strong, a hint of bergamot flavouring

Quality is a dominant factor.
One unique feature of Dilmah tea is the company grow their own tea and Dilmah is 100% Ceylon tea.
Another unique characteristic of Dilmah Tea is that tea packers do not handle (touch) tea. Tea filling is fully automated. But packing into the cartons is done manually.

Line No. 3

There are 10 tea-bagging machines, IMA C2000. A number of products are produced in this line. Diversified packaging. Both tea filling and packing are automated. Speed is very high, 450 naked bags per minute. Tea bag + tag + string is not stapled, pasted. Requirement = string should be pasted to the bag. Tag is pasted to the string. With envelope speed is 400 bags per minute. Auto packing, 100 or 50 bags into a box. The machine is adjustable according to the required number of tea bags. This production line produces tea bags for a special order, 25 tea bags in a box. They are made in the name of the client. So they do not contain the Dilmah brand name. The Company is responsible only for the quality of packing and not for the quality of tea. Special packaging materials are used to pack tea bags for this special order. Unblended paper tea bags.

Line No. 4

There is only one tea bagging machine here, IMA C51, a very efficient one. Speed is 2000 naked tea bags per minute. Both tea cup bags and tea pot bags are produced by this machine. Teacup bags with a tag and (for McDonalds and teapot bags, tagless and stringless.

Line No. 5

There are two huge machines. These machines produce only teapot bags. Bag size at no. 5 is different from that of at No. 4.

Line 6

There are four machines here. Different size teapot bags are produced. Speed 600 bags per minute. This machine is older than those in lines 4 and 5. These are fully automatic tea-bagging machines. Bagging, packing and counting are automated. Counting is adjustable.

An important feature of the Dilmah manufacturing process is customised manufacturing. Tea is produced for special clients on special contracts. McDonalds has been one of the major customers from the very beginning of the company. Quality is given priority in the packing process. Non-standard, damaged or creased packing materials or less weight tea bags are collected on an hourly basis from each machine in the production plant. Machine Girls (Tea Packers) are specially trained for their jobs. If there is a problem with any of the machines such as the breakdown of a machine, the machine girls working with the respective machine should stop the machine immediately. They are given the authority to stop the machine and call the machine operators and get the machine repaired. Machine operators are males (boys). They also reside in the same plant so that whenever there is a problem with machinery they can immediately look into the matter. Manufacturing is done 24 hours a day. To ensure that the tea bags contain the correct amount of tea there is a weighting system in each machine. There are only female machine girls (tea packers). They are trained to be honest and trustworthy, that is to tell the truth. The culture in the company permits the girls to be truthful. Managers believe that female workers (young girls) do not do any harm purposefully. This is not the case with young boys. The girls have a special uniform, a green cap and a green apron. Production department runs a quality control system separate from that of the quality control department. There is a quality checker for each production line. Machine girls have been promoted to the position of quality checkers. Quality checkers are responsible for maintaining the packing process efficient. They should make sure that the correct pack is given to the correct packing girl. Each production line has a production supervisor. Production supervisors have worked both as machine girls and quality checkers. So they have the knowledge and experience regarding the whole process of packing. They have a special uniform, a long white gown. It is the responsibility of the supervisor to make sure that samples and production instructions are given accurately.

On an hourly basis quality checkers check each machine. I observed how one quality checker carried out her duties. She checked the package and tea bags with the quality sheet up line. On finding a defective product she has the authority to take decisions such as stopping the production process on the spot. I observed another quality checker check an imperfect product and order the machine to stop and thus hold up the production process. All the quality checkers and supervisors were very busy during the 4- hour period I was at the production plant with the Assistant Production Manager.

Quality Control at the Production Plant

There is a system of production planning on a daily basis. For each day of the month production plans are prepared and displayed on white boards in the production plant. These production plans are prepared on the basis of the speed of the respective machine and the duration of operations. (Speed* Time).

The Marketing department prepares schedules of the required quantity of production for each client. These schedules are passed to the operations department and the operations department gives instructions to the production department as to how much, what and when to produce. The materials department is responsible for the issue of right type and quality materials at the right time. This information flow is computerised and well integrated. It is very important for these operations to be well integrated for the effective and efficient flow of the production process.

Menu Master (Client-wise)

A schedule prepared for each client describing the specific requirements of the order is known as the menu master. For each order, a sample teabag, and packing and filing instructions are given with this document. For each client there is a separate menu master. It is the responsibility of the quality checker to ensure that the packing and filling are compatible with the particular contract.

Materials are on the packing lines on a 12-hour basis, Additional packing materials are kept on a nearby rack in the production plant.

Production Planning

There are two 12-hour production shifts. On the white board the planned and actual production data are displayed. Finishing time is recorded in two different colours. Blue = normal and Red = warning of the time limit (in case of exceeding time).

Similarly, the use of materials is also recorded in two different colours. Blue M = Materials on the line OK.

Black M = Material shortage.

Manufacturing instructions are given in simple and easily understood language. Written (formal) and verbal (informal) instructions are given. Machine girls, quality checkers and supervisors are trained to read and understand the instructions correctly. Formal communication is of profound importance for the effective and efficient process of production. Defects in the communication system may result in very harmful effects on the flow of smooth production. Production plans are reviewed very often (on an hourly basis) to maintain the quality of smooth production.

There is a factory operation meeting daily at 9.30 am. This meeting is very useful in transferring the tea filling and packing instructions to the factory floor workers.

The Menu Master is kept in the company for a period of 3 years, in case the client questions the quality, packing or other relevant issues. The company is then in a position to answer him/her with proof.

The production department maintains production plans effectively. The plans are very often error free, simple, clear and they look professional. A Quality Checker maintains a quality sheet.

A separate section of the production plant is used for tea silos and bins. Silos are very big containers. Nobody in the tea packing division has got access to these silos. The materials department maintains the silos. Only the tea analyser, production manager and the tea blending manager can access to these silos.

Jenco System (The Tea Feeding System)

The Tea Feeding System is specially designed to maintain the quality of production. The major aims of the system are to:

1. prevent mixing up, and
2. pack correct tea.

The company's data processing and reporting system is based on the Symix software. According to the Assistant Production Manager, the management information system is more effective and efficient now than it was. The new system is a recent improvement on the previous manual data processing and reporting system.

"This system is very useful in maintaining the quality in time" said the assistant Production Manager. The Assistant Production Manager who has a Bachelor's Degree in Engineering with specialisation in Chemical engineering from the University of Moratuwa, Sri Lanka and has worked at a State Corporation sees the difference between his former organisation and the current organisation with regard to the recognition of experience as follows:

In the former organisation there was no requirement of work experience in terms of work skills and knowledge. The work experience was counted in terms of the period of time involved with the organisation". This is not the case with the current organisation. The experience is counted with reference to the work skills acquired in improving the system.

Wrapping Division

There are 15 machines in the wrapping division. This is an adjacent hall to the tea packing division. There are only female workers engaged in wrapping tea packets. The cartons are known as "outers". This is a specific term generated by Dilmah itself.

All outers have a specific identification number. There are different identification numbers for different outers. It is the responsibility of packing girls to ensure that the tea packets are packed in

the correct outers. The numbering system is very useful and efficient in identifying the correct outers for particular tea packets. The packing girls only have to look for the identification numbers. This is very efficient for those packing girls without proper skill in reading English. All the information printed on Dilmah tea packets as well as outers is in English. The numbering system is very effective in matching the outers with different tea packets.

A very effective quality assurance system is also operated in the wrapping division. It is operated on an hourly basis. Apart from the regular quality checking processes, special quality assurance processes are operated at the beginning of each wrapping work. The finished tea packets automatically come to the wrapping division through special ducts prepared for that purpose from the tea bagging division. Wrapping is also automated. The Outers are sealed and labelled automatically.

Management Control at the Production Plant

No apparent hierarchical gaps can be seen between the supervisors and subordinates. Communication is easy and continuous. Everybody seems to be cooperative and determined to achieve some common targets. Managers and factory floor workers talk easily with each other. In the young assistant production manager's words, "in my view Sri Lankan people (work force) need much care. They expect some sort of fairness. At the same time, we should be firm as leaders". He thinks that "girls do not do wrong things intentionally". He accepts the fact that some mistakes can occur in the production plant because of lack of training, knowledge, low educational levels or system failures, but they are never intentional.

A video surveillance instrument installed in the production manager's office is focused on the production plant, so that any misconduct by any employee in the product plant can be detected immediately.

A very different culture from that of other organisations, both in the private and public sectors in Sri Lanka is visible at the Ceylon Tea Services Ltd.

FIRST MEETING WITH THE DIRECTOR OF MARKETING (9, 11, 1999)

Dilhan C Fernando was educated in the UK. His elder brother Malik Fernando was educated in the States. Dilhan is very young, pleasant, and easily accessible. He is an honest, dedicated, and kind leader.

I had not made an appointment with Mr. Dilhan Fernando on this particular day. I went to the company to meet Mr. Riazzi, the IT site manager to collect some documents. I heard that Dilhan had returned to Sri Lanka and was in his office. Then the researcher went to the visitors' gallery. First, the researcher met Jayanthi Wijesekera, Dilhan's secretary. She was a kind pleasant looking lady. I wondered whether to ask Jayanthi about meeting with Dilhan. Knowing the interaction of high rank officials in Sri Lanka, with visitors with no prior appointments, I hesitated to talk to Jayanthi about my intention to talk to Dilhan. I however, slowly walked to Jayanthi's office and she had finished her telephone conversation and was busy reading an email. When I entered the room, she looked up and said hello to me and I responded and introduced myself to her. She offered me a seat and asked when I had arrived in Sri Lanka. I had talked to her in January over the telephone. She said that she could remember my conversation with her a few months ago. She then said "oh Dilhan has gone to the Graphics Design Section. He won't be long". She asked me to wait for a few minutes. I felt very relieved. "Oh at least Jayanthi, Marketing Director's secretary was going to inform him that there was a visitor for him", I thought. That will do a lot. I took a seat in the visitors' waiting room, a spacious and beautiful place. The surroundings were fascinating with several beautiful plants and pictures. There were several magazines on a small table. I tried to read one of them just to pass time, but I was too nervous to read. I was in deep thought. What if Dilhan refuses to talk to me today and asks to

make an appointment to see him? Will he let me have the data that I want for my research? There was a notice on the door adjoining the visitor's room. The notice said "For Visitors and Senior Managers". "It must be a toilet", I thought and I went in. It was a very clean and well-equipped place of an international standard. Another notice on the toilet doors caught my attention. "Do not let it do by others".

Do the flushing yourself". A good way of communication a very important message. The toilets were for visitors and senior managers and the notice politely reminded them of their responsibility. The message must have communicated correctly. The toilets were very clean and neat. I returned to my seat with a fresh mind. I thought. Should I just make an appointment to see Dilhan on some other day or should I wait? But the way Dilhan's secretary addressed Dilhan gave me some positive feelings about Dilhan and the company. She just addressed her boss by his given name "Dilhan". It was not a common practice in Sri Lanka as it might be in Australia. In Australia, even the Prime Minister may be addressed by his given name. But in Sri Lanka, where there is a strong bureaucratic administrative system it is very significant for a secretary to call her boss by his given name. I thought Jayanthi could be a close relative or a friend of Dilhan. I tried to stay calm and wait for a call from Jayanthi. A middle-aged person with a handsome young person entered the visitors' room. There was one more visitor in the visitors' room besides me. At the sight of the young person, the other visitor stood up. The young person talked to the visitor in a friendly and humble way. Then he together with the other gentleman passed the visitors' room and entered the room next to Jayanthi's. I was thoughtful. Was one of them Dilhan? Just then Jayanthi peeped through the door and said that Dilhan would be available in ten minutes. I waited nervously. Ten minutes later Jayanthi announced that Dilhan was waiting to see me in his office.

I entered the Marketing manager's office and the young gentleman who had walked through the visitors' room introduced himself to me and shook my hand. He offered me a seat. I introduced myself. He seemed too young to be the Marketing Director of an export company. I was inquisitive about this. "You are very young", I said. "I am working in our family business", was his humble answer.

I wanted to clarify whether he was happy to be called by his given name. Even Jayanthi, my secretary calls me Dilhan, we all are human. I know most of the employees by their name. Here we encourage open communication" he said. I discussed my own experience at two universities in Sri Lanka and compared the culture at universities in Australia. It is surprising in Sri Lanka, a former British colony that the Marketing Director of CTS and above all the son of the Chairman of this company is called by his given name by his own employees. Dilhan who is a very rich and powerful executive really encourages his employees to call him just this.

People at the CTS are very cooperative. Unlike in other organisations in Sri Lanka, the highest-level managers of CTS visit the factory regularly and talk to the factory workers freely. They are not strangers to the factory workforce at all. Even the Chairman of CTS visits the production plant and actively engages in operational activities.

APPENDIX G: ELECTRONIC MAIL (E-MAIL) CONTACTS WITH CTS MANAGERS AND OTHER EMPLOYEES

DIRECTOR MARKETING (DILHAN C FERNANDO)

Subject:

RE: Research opportunity

Date:

Tue, 21 Jul 1998 09:32:00 +0530

From:

Dilhan Fernando <dilhanf@dilmahtea.com>

To:

"Siriya Kanthi Herath" <h04@uow.edu.au>

CC:

Shardha Sosa <shardhas@dilmahtea.com>,

"Malik J Fernando(Internal)" <malikjf@dilmahtea.com>

Dear Kanthi,

Thank you for your mail and for your interest in the MJF Group.

In order to give your request further consideration, may I kindly request more details of the proposed areas of study. I shall discuss the matter with our Chief Accountant. Whilst in principle we would welcome the opportunity of assisting in some way a Sri Lankan in Australia, we need to know the logistical and administrative implications of your study.

I look forward to receiving your response, and shall certainly consider this request carefully and positively.

Best regards,

Dilhan C. Fernando
Marketing Director

cc. Shardha Sosa, Chief Accountant

-----Original Message-----

From: Siriya Kanthi Herath [mailto:h04@uow.edu.au]

Sent: Monday, July 20, 1998 7:10 PM

To: DilhanF@dilmahtea.com

Subject: Research opportunity

Dear Sir,

I am a PhD student doing a research on Environmental Accounting and Cost Management. I am really interested in your organisation as a potential research site for my studies.

I have to do an empirical research on a selected organisation and if you can give me that opportunity I would be very grateful to you. It will take only about three months for me to collect the data required for my thesis. I am sure that my research will help your organisation to improve efficiency and effectiveness in the area of cost saving on environmental matters. I promise to give you a copy of the thesis for your own use once I complete my thesis.

I expect to carry out the research in early February 1999. If your accounting section can help me I would be overjoyed and support you too by way of providing the findings for your own use.

I am looking forward to hearing from you soon.

Thanking you,
Sincerely,
Kanthi

Subject:

RE: Research in Management Accounting

Date:

Mon, 3 Aug 1998 10:29:35 +0530

From:

Dilhan Fernando <dilhanf@dilmahtea.com>

To:

"Siriya Kanthi Herath" <h04@uow.edu.au>

CC:

Shardha Sosa <shardhas@dilmahtea.com>

Dear Kanthi,

Confirm OK and agree to aligning your study towards Cost Management systems in our company. By February 99, our new computers should be operating properly.

Thanks and best regards,
Dilhan

-----Original Message-----

From: Siriya Kanthi Herath [mailto:h04@uow.edu.au]

Sent: Sunday, August 02, 1998 7:56 PM

To: dilhanf@dilmahtea.com

Subject: Research in Management Accounting

Dear Dilhan,

Dear Shardha,

A few minutes ago I talked to my supervisor. He is happy with the research institution. He also knows about "Dilmah Tea" and has seen your advertisements. He said that it would be all right if I study about the cost management system of your company. At the same time, he also pointed out that I could do a study on the positive sides of the environmental management of your company. I think a study on cost management area would be more fruitful. Please let me know your ideas about this

research area. The final decision is yours because without your support I cannot do any study of your company. Now I am going to read extensively about the tea industry and the cost management systems. I hope to visit your company in February next year. Before that I should be knowledgeable about my research area. I rely heavily on your support to collect the relevant data for my research. I will visit your company in a way that will not disturb your daily activities.

I am looking forward to hearing from you.

Kind regards.

Sincerely,

Kanthi

Subject:

RE: Can you approve my research proposal, please?

Date:

Tue, 13 Oct 1998 13:02:59 +0530

From:

Shardha Sosa <shardhas@dilmahtea.com>

To:

"h04@uow.edu.au" <h04@uow.edu.au>

Your new area of study is fine but let me correct a misconception you have. The existing accounting system is computerized. It only had the y2k bug. Hence we are changing the software. It is a 'ERP' software and therefore the whole company was involved in re-computerizing. This would therefore reduce the effect your research may have on the output side unless you take the whole organization instead of the accounting system only.

Thanks,
Shardha.

> -----Original Message-----

> From: Dilhan Fernando

> Sent: Tuesday, October 13, 1998 1:16 PM

> To: Shardha Sosa

> Subject: FW: Can you approve my research proposal, please?

>

> SS please review and advs her direct. I am travelling tonight - back

> 29.10. DCF

> -----Original Message-----

> From: Siriyama Kanthi Herath [mailto:h04@uow.edu.au]

> Sent: Monday, October 12, 1998 7:16 PM

> To: DilhanF@dilmahtea.com

> Subject: Can you approve my research proposal, please?

>

>

>

> Dear Dilhan,

> Dear Shardha,

>

> Hope you all are doing well. I hope I am not disturbing you with my never-ending inquiries. This time I want to really get your approval for my research topic.

>

> I have a thorough understanding of Business Process Reengineering (BPR) because last year I graduated with an MCom (Hons) degree from this university and my research area was BPR. In one of your emails

> you had mentioned about a computerized accounting system. I hope now the new system is working well. I am very much interested in that area. So, this morning I talked with my supervisor about the possibility of conducting a research on Accounting Information Systems.

> He said that I have the right to change my research area. Therefore, I prepared the following summarized research proposal for your consideration. I want your support and approval for two reasons:

>

> 1. I can only get the PhD only if I contribute to the accounting knowledge; and

> 2. You will give your support in collecting data only if my research contributes to your company in many ways, for example in improving competitive advantages.

>

➤ Here is my new research proposal.

>

> **IMPLEMENTATION OF A COMPUTERISED ACCOUNTING INFORMATION SYSTEM: AN**

> **ANALYSIS OF ORGANISATIONAL CHANGE IN A TEA EXPORTING COMPANY IN SRI**

> **LANKA**

>

>

> Statement of the Problem

> Business managers make decisions to solve problems and information is used in making the right decision at the right time. To facilitate those decisions, it is important that computerised management information systems (MIS) are used to full advantage (Morrison and Laffin, 1995, p.26). An accounting information system, a sub-system of an MIS, performs a firm's accounting applications. Such a system is supposed to provide information in financial nature.

>

> Dilmah Tea, one of the largest tea manufacturing and exporting companies in Sri Lanka, recently switched from a manual accounting reporting system to a computer based application. The purpose of the automation was to increase the effectiveness and efficiency of the firm operations through the provision of timely and accurate accounting information. There may be many organisational impacts of the new management information system. An understanding of the organisational behaviour will help in improving the usefulness of the new system.

> >

> Objective of the Research

> The major purpose of the current research is to analyse the relationship between selected organisational variables (such as participation in decision making and training in using the new accounting system) and the effectiveness of the accounting information system.

>

> Research Methodology

> Data Collection

> In order to achieve the objectives of the research it is indented to develop a conceptual model based upon the readings on business process reengineering, automation and accounting information systems. Data will be collected through preliminary field observations, conversations with the relevant managers and distribution of a questionnaire to the employees (in the head office) who may have had a need to use accounting information.

>

> Data Analysis

> It is expected to validate data through a statistical analysis - especially using mean, median and correlation measures.

>

> Contribution of the Research

> The results of the research may have implementations for the board of directors, managers and the accounting information system personnel of the research organisation who have diversified responsibilities related to the implementation and operation of a computerised accounting information system. The results may in turn help the organisation to increase its competitive advantage simply because information is a strategic resource and the research findings may help improve the relevancy and the reliability of the information provided by the accounting information system.

>

> Bibliography

> 1) Morrison, Paul. Laffin, Trevor, (1995), "Interfacing management information systems with practical restaurants in UK hospitality degree programmes", Education & Training 37(4): 26-31.

> 2) Pigeon, Walter. Jones, Darrell. McCreight, Tim., (1994), "The rocky road of report automation", Security Management, 38(9): 94-98.

>

> (Please consider I simply assumed that the objective of the computerised accounting system was to improve the efficiency and effectiveness of the information system).

>

> Would you please let me know whether you two are happy with the proposal? If you are happy with this area of research can you please tell me more about your company. I have several questions.

>

> 1. How many employees do you have? [Shardha Sosa] 250

> 2. How many of them do use the computerised accounting system in their work? [Shardha Sosa] 20

> 3. Did you really reengineer your business activities? [Shardha Sosa]

> No. As you say made it a little more efficient. Far short of BPR.

>

>

> I am looking forward to hearing from you. I know both of you are

> managers. I can really wait until you find time to answer my

> questions.

>

> Bye for now. Good Luck!

>

> Sincerely,

> Kanthi

Subject:

RE: Research opportunity

Date:

Tue, 21 Jul 1998 17:02:10 +0530

From:

Dilhan Fernando <dilhanf@dilmahtea.com>

To:

"Siriya Kanthi Herath" <h04@uow.edu.au>

Dear Kanthi,

Reference your e-mail, please note that there are no waste by-products>from our production process. Manufacturing and packing of tea only produces tea dust as a waste (1-2%) and this is used for production of liquid teas. We do not pollute waterways, land etc., and hence pollution has not been an issue. Tea estates similarly do not pollute; you may have seen these whilst you were here, the process based on the conversion of green leaf to black tea, is highly environment friendly by nature. The rolling, fermentation etc., do not require heavy expenditure of energy and in fact in most of our estates the energy that is required is provided by mini hydro. The tea industry is therefore not the best for your purpose.

Might I suggest that if you wish to conduct your research in Sri Lanka, you consider the Hayleys group, Haycarb or similar, where there are heavy industries where pollution and waste management are significant. I could assist in contacting the relevant persons if you wish.

Best regards,

Dilhan

-----Original Message-----

From: Siriyama Kanthi Herath [mailto:h04@uow.edu.au]

Sent: Monday, July 20, 1998 11:29 PM

To: Dilhan Fernando

Subject: Re: Research opportunity

Dear Dilhan,

I am so happy that I got a quick response from you. I was waiting for a response from you.

Certainly, if you consider my request positively and carefully I would be very thankful to you. If you give me an opportunity to carry out my research and achieve my academic ambitions I, as a Sri Lankan, will never forget your valuable support.

The idea of your company as a research site initially came to my mind when I saw the Dimah Tea Advertisement on TV with your founder Mr. Merrill J Fernando. It is such an impressive advertisement that draws the viewers' attention to famous Dilmah Tea.

Now I will tell you all about my project. The broad area of my research is "Environmental Management Accounting and Cost Management" Within that broad area I have the opportunity to change the actual topic of the Thesis according to the information requirements and the necessities of the research organisation and my interests.

There are several possible areas of research in mind as follows:

- * Cost/benefit analysis of environmental improvement;
- * Investment in pollution protection;
- * Spending on waste treatment/disposal;
- * Cost analysis in key areas such as waste, energy and environmental protection; and
- * The role of the management accountant in environmental management

At the end of the research study, it is intended to develop a model that will fall under one of the following phases:

1. The existing accounting system can be modified slightly to identify the environmentally related areas of expenditure separately.

(I am thinking of incorporating ABC (Activity Based Costing) with traditional costing for costing areas such as energy, packaging or waste as required.

2. New accounting and information systems will need to be developed. The development of something like life-cycle assessment or a sustainability accounting system is possible.

As you already know environment is a resource, like any other used by the company. As with other resources such as human resources or finance, it has to be managed. Thus, management accountants have a key role

to play in ensuring that environmental resources are used for the benefit of the firm and in accordance with the principle of Sustainable Development.

Once an environmental study is carried out related to an organisation, there are several possible ways in which a management accountant can contribute to the well being of the entity. Some of them are in point form:

1. Participation in strategy formation
2. Investment/project appraisal
3. Business planning processes
4. Change management processes
5. Organisation design activities and
6. Developing performance measures and control systems

I think your chief accountant will probably appreciate the potential role that environmental management accounting can perform for the wellbeing of the company.

As I have already mentioned, I am ready to do the research according to the information needs of your organisation. Our PhD policy is that any empirical research be of practical value. The degree is awarded on the original contribution made by the student to the knowledge of accounting. Therefore, you, your accountant can decide what areas to be studied.

Then I have to prepare the project structure according to the information needs of your company.

If you are happy to let me do the research I have to visit your company in early next year. You do not have to provide me with any financial or accommodation facilities. I will have to visit your company to collect relevant data. I can collect data whenever your accountant or other relevant employees are free.

If I visit Sri Lanka for the purpose of my thesis, I can stay in Sri Lanka up to a six-month period. Therefore, I can collect all the relevant data leisurely.

It is the practice of PhD Students' to promise that the data will be used only for academic purposes. Once the research is completed I can reveal all the findings to you by way of giving you a copy of the Thesis. I think this will help you to understand the nature of the research at a very basic level. I really appreciate your service if I can get the opportunity to carry out my research at your prestigious company.

I am looking forward to hearing from you.

Good Luck!

Sincerely,

Kanthi

Subject:

RE: Research opportunity

Date:

Thu, 23 Jul 1998 10:59:26 +0530

From:

Dilhan Fernando <dilhanf@dilmahtea.com>

To:

"Siriya Kanthi Herath" <h04@uow.edu.au>

Dear Kanthi.

You are welcome to visit us for purposes of your own studies. Since certain areas of study will remain confidential, you will be required to sign a Non-disclosure Agreement with us. Nothing too troublesome, our legal dept will take care of it when you arrive.

Let me know your dates of arrival and study and we shall arrange for the relevant persons to be available discussion. Please understand that we do not have a formal Publicity Dept., for activity of this sort and hence you will have to fit in with the time limits of the persons concerned.

Thanks.

Dilhan

-----Original Message-----

From: Siriya Kanthi Herath [mailto:h04@uow.edu.au]

Sent: Wednesday, July 22, 1998 3:11 AM

To: Dilhan Fernando

Subject: Re: Research opportunity

Dear Dilhan,

Thank you for your e-mail I read just now. I am sorry that you have misunderstood me. You seem to be an executive with a good heart. That is why you are ready to help to contact somebody in some other company in Sri Lanka. I appreciate your kindness very much. I, however, did not mean that your company is an environmental polluter. I am sorry that I did not give you more information.

You are correct. There are no environmental pollutants associated with your production and distribution system. That is why your tea is globally recognised.

Your product is highly recognised for its pure natural taste and high quality. We are studying about both positive and negative sides of environmental management accounting. I know that there are many companies whose activities produce environmentally harmful by products. There are many studies carried out about those environmentally harmful business activities. I am, however, interested in doing a study about a business whose activities are environmentally friendly. I thought for that purpose your company might be a good research site.

There are many issues that can be studied relating to an environmentally friendly organisation. I was thinking that the expenses related to erosion prevention, cleaner and safety environment, safety equipment, know-how training, storage facilities, sampling and testing, container labels, transportation fees, disposal fees, inspections and audit could be studied against the benefits derived from those cost drivers.

I am sorry to have disturbed you. If you are still happy to let me do the research I will gladly come and achieve my educational ambitions while providing important cost benefit information for your company's use. Otherwise if there is another important area relating to accounting section that could be investigated I am happy to do my research at your company. I have the freedom to select any research area in accounting. I have to do the literature survey of the selected topic area for six months that is why I tried to find a research site in advance. If your accountant thinks that there is any area that should be studied further I am happy to discuss with my supervisors about it and come to your company to carry out the research.

Once again I want to say sorry for the problem I created to you.
I am looking forward to hearing from you.
Good Luck!
Sincerely,
Kanthi

Subject:

FW: Research opportunity

Date:

Fri, 24 Jul 1998 10:56:24 +0530

From:

Dilhan Fernando <dilhanf@dilmahtea.com>

To:

"h04@uow.edu.au" <h04@uow.edu.au>

CC:

Shardha Sosa <shardhas@dilmahtea.com>

Dear Kanthi,

I give below our Chief Accountant's comments. Please note that we are suffering the effects of a failed computerisation project with the new system coming online in September this year, hence our Financial system is not what it should be. This is the background to the comments made by our Chief Accountant, which please consider.

Kind regards,

Dilhan

-----Original Message-----

From: Shardha Sosa

Sent: Thursday, July 23, 1998 3:27 PM

To: Dilhan Fernando

Subject: RE: Research opportunity

The data we have are very basic, for management accounting. ie we do not have proper budgets, no variance analysis (post shipment costing), no investment appraisal in the form of cash flows etc. Hence it may be useful to do what she suggests. However the tea industry is diverse. We have the plantations, the plantation management companies, brokers at the auction, exporters, manufacturers of pre-packaged tea, wholesalers, retailers and finally the consumer. Hence the topic may be too broad. Alternatively she would have to sample at least one of the above to be somewhat representative. On

the other hand may I suggest that instead of a pure financial research if she could couple it with some form of marketing aspects the research it self would be more focus and the benefit could be greater. Something like "Enhancing Brand Marketability through Management Accounting". Here we are talking of only the manufacturers of pre-packaged tea.

Shall be pleased to assist.

Thanks,

Shardha.

-----Original Message-----

From: Siriyama Kanthi Herath [mailto:h04@uow.edu.au]

Sent: Thursday, July 23, 1998 12:33 AM

To: Dilhan Fernando

Subject: Re: Research opportunity

Dear Dilhan,

Thank you for your extreme kindness. I am really happy. You are really very kind. I appreciate your kind response. I want to talk to my supervisors before telling you the exact date that I am going to visit your company. I will soon make arrangements to contact them.

Before talking to my supervisors I want to make sure what I am going to study. That means what area of accounting I shall study at your company. As I mentioned in my e-mail can I study about environmental management accounting and cost management or is there any other area of accounting which is important to your company? Can you please make clear about this matter? I think your chief accountant can suggest about what should we study. This is very important because my thesis is important to me like my own life and your company is important not only to you but also the whole world.

I am happy to come to a legal agreement before starting work. I promise not to reveal any confidential matters to anybody. I know about the importance of privacy and confidential matters. I was a Senior Lecturer in Sri Lanka. Once I prepare a rough draft of my report I will give it to your company before binding it for the final exam. I promise to get use of your staff facilities in a way, which will not harm your company.

Can I suggest a simple topic area if you are not interested in environmental management accounting?

"Management Accounting in Tea Industry" or you can decide it with your Chief Accountant.

Looking forward to hearing from you.

Good Luck!

Sincerely,
Kanthi

Subject:

RE: Can you approve my research proposal, please?

Date:

Wed, 14 Oct 1998 12:31:17 +0530

From:

Shardha Sosa <shardhas@dilmahtea.com>

To:

"Siriya Kanthi Herath" <h04@uow.edu.au>

Please proceed accordingly.

Thanks.

Dilhan

> -----Original Message-----

> From: Siriya Kanthi Herath [SMTP:h04@uow.edu.au]

> Sent: Wednesday, October 14, 1998 12:26 AM

> To: Shardha Sosa

> Subject: Re: Can you approve my research proposal, please?

>

> Dear Shardha,

> Dear Dilhan,

>

> Thanks for the quick response. I am sorry about my misunderstanding of the change process but I am happy about your kind guidance.

> As you suggested I hope to do the research on Management Information Systems (MIS) instead of just accounting information system. MIS covers all the systems of information. That would be more fruitful than considering only the accounting information system.

>

> I will send you an official letter in the coming months asking formal approval to carry out my research at your organisation. In the meantime, I will carry out my literature survey.

>

> Thank you all once again.

>

> Good Luck!

>

> Sincerely,

> Kanthi

From:

Dilhan Fernando <DilhanF@dilmahtea.com> | Block address

To:

'Herath Kanthi' <siriyama@yahoo.com>

Subject:

RE: Tea markets

Date:

Wed, 29 Dec 1999 09:17:28 +0530

Dear Kanthi,

Thank you for your mail. We have recognised this factor and entered India approx. 6 months ago. However, we are targetting only the top 5% of the market which demands quality, and not diluting our focus and our mission by addressing the mass market. Our success is in maintaining our smallness and if we try to be another Unilever or Lipton we will lose the edge. Hence as in other markets we shall work towards gaining loyal consumers in the top 5% of Indian's population (Socio 1).

Your comments are insightful and not at all silly. Thank you for thinking of us. My best wishes and again let me know if there are any gaps in your research which we could assist with.

Dilhan

-----Original Message-----

From: Herath Kanthi [mailto:siriyama@yahoo.com]

Sent: Wednesday, December 29, 1999 8:53 AM

To: dilhanf@dilmahtea.com

Subject: Tea markets

Dear Dilhan,

I read some articles about Tea Industry. I wish your company be the No.1 tea exporter in the world. I know that your company has recognised India as a potential market. With the domestic problems in India Tea Industry is suffering a lot. So, why do not you pay much more attention to that market (with a huge population)?

This is something I read this morning.

"In a few years time India might have to import tea - which is a very interesting factor for a country like Kenya. The constraining factor in all this is that India hasn't got the land available to grow more tea. In Kenya there is still land available for new planting in the commercial sector, while the aspect of growth in Sri Lanka is low. They are in my opinion very close to capacity," he said.

You may laugh at my talk. But I want your company to be a giant in the Tea World.

Good Luck in the New Year!

Sincerely,
Kanthi Herath

Date: Mon, 28 Feb 2000 09:15:42 +0600

From: Dilhan Fernando <DilhanF@dilmahtea.com>

To: Siriyama Kanthi Herath <h04@uow.edu.au>

Subject: RE: Can you help me to get some more information please?

Dear Kanthi,

I apologise for our delayed response. Things have been very trying in recent weeks and I guess that is a positive thing because our business is growing and we are kept busy!

I give below brief clarification on the queries you raised:

DIRECTOR LEVEL

Our Chairman has overall management control and retains active involvement in the marketing function. The reason for this is that our company is marketing led and we believe this function to be the core of our success. In every business customers are the critical factors and ours is no different. Hence we do not have the traditional management roles where our chairman would take a back seat in operations. He is actively involved in setting marketing policy and reviewing marketing performance etc., in weekly and quarterly reviews. He also interacts directly with myself as Mkt Director and Mkt Manager.

As the Director of Marketing I have overall responsibility for the Marketing function and whilst I report to the Chairman, and he does get involved in setting policy and direction, I would work within guidelines agreed between us, and direct my department accordingly.

Director Operations overlooks Finance, Joint Ventures, Marketing Administrations (order processing etc.) and Tea Depts.

Chief Operating Officer oversees transport, factories, and personnel primarily. Director Finance obviously handling the finance area, is reporting to my brother who works as Director Operations. It has not been easy to put down the responsibilities here because we have broad guidelines such as those mentioned above but significant overlap can be seen in our roles since we emphasise teamwork and as a family business interacts with each other with less concern for formality in areas of responsibility.

Manager Mkt reports to me and works sometimes with my father where he is directly involved in markets such as Australia and NZ. Manager Purchasing reports to the COO and heads the purchasing dept. Manager operations works with the COO and handles logistics, order processing etc. whilst co-ordinating with the relevant depts., such as planning, factories, quality, stores, purchasing, transport and shipping.

MANAGERIAL INTERRELATIONSHIPS

Formal interaction amongst managers are at a Daily Operations Meeting for the Operational depts., and for each dept., in the form of weekly administration meetings or daily meetings. The Marketing dept., for example review communications daily in a meeting. We do have frequent small group activity with teams set up informally to handle particular issues. Our management control systems are therefore not highly formalised and structured. The informal approach is more flexible and effective in our opinion.

Formal controls are by way of departmental budgets and in the case of production, formal planning. The core of our company is a contract document that controls the dissemination of order info through the business and brings all dept., roles together to achieve the common aim and allow departmental planning. There are a series of other department based control processes such as advertising budgets for markets, goals for each market and department etc.

Managers have a quarterly appraisal process where each employee is reviewed for performance and other factors such as attendance etc. This is a document prepared by the manager and then discussed with the employee with a view to correcting and addressing issues that are present.

Managerial meetings are held once every two weeks (senior management) and these focus on non routine issues such as staff transport, sports functions, festivities, employee issues, legal and finance issues that would not fall into the usual department meetings process.

I hope the above enlightens you somewhat and regret the delay in advising this information.

Best wishes,

Dilhan

-----Original Message-----

From: Siriyama Kanthi Herath [mailto:h04@uow.edu.au]
 Sent: Friday, January 28, 2000 1:46 AM
 To: DilhanF@dilmahtea.com
 Subject: Can you help me to get some more information please?

Dear Dilhan,

Hope you all are doing well. I am sorry to have disturbed you again with my inquiries. I need your support again for my research. Can I have some more information on the following areas from the following Managers and Directors (including you)?

Director Operations
 Director Marketing
 Director Finance
 Manager - Marketing
 Senior Accounting Manager
 Manager Operations
 Manager Purchasing

- * The roles which managers/directors hold within the company (CTS).
- * The general nature of managerial interrelationships.
- * Managers' use of the various formal and informal control processes at their disposal e.g.. budgets, plans.
- * How managers monitor and evaluate subordinate performance.
- * The role of managerial meetings.

If the managers and Directors can give me information as a narrative I will be very grateful to them. I want them to use as "quotations".

Hope whenever you have some free time you will ask the Managers and Directors to provide me with the relevant information. Once I get this information I hope not to disturb you again. (If possible I need the Chairman's Comments on the Success of the Company to make my report more valuable).

I rely you on heavily. The success of my Ph.D. completely depends on your support. I am very grateful to you for the support you give to me.

Good Luck!

Sincerely,

Kanthi Herath

From:

Dilhan Fernando <DilhanF@dilmahtea.com> | Block address

To:

'Herath Kanthi' <siriyama@yahoo.com>

Subject:

RE: I need your support, please!

Date:

Mon, 10 Jan 2000 11:38:25 +0600

Dear Kanthi,

Thanks your mail.

We have a flood of visitors and my dept and I are very busy at this time hence we shall revert by end week.

Thanks

Dilhan

-----Original Message-----

From: Herath Kanthi [mailto:siriyama@yahoo.com]

Sent: Monday, January 10, 2000 11:15 AM

To: DilhanF@dilmahtea.com

Subject: I need your support, please!

Dear Dilhan,

Hope you all are safe and doing well. I should not disturb you too much. I, however, need your support to complete my research. Without your and your company's support my attempt will be in vain. Hope you got the email I sent to you asking for some information regarding the Chairman's achievements. If you are not in a position to provide me with that information I will forget about that part of my research. Is it OK if I ask for more information regarding other aspects of the company (not confidential matters)? I do not need much information just to fill the gaps. For that reason too I need your full support, please. If I have done any mistake please forgive me.

Wish you all good luck!

Sincerely,

Kanthi Herath

From:

Dilhan Fernando <DilhanF@dilmahtea.com> | Block address

To:

'Herath Kanthi' <siriyama@yahoo.com>

Subject:

RE: Tea

Date:

Mon, 3 Jan 2000 13:17:28 +0600

Dear Kanthi,

Thanks your e-mail.

Best wishes for 2000. Many thanks for your kind assistance with the store check.

Kind regards,

Dilhan

-----Original Message-----

From: Herath Kanthi [mailto:siriyama@yahoo.com]

Sent: Monday, January 03, 2000 6:33 AM

To: DilhanF@dilmahtea.com

Subject: Tea

Dear Dilhan,

I read your email yesterday but did not reply until I get more information about the products. This morning I went to the Woolworths at Wollongong and found the shelves filled with new stocks. There was only one Dilmah item for clearance.

It was DILMAH DECAFFEINATED TEA (pink pack)\$1.78 (normal price \$ 2.38). I bought it although I have tea at home. This clearance is a normal one with a printed yellow label. There are some other brands of tea (like Lipton) under the normal clearance.

But the ones under clearance last week were different. They were green packets bigger than the DECAFFEINATED packet. The reduced price was \$ 1.57 and I took two packets and looked at them. One packet was creased and the other did not have the Polythene cover. I checked the normal price. As I can remember now it was \$ 2.97. I did not buy any teas on that day. Those packets had huge white price tags (hand written). May be because the packets were damaged they have been sold for less. I am sure there were only Dilmah teas with such labels (for quick sale)on that day. I talked to an assistant and told I wanted to buy those reduced priced Dilmah teas which were on the shelves on the 30th pointing to where they were. She said that they were no more. All the new stocks of Dilmah are over there now.

I should not disturb you with these unnecessary things. Consider me as one of Dilmah tea consumers. If you want to know more about this product, you can talk to the stores. In the docket the Store Manager's name and phone number are available: M. Kubitzky Wollongong PH: 4228066.

I am sorry for giving troubles to you.

Wishing you all the best!

Sincerely,
Kanthi Herath

From:

Dilhan Fernando <DilhanF@dilmahtea.com> | Block address

To:

'Herath Kanthi' <siriyama@yahoo.com>

Subject:

RE: Thank you very much!

Date:

Sun, 2 Jan 2000 11:47:23 +0600

Hi Kanthi,

Thanks your mail and kind greetings. Warmly reciprocate same.

- retailers who damage goods can clear at a discount. If you can please let me have further details of the products so I could check - we do not discount Dilmah to that extent usually. - we supply childrens' hospitals in Australia with tea free of charge as a gesture of goodwill and support for their patients.

Best wishes,
Dilhan

-----Original Message-----

From: Herath Kanthi [mailto:siriyama@yahoo.com]
Sent: Sunday, January 02, 2000 7:35 AM
To: DilhanF@dilmahtea.com
Subject: Thank you very much!

Dear Dilhan,

I was very happy to read your email. Sorry for the delay in answering you. Here we have holidays now. Hope your computer system is OK in the New Year. Here everything is normal. I am extremely grateful for the support you gave me for my data collection.

These days I am reading many journal articles about tea industry. That is why I wrote to you about the failure of Indian Tea Industry. I really need your further support in filling the gaps in my research. I am very thankful to you for offering that support.

Last week I visited the Woolworths just to have a good look at the Dilmah Teas on the shelves. I was very happy to see a variety of Teas all from Dilmah. There were some reduced priced (nearly half priced) packets also. The outers of those were not neat. May be in handling, the outers must have been damaged. I found only Dilmah packets with such damages. There is, however, one advantage in such reduced priced products too. In Australia there are many who buy reduced priced goods. Once they buy such a Tea Packet they will find the value of it (quality). Then they will turn to that product. Next time they will not be concerned about the high (normal) price.

Any way I should not disturb you in writing long emails. You are an executive who practise marketing. One more thing Australia is a good market for you as you have revealed in the published materials. Yesterday they had spent A\$ 60 Million just for fire works at the Sydney harbour to celebrate the New year.

It was to be the biggest New year celebrator.
Wish you all the best in the New year!

Sincerely
Kanthi Herath

Subject:

RE: Thank You!

Date:

Mon, 17 Sep 2001 10:36:05 +0600

From:

Dilhan Fernando <DilhanF@dilmahtea.com>

To:

Siriyama Kanthi Herath <h04@uow.edu.au>

Dear Kanthi,

Congratulations on your presentation at Aston.

Coincidentally we are this week launching Dilmah in the UK. Our tea will be at Safeway stores throughout Britain shortly and I am flying to London tomorrow for the official media launch on the 20th September.

Best wishes,

Dilhan

Director Operations (Malik J Fernando)

Subject:

Re: Alliance with MJF Group, Sri Lanka

Date:

Thu, 24 Aug 2000 23:36:13 +0600

From:

"Malik J Fernando" <malikf@dilmahtea.com>

To:

Kanthi Herath <h04@uow.edu.au>

hi kanthi

celestial seasonings forwarded your mail to us

unfortunately they have been bought out by another company, Heinz Foods, who have put all their JV's on hold - hence our plans to work with celestial are on hold and we are making alternate arrangements for the US market

Best Regards

Malik J Fernando

MJF Group

111 Negombo Road, Peliyagoda, Sri Lanka

Mailing address: P O Box 1630, Colombo 10, Sri Lanka

Phone + (941) 933 091, Fax + (941) 933 080

E-mail malikf@dilmahtea.com

all you want to know about tea at www.dilmahtea.com

From: Kanthi Herath <h04@uow.edu.au>

To: gburak@ctea.com

Subject: Alliance with MJF Group, Sri Lanka

Date: Sat, 19 Aug, 2000, 2:12 pm

Dear Sir,

I am very much interested in knowing more about the your company's strategic alliance with Dilmah Tea. I am a University student in Australia. I will appreciate it very much if you tell me how the alliance will strengthen the performance of the two companies.

Looking forward to hearing,

Sincerely,
Siriya Herath

Group Financial Controller, (Shardha Sosa)

Subject:
RE: Congratulations!
Date:
Fri, 17 Nov 2000 08:52:45 +0600
From:
Shardha Sosa <ShardhaS@dilmahtea.com>
To:
"Kanthi Herath" <h04@uow.edu.au>

Hi Kanthi,

My reply is within each question itself. Hope they are sufficient for you. If you need more detail please let me know.

Have you been in touch with any other employees here?

Thank you,

Best regards,
Shardha.

-----Original Message-----

From: Kanthi Herath [mailto:h04@uow.edu.au]
Sent: Friday, November 17, 2000 6:13 AM
To: ShardhaS@dilmahtea.com
Subject: Congratulations!

Dear Sir,

I came to know that you were promoted as the Financial Controller of the MJF Group. Here with my warmest congratulations on your achievements.

I am afraid I know how busy you are. But hope I am not disturbing you. Now I am writing my final report about your company's management control system. I lack some information about your accounting and budgeting system. When you have some free time if you can send me that information I will appreciate it very much. That information will definitely add value to my report. Here is what I want to know:

Functioning of Accounting and/or Budgeting System.

If you can comment under the following topics I really appreciate it.

Orientation (such as immediate current/past events and focus,) [Shardha Sosa] - Main focus is on the past events.

some amount of involvement is seen in future events. However little attention is paid to current operational issues.

Formal Responsibility [Shardha Sosa] - High. System reports on financial performance and costing related issues. The formal responsibility of maintaining the system is with the financial controller.

Quickness [Shardha Sosa] – Basic reporting cycle is monthly and annually. Financial reports are aggregated. The monthly accounts are done by the 15th of the following month and is reviewed by the management only on an ad-hoc basis. However various reports are called for and produced on demand.

Detail [Shardha Sosa] - The monthly accounts are summarized to account level. However the ad-hoc reports I spoke of above go to the individual transaction level. The top management generally goes in-to transaction level.

Accuracy [Shardha Sosa] - Not very high. Say 75%. However, financial statements aim to provide a realistic estimate of all income and expenditure, but occasionally unavoidable errors can be recognised.

Consultation (in preparing reports) [Shardha Sosa] - High. Individual departments are responsible for preparing most inputs for processing by the Accounting Department. The Accounting Department (Financial Controller) has control over the preparation of financial statements. Financial reports are forwarded to the Finance Director for any further inputs. The FD would provide an input once the reports are done by me.

Availability as a database (restricted and so on) [Shardha Sosa] - Not restricted but since very few know how to retrieve the information there is an automatic restriction.

Procedural rigidity. [Shardha Sosa] - Not very formal. Moderate. The basic reporting system is standardised. The frequency with which regular system outputs are varied in favour of ad hoc formats. This is related to 'availability as data base', but concerns variations in the standard system outputs.

Technology - General ledger system is computerised. Online access is available for other departments.

I heard that former accountant is not at the company now. If you are too busy, can you please ask relevant accounting personnel to comment on these? However, as the Group Financial Controller if you can comment on them they will really add value to my report. This is the final request I make regarding company data. I appreciate your support very much.

Thanking you,
Sincerely,
Kanthi Herath

Subject:

RE: Can I have the following information, please?

Date:

Mon, 20 Nov 2000 09:06:30 +0600

From:

Shardha Sosa <ShardhaS@dilmahtea.com>

To:

"Kanthi Herath" <h04@uow.edu.au>

See below.

-----Original Message-----

From: Kanthi Herath [mailto:h04@uow.edu.au]
 Sent: Sunday, November 19, 2000 12:12 PM
 To: shardhas@dilmahtea.com
 Subject: Can I have the following information, please?

Dear Sir,

I am afraid I am asking for some more details regarding your company's accounting system. If you let me know whether the following control tools are used at the company and if yes, how they are used, I would be very grateful to you. I am sorry to bother you again and again but I find this information is very useful for my report.

- Ratio Analysis; - No
 - Financial Models; - No
 - Inflation Accounting; - No
 - Actual Full Costing; - No
 - Actual Direct Costing; - Yes, Done after each shipment is exported.
 - Standard Costing; - Yes for each shipment
 - Flexible Budgeting; - No
 - Operational Budgets; - No
 - Capital Budgets; and - No
 - Long-term Plans. - No
- you may note that most of the above are a 'No'. That is because we are purely "marketing" driven. We do anything to get market share. And keep the order book full. We do Standard Costing to make sure of a x% margin. Then just do anything to get orders. The bottom line is then an automatic process. - I hope this makes sense to you.

I know you are very busy and I do not mind if you take time to send me that information.
 I appreciate your support very much.

Thanking you,
 Sincerely,
 Kanthi Herath

Subject:
 RE: Accounting Reports
 Date:
 Wed, 22 Nov 2000 13:30:05 +0600
 From:
 Shardha Sosa <ShardhaS@dilmahtea.com>
 To:
 "'Kanthi Herath'" <h04@uow.edu.au>

See below.

-----Original Message-----

From: Kanthi Herath [mailto:h04@uow.edu.au]
 Sent: Wednesday, November 22, 2000 6:42 AM

To: ShardhaS@dilmahtea.com
Subject: Accounting Reports

Dear Sir,

I am sorry to have disturbed you with all my queries. This is the final request and hope you will tell me more about your accounting system. Can you please tell me:

1. what kind of accounting reports (management accounting) are prepared
 - The Profit and Loss Account, Balance Sheet and the related schedules are the main reports. Then also a shipment wise costing is done to establish the margin for each order. A pre-order costing is done if the price quoted is not the list price.
2. and how often they are prepared?
 - Monthly P&L etc. Others are ad-hoc.
3. Do you prepare any budgets such as sales/profit, production?
 - No. (I thought this was answered before!)

I am grateful to you for your assistance I received so far.

Looking forward to hearing from you.

Sincerely,

Kanthi Herath

Subject:

RE: Management Accounting System

Date:

Mon, 9 Jul 2001 12:48:49 +0600

From:

Shardha Sosa <ShardhaS@dilmahtea.com>

To:

"Kanthi Herath" <h04@uow.edu.au>

Hi,

We use standard costing only for pricing purposes. It is based on the estimated consumption of tea and other packing material for making a tea bag multiplied in to the estimated cost for each item. The estimate for tea is updated weekly, while the estimate for other material is updated quarterly. The quarterly update considers the \$ price and exchange rates as well as clearing cost etc. We also add some fixed overhead component in the pricing of items.

Actual costing is used for accounting. It is a weighted average of all components used in production. No overhead is absorbed.

At present we do not have any formal budget procedures. Funds are allocated as and when required to specific projects based on the need for it.

Hope this is sufficient.

Regards,
Shardha.

-----Original Message-----

From: Kanthi Herath [mailto:h04@uow.edu.au]
Sent: Sunday, July 08, 2001 12:03 PM
To: Shardha Sosa
Subject: Management Accounting System

Dear Sir,

Hope you are fine and doing well.

I am now in the final stage of my studies and need little more information about the CTS management accounting system. I would be very grateful to you if you tell me more about it, specially the following when you have some free time.

- a) Actual Direct Costing; and
- b) Standard Costing.

I am sorry to disturb you but you are the most important source of accounting information of the company.

Sincerely,
Kanthi Herath

Business Development Manager (Ronald Rubera)

Subject: RE: Can you please help me again?

Date: Wed, 9 Feb 2000 10:55:54 +0600

From: Ronald Rubera <RonaldR@dilmahtea.com>

To: "Siriyama Kanthi Herath" <h04@uow.edu.au>

Dear kanthi,

I have had no response from you on the last two mails I sent you yesterday. Please confirm receipt and that you were able to open the file.

Also attached today are the sales figures that I agreed to send you.

<<SALES DATA RESEARCH.xls>>

Kind regards to all at home,

RONALD S. RUBERA.

BUSINESS DEVELOPMENT MANAGER.

MJF GROUP.

Mailing address : P O Box 1630, Colombo 10, Sri Lanka.

Street address : 111 Negombo Road, Peliyagoda, Sri Lanka.

Phone: + (941) 933 070 Ext- 449, Fax + (941) 0 933 080

E- mail: ronaldr@dilmahtea.com <<mailto:ronaldr@dilmahtea.com>>

please visit our website www.dilmahtea.com for news about Dilmah THE FINEST TEA ON EARTH.

-----Original Message-----

From: Siriyama Kanthi Herath [SMTP:h04@uow.edu.au]

Sent: Wednesday, February 09, 2000 2:21 AM

To: Ronald Rubera

Subject: Re: Can you please help me again?

This message uses a character set that is not supported by the Internet Service. To view the original message content, open the attached message. If the text doesn't display correctly, save the attachment to disk, and then open it using a viewer that can display the original character set. << File: message.txt >>

 SALES DATA RESEARCH.xls

Name: SALES DATA RESEARCH.xls

Type: Microsoft Excel Worksheet
(application/vnd.ms-excel)

Encoding: base64

SALES DATA

	SALES DATA - TOTAL DILMAH/MJF				
CONSUMER SALES (DATA SOURCE A C NIELSEN)					
AUSTRALIA	Nov-97	Dec-97	Jan-98	Feb-98	Mar-98
KILO(OOO'S)	56.2	53.2	52.0	53.4	52.2
NEW ZEALAND	07 DEC 97	14 DEC 97	21 DEC 97	28 DEC 97	04 JAN 98
KILOGRAM SALES	5975.6	6767.8	7178.3	5554.5	5312.4
POLAND	FEB-MAR 98	APR-MAY 1998	JUN-JUL 98	AUG-SEP 98	OCT-NOV 98
KILOGRAM SALES	22.2	22.6	15.3	15.2	17.8
DISTRIBUTOR SALES (DATA SOURCE : DISTRIBUTOR)					
BALTIC STATES	Jul-98	Aug-98	Sep-98	Oct-98	Nov-98
CARTON SALES	9,070 ctn	7,948 ctn	12,829 ctn	18,916 ctn	17,031 ctn
DUBAI	May-99	Jun-99	Jul-99	Aug-99	Sep-99
CARTON SALES	981ctn	1,394ctn	706ctn	595ctn	856ctn

SALES DATA

[illegible]

[illegible]

SALES DATA

[illegible]

Date: Tue, 20 Jun 2000 10:01:25 +0600
From: Ronald Rubera <RonaldR@dilmahtea.com>
To: "Siriyama Kanthi Herath" <h04@uow.edu.au>

Hi Kanthi,
As you know we are not a formal multinational company. We are more a dynamic entrepreneurship outfit that makes strategic decisions based on how the market forces operate. Thus we do not have objectives formalized in the manner that you have listed.
Of course customer satisfaction through continuous innovation of products is the primary focus of the company.
Trust you have a copy of our quality policy if you don't please let me know I will mail a copy to you.
Kind regards,
RONALD S. RUBERA.
BUSINESS DEVELOPMENT MANAGER.
MJF GROUP.
Mailing address : P O Box 1630, Colombo 10, Sri Lanka.
Street address : 111 Negombo Road, Peliyagoda, Sri Lanka.
Phone: + (941) 933 070 Ext- 449, Fax + (941) 0 933 080
E- mail: ronaldr@dilmahtea.com
please visit our website www.dilmahtea.com for news about Dilmah THE FINEST TEA ON EARTH.

-----Original Message-----

From: Siriyama Kanthi Herath [<mailto:h04@uow.edu.au>]
Sent: Thursday, June 15, 2000 7:01 AM
To: RonaldR@dilmahtea.com
Subject: Your company's objectives

Secretary of Director of Marketing (Jayanthi Wijesekera)

Subject:

RE: Managers' names

Date:

Thu, 24 Aug 2000 10:28:56 +0600

From:

Jayanthi Wijesekera <JayanthiW@dilmahtea.com>

To:

"Kanthi Herath" <h04@uow.edu.au>

Dear Kanthi,

Received your mail yesterday. I was on leave for two days. We went on a trip to Anuradhapura. I wanted to make it before the school holidays ended. We were able to see the place well and all of us enjoyed.

Names & Managerial positions are as follows:

Director Finance - Ms. Minette Perera
 Human Resources & Admin. Director - Mr. Neville Ranasuriya
 Tea Consultant - Mr. Mahen Rasaratnam
 Engineering Manager - WGR Upali
 Production Manager - Sumith Jayawickrema
 International Marketing Manager - Roshan Tissaratchy
 Quality Assurance Manager - Ms. Vajira Karunaratne
 Purchasing Manager - Dilakshan Thampoo
 Material Stores Manager - Dinesh Gunasinghe
 Tea Blending Manager - Piyal Kariyawasam
 Chief Accountant (Now it is Financial Controller) - Saradha Sosa
 Business Development Manager - NO\
 Engineering Manager - NO
 International Marketing Manager - Roshan Tissaratchy
 Accountant - Ramabadra (left)
 HR & AD Mgr. - Bennet Jayasuriya
 Food Technologist - Ms. Dilrukshi Seneviratna
 Transport Manager - Michael Rodrigo
 Shipping Manager - Sanjaya Perera
 Marketing OP Manager - Dilshan Boteju (Left)
 Security Manager - BCF Mandis
 Maintenance Engineer - Percy Jayakody
 Tea Blanding Manager - Wasantha
 Import Manager - No
 Warehouse Manager - No
 I hope this will give you the necessary data.

Kind regards.

Jayanthi

Subject:
RE: Machine names
Date:
Thu, 31 Aug 2000 09:31:36 +0600
From:
Jayanthi Wijesekera <JayanthiW@dilmahta.com>
To:
"Kanthis Herath" <h04@uow.edu.au>

Dear Kanthis,

Hope you are fine.

Herewith the information you requested.

no. 1, IMA c 23/C 21
no. 5 SIG and no.6.UNIPACK

Hope this will help you.

Love.

Jayanthi
Looking forward to hearing,

Sincerely,
Siriya Herath

-----Original Message-----

From: Kanthis Herath [mailto:h04@uow.edu.au]
Sent: Sunday, August 27, 2000 10:56 AM
To: JayanthiW@dilmahta.com
Subject: Machine names

Dear Jayanthi,

I am very sorry to disturb you over and over. If you do not mind please tell me the names of the machines in three production lines?

I know the names in three lines but not the other three.

Only if you are not angry with me tell me the names of the machines in
* production lines no. 1,
 no. 5
 and no.6.

Bye for now!
Kanthis

Subject:
RE: Machine names
Date:
Thu, 31 Aug 2000 09:31:36 +0600
From:
Jayanthi Wijesekera <JayanthiW@dilmahtea.com>
To:
"Kanthi Herath" <h04@uow.edu.au>

-----Original Message-----

From: Kanthi Herath [mailto:h04@uow.edu.au]
Sent: Wednesday, August 30, 2000 1:56 PM
To: Jayanthi Wijesekera
Subject: Re: Machine names

Dear Jayanthi,

Thanks a lot for your kind response. I am sorry to have disturbed you all the time. But I know if possible you help me. You are a good friend of mine.

Then I will wait until you write to me. I am really struck in this thing. One day there will be an end to this. I should go on until then.

Bye for now,
Wishing you all good luck!

With love,
Kanthi

APPENDIX H: CUSTOMER OPINION SURVEY RESPONSES

Dear Kanthi

Sorry for the delay in replying to your mail.

Following are my observations with regard to the aspects of Dilmah Tea that you are interested of:

Quality:

There is no doubt that Dilmah is a high quality product. Since we have tried many other brands of tea before started using Dilmah, we are certain that non of the other brands that we have tried in Australia come close to Dilmah tea in terms of quality.

Freshness:

Having used Dilmah for almost a year, I am very sure that the company that produces Dilmah takes a special interest to maintain the freshness of its product. One reason for our continuous use of Dilmah tea is its freshness and high quality flavor.

Price:

I think Dilmah tea is very reasonably priced specially when consider the price in relation to its quality. According to my understanding, its prices are at par, if not less, with other competitive brands and are affordable to any australian customer.

Package:

Personally, I would give a very high rating to the packaging of Dilmah, particularly to the packaging of tea in tins. I'm sure that attention has been paid to ensure that customers who buy Dilmah tea can enjoy its taste for a long time without having a change of flavor, owing to the frequent contact of air with the product. The two lids used in tin minimize air exposure to the tea. As a result, tea can be preserved for a long period of time without its flavor being effected. The design of the Package is too very attractive, I guess. In my opinion, packaging of Dilmah could be considered as excellent specially when it is compared with the packaging of other Sri Lankan products available in foreign markets.

Availability:

Generally good. However, very often, not all varieties are available in one place. In number of occasions in the past, we had difficulties in finding loose tea packets. However, I believe that there is no problem with the availability of Dilmah tea in tea bags.

Variety of the brand "Dilmah":

There seem to have many varieties of Dilmah including green tea. However, since we have been using one particular product, which is very good in terms of flavor, quality, freshness, packaging and the price, we have not used or tired many other varieties of Dilmah products. I guess, there are lots of verities available, giving customers a greater choice.

Overall, my impression about Dilmah is very positive. Furthermore, Dilmah products haven been praised by number of friends, Australians, Japanese, and Sri Lankans as well. Their opinions with regard to all aspects of Dilmah product are also very positive. Having heard about these complements, and used this product for almost a year, I am of the opinion that Dilmah is a product that Sri Lankan can be proud of.

Kanthi, I hope that my observations mentioned above will serve your purpose. If there is anything else you need to know, please do not hesitate to send me an e-mail.

Re: Can you please give your views about Dilmah Tea?

Subject: Re: Can you please give your views about Dilmah Tea?

Date: Wed, 2 Feb 2000 21:12:50 -0800 (PST)

From: Scott Adams <coolamon_98@yahoo.com>

To: Siriyama Kanthi Herath <h04@uow.edu.au>

I'm an ex-student from Wollongong, and have since transferred to Hobart.

I currently live/work at a Tea Room property in Tasmania. We do serve some Dilmah teas amongst others, mainly the peppermint and camomile.

As far as the customers go, we do get a very good response regarding the peppermint tea. It has a good strength, aroma and colour. It's very rare to serve the camomile tea, so it would be hard to give a decent opinion for that one. I've tried it myself, but I'm not a great fan of camomile tea as it is.

Availability is quite good. Packaging is in the convenient tea bags, rather than loose leaves. Pricing I can't comment on because I'm not the one who does the purchasing.

Hope this helps!

Scott Adams

Do You Yahoo!?

Talk to your friends online with Yahoo! Messenger.

<http://im.yahoo.com>

response from atishwar pandaram

Subject: Dilmah tea response from atishwar pandaram

Date: Fri, 04 Feb 2000 09:29:59 +1000

From: atishwar pandaram <ap08@uow.edu.au>

To: Siriyama Kanthi Herath <h04@uow.edu.au>

Thank you for the message, and my comments are as follow:

Quality- the quality of dilmah tea is good.

Freshness- I think it is quite fresh when compared to other tea leaves

Price- for me the price of Dilmah is all right

Package- although it is well packed, packing can further be improved via using attractive
boxes and so on designs, better

Availability- Dilmah is available in big stores, but not at all stores in Australia

Variety of brand Dilmah- I believe that for some Australians the name does not matter. But to
therefore I believe dilmah tea should also be packed in different brand names so that
a wider community

dilmah tea will appeal
some it does

APPENDIX I: OTHER INFORMATION FROM DILMAH

DILMAH PACKET

Please see print copy for image

445

Appendix

DILMAH PACKET

Monthly Review

Country/ Distributor



Regional Sales Performance

- **Sales Performance By region/State**

Product Performance & Contribution

Percentage (%) - Achievement

448

- Premium Range
 - Tagged-10
 - -25
 - -50
 - 100
 - Tagless
 - -30
 - -50
 - -100
 - Leaftera/ Dust/Arabic
- Classic/ Gourmet Range
 - kjj
 - iikj
 - hjh



Product Performance & Contribution

Percentage (%)

Fruit Teas

Healthcare Range

Gift Range



Performance of New products-

- Product- date Launched-Forecast-Avg Performance.

Price Analysis of 10 key Products which contribute to 80% of your volume

Product

Rs 15/=

Margin as at 20/6

Margin with

increase tea

451

cost

- dsad
- wsqs
- SSS
- SSS



Retail Pricing Of Key Products Visa vis Competition

Distribution

Penetration/Performance

- **Listings and Gratings.**
- **Penetration By Segment(Markets except Aus/NZ)**
- **-Retail-Supermarkets**
- **-A Grade outlets**
- **-B grade**
- **Food Service/Catering**

Advertising and Promotions conducted

454

- **ATL-Media-Press**
- **-TV**
- **-Radio**
- **-other**
- **BTL-Sampling, POSM, Supermarket Promotions.**



Promotional Plan-AUS/NZ and any other markets

- **Products and Promotional plans in detail with different retailers, Independents, Food service category.**

Future Strategies

456

- Product Strategy's
 - -Deletions
 - -Introductions
 - -Improvements
- Quality/Packaging
-

Pricing - Export pricing Policy

for 3 months.

-Retail pricing strategy

Distribution Strategy

458

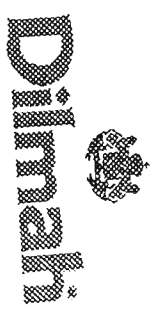
- **New Listings**
- **New/Improved Gratings**
- **Distribution Penetration-By product/Retailer.**
- **Distribution targets by segment(other markets)-Retail**
- **-Catering**

Advertising Plan -next 3/6 months

459

- Media Plan/Budget
- BTL Plan
- Promotional /Merchandising Plan(AUS/NZ)

Projections for the future



- 1 Forecast against budget
(whether Distributor will achieve agreed budget)
Overall achievement

Strategies to achieve budgets

- **Product**
- **pricing**
- **Distribution**
- **Promotion**



Overall performance of Distributor

- Strengths
- Weaknesses

Any Other Issues

Any Other Issues

 **Dilmah**

APPENDIX J: A LIST OF TEA TRADERS IN SRI LANKA

Category: Tea	Category: Tea - Retail	Category: Tea - Wholesale
A Z Deens Lodge Abbas & Sons A M S Abbas Sahib & Co N M Alpha Estate (Supdt) Areef Stores Aruna Traders Aslams Tea (Pvt) Ltd Brighten Tea Distributors Ceylon Manufacturing & Trading Co Ceylon Tea & Spies (Exports) Chatoor (Tea) Ltd A S Crescent Traders Cupid Dissanayake & Co A H Euro-Scan Exports (Pvt) Ltd Finlay Teas (Pvt) Ltd Galaha Ceylon Tea Estates Agency Co Harsha Trading Co (Pvt) Ltd Hatton Tea Stall Highland Tea Services Imperial Tea Exports (Pvt) Ltd Karunaratna Bros Liverpool Furnace Services Macca Traders Masoon Enterprises Master Tasters (Pte) Ltd Meeramohideen & Co (Ceylon) Ltd M A Nathan & Bros New Ileperuma Stores Perera & Co L G W Prestea Markets Ltd Qualitea Ceylon (Pvt) Ltd Rastern Tea Services Ruby Tea Blenders Russel's Tea Safeway Traders Serendib Traders Sportsman Tea (Pvt) Ltd Sri Lanka Tea Board Sri Lanka Tea Board Sri Vinayagar Stores Standard Trading Co (Pvt) Ltd Stassen Exports	Abbas & Co N M Ahamed Ali & Co M A Central Tea Stores City Cigar Stores City Commercial Co Crown Tea Stores Fathima Stores Gampola Tea House H R Traders Heladiva Tea Stores Highland Tea Sales Ismail De Stores Jazeema Tea Stores Jezima Tea Stores Karunaratna Bros Kekirawa Tea Stores Marthelis & Co (Pvt) Ltd K D Mlesna Tea Centre Mohideen & Co S M New Highland Tea Stores Paul Distributors K Royal Tea Stores Shalimar Tea Stores Sheraj Trading Co Veena Trading Co Vino Tea Traders Weeraratne Bros Wijaya Tea Factory	Deen Bros Ganesha Stores Golden Tea Centre Hayley's Plantation Services Ltd Hendrick & Bros Kalam Trading Co Kanagalingam Pillai & Son V Kandy Tea Stores Keerthi Bros Lipton Ceylon Ltd Moberiya Factory Mohamed & Sons O L S Muthuvelu Pillai & Sons S Perera & Sons Ltd M G Samantha Tea Stores Telon (Pvt) Ltd Veena Trading Co
		Category : Tea Brokers Asiatic Tea Store Of Ceylon Th Bartleet & Co Ltd Bartleet & Co Ltd Carolina Tea Co Of Ceylon Ltd Eastern Brokers Ltd Forbes & Walker Ltd Forbes & Walker Tea Brokers (Pvt) Ltd Forbes Marketing Ltd
	Category: Tea Bag Packers Ceylon Tea Services Ltd Imperial Tea Exports (Pvt) Ltd Jafferjee & Jafferjee (Pvt) Ltd Prop Lanka (Pvt) Ltd Quick Tea (Pvt) Ltd Quikpak (Pvt) Ltd Sri Lanka Tea Chests Suppliers Tylos Tea (Pvt) Ltd Union Commodities (Pvt) Ltd	Category: Tea Exporters Abbasali & Co (Pvt) Ltd Abidally Sons (Pvt) Ltd Adamexpo Agro-Industries Ltd Akbar Brothers Ltd Akbar Brothers Ltd Anis Commercial Enterprises Autocraft Ltd Baur & Co Ltd A Bestkorts Ltd Bosanquet & Skrine Ltd Brooke Bond Ceylon Ceylon Black Tea Co (Pvt) Ltd

<p>Category: Tea (cont.)</p> <p>Stassen Exports Ltd Tea Small Holdings Development Authority Telon (Pvt) Ltd Trincomalee Tea Administration Co Ltd U T S Enterprises Udawatta Tea Stores Unity (Pvt) Ltd Uva Tea Stores Vinayagar Stores Weerasinghe & Co</p> <p>Category: Tea Manufacturing Machinery</p> <p>Flex Engineering (Pvt) Ltd Gueenlow Engineering Enterprise Jinadasa (Pvt) Ltd P P P Mavusta Industries (Pvt) Ltd Meac Engineers (Pvt) Ltd Perinco Engineering Ltd Prathap Engineers Razak & Co Ruhunu Trade Enterprises (Pvt) Ltd Senvec Lanka (Private) Limited Southern Engineering Co Tea Spare Trading Co Udaya Industries</p>	<p>Category: Tea Bag Supplies</p> <p>Akhtari Trades (Pvt) Ltd J & C Packaging (Pvt) Ltd Package Care Ltd W D Carolis Ltd</p> <p>Category : Tea Blenders</p> <p>Colombo Tea Blenders De Mel & Co Austin Eastern Produce Services (Pvt) Ltd Gamini Saw Mills Ltd Herangala Tea Services Highland Tea Services Lanka Tea Enterprises Leo-Sat Enterprises Tea Blenders & Packers Thilak Premadasa & Co United Trading Co</p> <p>Category: Tea Packers - Bulk Packets & Bags</p> <p>Corona T Stores Ltd Creative Packaging (Pvt) Ltd Denny & Sons Euro-Scan Exports (Pvt) Ltd Madasco The Mlesna Tea Centre Saraswathie Oil Mill Sri Lanka Development Ltd Stassen Exports Ltd</p>	<p>Category: Tea Exporters (con.)</p> <p>Ceylon Tea & General Mart Ceylon Tea Exports (Pvt) Ltd Ceylon Tea Marketing Ltd Ceylon Tea Plantation Export (Pte) Ltd Commercial Co CTP Pre-Packed Exports (Pte) Ltd Dana Exports (Pvt) Ltd Eastern Merchants Ltd Eastern Produce Exports Eswaran Bros Exports (Pvt) Ltd Euro-Scan Exports (Pvt) Ltd Explora Teas (Pvt) Ltd Expolanka Teas (Pvt) Ltd Fernando & Sons Themis Ferntea Ltd Fine Teas (Pvt) Ltd Finlay & Co (Colombo) Ltd James Galant Industrial Paints Ltd George Steuart & Co Ltd George Steuart Teas & Marketing (Pvt) Ltd Golden Crystal (Pvt) Ltd Greatway (Exports) Ltd Gulf Commodities Harrisons (Colombo) Ltd Hebtulabhoy & Co Ltd M S HVA Lanka Exports (Pvt) Ltd I C Arts & Crafts Imperial Tea Exports (Pvt) Ltd Ismail & Co T A M Iyer & Sons Ltd S K R Kalki Impex (Pvt) Ltd Lotus Process M J F Exports Ltd</p>
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Source: <http://www.lsplk.com/tea.asp>, E-mail: lsp@lsplk.com

APPENDIX K: PACKAGING COMPANIES AND OTHER COMPANIES OF THE MJF GROUP

PACKAGING COMPANIES

As already mentioned, in order to support its tea businesses, the MJF Group owns and operates fully integrated services and facilities. One such integrated facility is in the printing and packaging area. The Group's interest in operating its own printing and packaging facilities evolved from the need to source high quality materials unavailable in Sri Lanka at the time. The Group's packing operations are undertaken by Package Care Ltd.

Package Care Ltd is the sole local agent for several overseas manufacturers of packaging machinery and material. Package Care provides packaging solutions for a number of industries and specialises in the tea industry. The company is committed to improving technology and capacities of local industry in order to compete effectively with overseas manufacturers. After sales support of Package Care is of high quality. As the largest manufacturer of value-added teas in Sri Lanka, the MJF Group has substantial technical and spares backup for its own needs as well as for its customers. Package Care Ltd represents a number of premier companies such as Crompton (UK) teabag paper, Marden Edwards (UK) overwrappers, Lock Inspection (UK) metal and needle detectors, ICI (UK) BOPP film, Simionato (Italy) form fill seal machines, Samshin (Korea) strapping machines & Chi Mei (Taiwan) shrinkwrappers. Until 2001 it had another three companies devoted to printing and packaging operations equipped with modern machinery: Print Care Ltd; Universal Packaging (Pvt) Ltd; and Packages Lanka Ltd.

Print Care Ltd catered mainly for the MJF Group's requirements of tea bags and envelopes – which add value to its leading tea-bagging venture. Employing sophisticated printing machinery the Company had extended its services to all Sri Lankan manufacturers of teabags - a rapidly expanding industry whose value addition is vital to the long-term stability of Sri Lanka's largest export - Ceylon Tea. The services of this company remained very significant to the Sri Lankan tea industry in an era in which the idea of value added tea has given tremendous impacts on the tea packaging industry in some foreign countries threatening to Sri Lankan tea industry. The Print Care Ltd's operations had been further extended to export tags and envelopes to overseas manufacturers of teabags providing Sri Lanka, an emerging economy with an urgently needed of foreign exchange resource. Benefiting from low operational costs, the company had a record of successful operations. The company was considered one of the largest in the tea bag and envelope industry in the world.

EXHIBIT K-1: PRINT CARE LTD

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Print Care (Exhibit K-1) had merged with Universal Packaging Ltd, which was the market leader in the export packaging industry in Sri Lanka and was quoted on the Colombo Stock Exchange.

Source: Dilmah Contacts.

Universal Packaging (Pvt) Ltd was incorporated with the purpose of exporting packaging materials to overseas manufacturers and servicing the MJF Group's requirements of high quality packaging for its DILMAH tea products. The company owned and operated a printing and packaging plant equipped with German Heidelberg machinery. It exported highly advanced packaging materials to customers in the USA and the Far East. Exceptionally low operational costs in Sri Lanka enable the company to offer very competitive prices for its products while maintaining quality fully up to US standards. Print Care and Universal Packaging were the largest printing and packaging companies in Sri Lanka.

Packages Lanka Ltd was a joint venture with the International Finance Corporation and Packages Ltd, the largest packaging company in Pakistan. Packages Lanka Ltd had the largest flexible packaging plant in Sri Lanka with an investment of Rs 550 million/US\$ 6.45million which can meet the country's entire demand, presently largely met by imports. The company's best available equipment including an 8 color Rotomac gravure press and 6 colour Schiavi flexo press allowed an annual output of 30 million metres of high quality packaging materials. To satisfy the MJF Group's requirement of high quality printing cylinders the company is negotiating for a joint venture Cylinder Engraving facility in Sri Lanka with Germany's premier Cylinder manufacturer. Once operated, this production facility was supposed to be Sri Lanka's first and the sub-continent's only quality Cylinder manufacturing facility.

OTHER COMPANIES IN THE GROUP

MJF Group has invested in diversified businesses demonstrating its capabilities in business. The Group has several companies engaged in diversified businesses:

- a) MJF Travel & Trucking (Pvt) Ltd;
- b) Dilmah Properties (Pvt) Ltd;
- c) City Properties (Pvt) Ltd; and
- d) Merrill J. Fernando & Sons Ltd.

MJF Travel & Trucking (Pvt) Ltd was initially set up to meet the internal requirements of the Group and has in recent years grown and expanded into a large company in travelling and trucking business. The company now owns a large fleet of commercial vehicles and motorcars including Renault tractor-trailers and TATA BENZ trucks.

Dilmah Properties (Pvt) Ltd owns property in the city and suburban Colombo. The company has invested in middle class residential developments using incentives offered by the government of Sri Lanka towards property development to alleviate the housing problem. In addition to several such investments, this company recently completed development of a new office and warehousing complex of 200,000 sq. ft for the MJF Group.

City Properties (Pvt) Ltd owns a valuable 3.5-acre block of land in the commercial heart of Sri Lanka's capital city, Colombo and proposes embarking on a long-term project to develop a multi-stored residential and shopping complex to rival any international facility of this type. Merrill J. Fernando & Sons Ltd is the investment company of the MJF Group. The Company has undertaken large-scale investment in public quoted companies in Sri Lanka and actively trades on the Colombo Stock Exchange. MJF Group's main interest is in tea manufacturing and exporting, Sri Lanka's historical export. The next section, therefore, is devoted to a discussion of Ceylon Tea Industry.

APPENDIX L: MANAGEMENT RESPONSIBILITY (CEYLON TEA SERVICES LTD)

A. Chairman

The Chairman as the Chief Executive of the company has complete management responsibility and authority over all activities of the MJF Group of companies.

B. Director Operations

The Director Operations has the responsibility for directing and managing the quality system to ensure improvements in product quality to exceed customer expectations. He has overall responsibility for corporate investments and Finance, Information systems, and quality assurance departments. He reports directly to the Chairman.

C. Director Marketing

The Director Marketing is responsible for promoting the company image at global level to attract more clients, increase sales & liaise with them. He has the overall responsibility over all activities pertaining to the Marketing & Graphics Departments. He reports directly to the Chairman.

D. Director Chief Operating Officer

The Director Chief Operating Officer has the responsibility for co-ordinating the activities of the various departments to ensure the achievement of company objectives. He has overall responsibility for the Planning, Purchasing, Shipping & Transport, Administration & Human Resource, Imports, Production, Food technology & flavouring, Engineering and Stores departments. He reports directly to the Chairman.

E. Human Resources & Administration Director

The Human Resources & Administration Director is responsible for general office administration and the activities of the Human Resources department including training. He reports directly to the Director Chief Operating Officer.

F. Director Finance

The Director Finance is responsible for all activities of the Finance department. He reports directly to the Director Operations.

G. Tea Consultant

The Tea Consultant is responsible for managing the activities of the Tea Buying department including allocation & supervision of work and general administration of the department. He has the responsibility for purchasing local teas and ensuring that the grade of blended teas conform to the customer requirements. He is also responsible for product identification & traceability, Incoming, In-process & Final Inspection & Testing, and Inspection & test-status. He reports directly to the Chairman.

H. Engineering Manager

The Engineering Manager is responsible for planning overall activities of the entire department, organizing these activities, co-ordination with other departments, purchasing of machine parts, monitoring preventive maintenance schemes, calibration of measuring and test equipment & corrective actions enhanced by the Engineering staff, directing Engineering staff, directing engineering staff to achieve the set goals. He reports directly to the Director Chief Operating Officer.

I. International Marketing Manager

The International Marketing Manager has the overall responsibility for managing activities of the Marketing department including allocation/supervision of work and general administration of the department including contract review. He reports directly to the Director Marketing.

J. Marketing Operations Manager

The Marketing Operations Manager has the overall responsibility for ensuring the proper function of marketing operational activities. Among others following are his responsibilities. Order processing, supervision and approval of Area Managers/Area Executives, documentation on the following to

ensure a quality system is in place:

- Quotations;
- Price/costing;
- Proforma;
- Contracts;
- Hipping Advices; and
- Sample dispatchers.

K. Production Manager

The Production Manager has overall responsibility for managing and organising the activities of the Tea Bagging & Leaf tea packing, Production including product identification & traceability, Inspection and testing, control of non-conforming products, control of customer supplied products and Inspection & tests status. He reports directly to the Director Chief Operating Officer.

L. Quality Manager

The Quality Manager is responsible for managing the activities of the Quality Assurance department. She keeps the management continually informed of important matters in the area of quality in the company. She is responsible for inspection, and testing of incoming packaging materials, inprocess and final product quality excluding the taste of tea and herbs, control of non-conforming product and for relevant inspection and test status. Being a Management Representative, she is also responsible for ensuring implementation and maintaining of Quality System in accordance with ISO 9002 Standard, preparing plans for quality audits and document and data controlling. She reports directly to the Operations Director.

M. Purchasing Manager

The Purchasing Manager is responsible for managing the activities of the Purchasing department. He reports directly to the Director Chief Operating Officer.

N. Food Technologist

The Food Technologist is responsible for activities of the Laboratory ensuring Incoming, In-process & final Inspection & Testing of flavours & herbs, and for relevant Inspection and Test status. She is also responsible for process control, purchasing, product identification & traceability, calibration, Handling, Storage, Packaging, Preservation & Delivery, control of non-conforming products, corrective & preventive actions, statistical techniques. She reports directly to the Director Chief Operating Officer.

O. Shipping Manager

The Shipping Manager is responsible for activities of the Shipping department. He reports directly to the Director Chief Operating Officer.

P. Material Stores Manager

The Material Stores Manager is in-charge of the entire materials storage except tea storage. He is responsible for maintaining the stores & stock items including receiving and issuing activities, product identification & traceability, customer supplied products, inspection & test-status and control of non-conforming product. He reports to the Director Chief Operating Officer.

Q. Tea Blending Manager

The Tea Blending Manager is in-charge of the entire tea storage area including the tea-blending section. He is responsible for process control, product identification & traceability, inspection and testing, customer supplied products, control of non-conforming product, handling, storage, packaging, preservation & delivery, and inspection & test-status. He reports to the Director Chief Operating Officer.

Source: MJF Group Management Responsibility (QM-2.0, pp- 5-8, Uncontrolled Copy).

APPENDIX M: THE PROCESS OF GROWING AND MANUFACTURING TEA

CULTIVATION OF TEA

Camellia Sinensis is the biological name of the bushy and evergreen small tree from which tea is made. The leaves of this bush or shrub and the infusion made from the leaves of this tree are also known as tea. In tea gardens, this tree is pruned to keep it as a bush so that leaves can easily be plucked off as they grow. Originally, tea came from China. Subramanian and Gopalakrishna (1995, pp. 21-22) gave a concise description of the origin of tea as follows:

The tea industry traces its origins to the Chinese Emperor Shen Nung in 2737 B.C. The Emperor, who had a fetish for boiled water, once accidentally boiled leaves that fell from a nearby tree. Legend has it that he was immediately stuck by the delightful aroma and invigorating taste. Soon, tea entered China's trading arena.

Tea grows best in tropical and sub-tropical areas where adequate rainfall (200 cm.), good drainage and slightly acidic soils prevail. In hot tropical areas quality is improved by planting at higher altitudes as practiced in Sri Lanka where tea is cultivated at elevations up to 2000 m (Dilmah Online). Tea is categorised into three groups depending upon the altitude of plantations: low grown, mid grown and high grown. The cultivation of tea is an endeavour, which requires knowledge and ability in the field. It requires a number of tasks to be performed such as the preparation of soil and slopes, pruning and plucking. Tea is grown in specially prepared traces. "From the Nursery to the Cup", (p.3) explained the process of growing tea:

EXHIBIT M-1: TEA PLANT WITH SEEDS

Please see print copy for image

Tea bushes are planted - from 1 to 1.5 metres apart – mostly, following the natural contours of the land, presenting an image of a serene green landscape, as far as the eye can see. Tea is often grown on specially prepared terraces to help irrigation and to prevent erosion. Soil fertilisation takes the form of regular application of fertiliser, organic manure and mulching of the root area

Source: From the Nursery to the Cup, p.3.

EXHIBIT M-2: A NURSERY

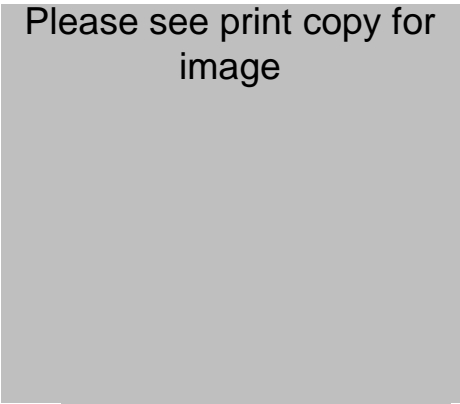
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Most tea plantations grow their own seed bearers known as seedlings. They are strong and rich plants carefully selected for reproduction. (Exhibit M-1) for a tea plant with seeds). The young plants are nurtured from cuttings obtained from a seed bearer. They are carefully cultivated in special nursery beds (Exhibit M-2) for about 12 to 15 months. These plants are then replanted in fields.

Source: From the Nursery to the Cup, p.3.

EXHIBIT M-3: PRUNING –TEA

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PRUNING

A task unique to tea growing is the pruning of tea plants. When the tea plant has grown to a height of about half a metre above ground, it is cut down within a few inches off the ground. Normally a tea plant grows to a height of about 20 metres. Pruning is done to keep the size of the plant to an easily reachable height. Then the plant grows into a flat-topped bush. A tea bush is kept about one metre in height. Every 2 to 3 year pruning cycles are carried out to encourage the supply of shoots, which are plucked every seven days, on average. Exhibit M.3 shows pruning of tea plants.

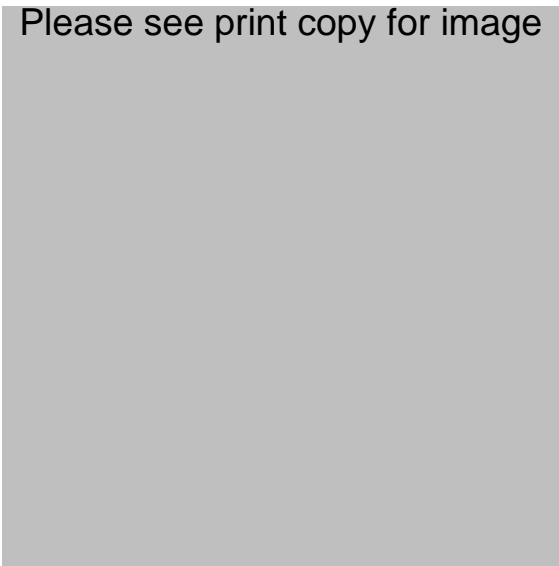
Source: From the Nursery to the Cup, p.3.

PLUCKING

The harvesting of tea is also specialty task, which requires knowledge and special care. The process of harvesting fresh young shoots from the grown-up tea bushes is known as plucking. Only the flush of two tender leaves, the tender bud and juicy fresh growth are plucked, assuring the high quality of tea. Once plucked the bush grows new shoots within a week or so. Exhibit M-4 is an illustration of tea pluckers in a Dilmah tea garden. Tea plucking is a fascinating sight.

EXHIBIT M-4: TEA PLUCKING

Please see print copy for image



Conventionally women “who are adept at picking the shoots, breaking them off by twisting the leaves and bud in their fingers, and deftly throwing handfuls of shoots into the carrier baskets resting on their backs” (From the Nursery to the Cup, p.3) did tea-plucking. Dilmah tea gardens are in totally sanitary surroundings under the supervision of educated Tea Planters with scientific training. Tea gardens are guarded to prevent any strangers visiting the cultivations. Tea estate workers, especially tea pluckers, live on estates in model dwellings. General sanitary regulations are strictly enforced on estate workers in order to maintain high sanitary levels in both plantations and manufacturing.

Source: Dilmah Online.

MANUFACTURING OF BLACK TEA

Once the tea leaves are plucked they are brought to the factory where they are weighted and received by the factory authorities. Then the manufacture of tea is started. The tea leaves are processed into three main types based on the treatment once plucked: black tea, green tea and oolong tea. As the name suggests Green Tea is greenish in colour. It goes through all the manufacturing processes of

drying, rolling and firing or steaming the leaves but it is allowed to ferment (oxidise). Non-fermentation helps retain the greenish colour of the tea. The resulting brew is a light greenish-yellow infusion. In producing Oolong Tea, the tealeaves are partially fermented (semi-oxidised). Its flavour is stronger than green tea but more delicate than black tea. Producing black tea is a complex process. Tealeaves are first withered to reduce wetness and then rolled to disorder cell structure. Next the leaves are exposed to air and allowed to oxidise and then it is dried. This results in the darkening of the leaf colour, caused by enzymes in the leaf and a change in smell. Black Tea gives a coppery-brown brew.

EXHIBIT M-5: A DILMAH TEA FACTORY LOCATED IN A TEA ESTATE

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Each of the above types of tea undergoes several manufacturing stages in the tea factories (See Exhibit M-5). About 75% of the global tea production is processed into black tea. While around 23% is processed into green tea 2% is processed into oolong tea. The manufacture of black tea is carried out in several stages: withering, fermenting, firing and sorting. The following sections are devoted to a brief discussion of each of these processes.

Source: Dilmah Online

WITHERING

Withering is the initial step in manufacturing black tea. This process helps get rid of the bulk of the moisture in tea leaves and make the leaf soft and flexible. Throughout the first stage of manufacturing, the harvested tea leaf is handled in a manner to prevent bruising and to promote the dissipation of heat generated during continued respiration (From the Nursery to the Cup, p.4).

ROLLING

The next crucial stage of tea manufacturing is rolling. There is no hand-rolling of the leaves in Ceylon, as in some other countries. Thus, tea is made using complete sanitary methods. In the Dilmah tea factories, rolling is done by machinery under the supervision of expert manufacturers. The more tea is twisted and broken the greater is its strength, and the better its flavour. The rolling of the withered leaf helps to establish proper conditions for enzymatic oxidation of the flavanols by atmospheric oxygen (From the Nursery to the Cup, p.4). This is brought about by disturbance of the cell structure. The leaf pile is also maintained in a physical state contributing to the distribution of oxygen.

EXHIBIT M-6: WITHERING PROCESS

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image

Withering is done through a flow of cool air, which is carried out for a period of 6 to 18 hours, depending upon the factory equipment and weather conditions (Exhibit M-6). During the process, the moisture content of the leaf is reduced from about 75% to about 45%.

Basically there are two methods of rolling, the orthodox method of mechanical rolling; and CTC method of crushing, tearing and curling with contra-rotating rollers. Exhibit M-7 shows the rolling process.

Source: From the Nursery to the Cup, p.4.

EXHIBIT M -7: A ROLLING MACHINE

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image

FERMENTATION / OXIDISATION

The rolled tea leaves undergo the next step of manufacturing - fermentation, a chemical action brought about by the enzymes in the tea, which turns the green leaves into black tea. According to the From the Nursery to the Cup:

Although this is referred to as fermentation it became recognised around 1901 as an oxidation process initiated by the tea enzymes. This process actually starts at the onset of maceration and it is allowed to continue under ambient conditions. Temperature of the leaf is maintained around 25 – 30⁰ C. However, lower temperatures have been shown to improve flavour characteristics (15-25⁰ C) (p.5).

Source: From the Nursery to the Cup, p.4.

FIRING AND BAKING

Fermented tea is taken to the next process of artificial firing or baking, which makes dry black tea. The cured leaf is about one fourth the weight of the green leaf. Firing is carried out in dryers. The trays loaded with fermented tea leaves go through the dryers counter. At this stage, hot forced air passes over the tea leaves and deactivates fermenting enzymes. Many organo-chemical processes are accelerated during this period, as are the enzymatic reactions before thermal inactivation (From the Nursery to the Cup. p.5). The incoming temperature of air is maintained at 90⁰ C and the emergent air temperature is about 50⁰ C. Time and temperature factors are controlled for effective drying in 18 to 20 minutes resulting in minimum energy wastage.

EXHIBIT M-8: FERMENTATION

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image

The attributes of coppery colour and tea smell are a measure to judge the completion of the fermenting process. This is an art of the skilled and experienced tea maker. See Exhibit M-8 for an illustration of the fermentation process.

Source: From the Nursery to the Cup, p.5.

EXHIBIT M-9: A TEA DRYING MACHINE

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image

Firing reduces the moisture level of tea to 2 - 3% and this is very significant because incomplete inactivation can cause accelerated deterioration during storage of processed tea. Exhibit M-9 shows the drying process.

Source: From the Nursery to the Cup, p.5.

SORTING AND GRADING


Once the leaves are dried they are graded and differentiated according to size and condition - whole or broken. This is an important stage in the manufacturing process. Because small leaves and buds make the best tea it is important to sort the tea carefully. Sorting can be done mechanically or manually and in some gardens it is still done entirely by hand. Exhibit B-10 illustrates the process of manual tea sorting.

The mechanical process of sorting is described in "From the Nursery to the Cup" as follows:

Dried tea is sorted into different grades by passing them over a series of vibrating screens of different mesh sizes. Electrostatically charged rollers preferentially attract and remove stalk and fibre. In large leaf grades exported to Arab countries it is not uncommon to pick any remaining stalk manually (pp. 5-6).

EXHIBIT M-10: MANUAL TEA SORTING

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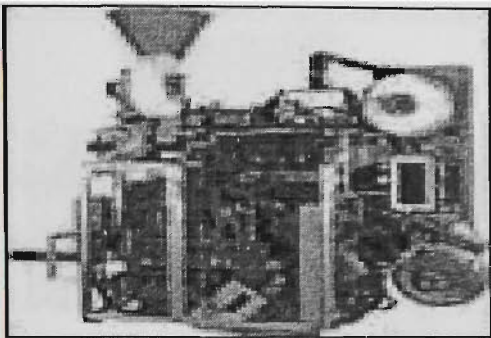


Source: From the Nursery to the Cup, p.6.

APPENDIX N: DILMAH PRODUCTION LINES**PRODUCTION LINE: NUMBER 1**

This line consists of ten IMA C21 and IMA C23 tea bagging machines.

IMA C21: This is a completely automatic tea bag packaging machine for nonheat, sealable, double chamber filter bags with thread, tag and metal staple. Its production speed is about 150/180 teabags per minute. The IMA C21 (Exhibit N-1) model is characterised by flexible, highly automated, and highly efficient operation.

EXHIBIT N-1: IMA C21

This machine requires the minimum operator intervention and it is a cost effective machine. The IMA C21 working method is simple and all the operations are performed with minimum movements. The filter bag, outer envelope and carton size can be changed at any time and the machine allows the production including cartoning, on the same machine, of teabags with and without an outer envelope.

IMA C23: This is also a completely automatic tea bag packaging machine for nonheat, sealable double chamber filter bags with string, tag and metal staple. Production speed of this machine is about 220 naked teabags per minute. This model is superior in speed and production efficiency compared to C 21 (Exhibit N-2) highly automated and very flexible and reliable.

EXHIBIT N-2: IMA C23

Please see print copy for image

IMA C23: This is also a completely automatic tea bag packaging machine for nonheat, sealable double chamber filter bags with string, tag and metal staple. Production speed of this machine is about 220 naked teabags per minute. This model is superior in speed and production efficiency compared to C 21 (Exhibit N-2) highly automated C23 machines are very flexible and reliable. Naked paper tea bags are produced on production line number one. Packing is done manually. Lemon flavoured tea is produced in this line. Auto tea filling and

manual packing is the norm on this production line.

PRODUCTION LINE: NUMBER 2

There are eight IMA C23 model tea bagging machines in this line. An important feature of packing in this line is the use of outer envelopes for teacup bags. These envelopes are in two forms, paper envelopes and foil envelopes (a relatively recent development in tea packing). These foil envelopes are especially for the Australian and New Zealand markets. The envelope is for keeping the tea fresh. Tea in the envelope is of higher quality and more durable than that of in the naked paper bag. The foil envelope is considered better than the paper envelope in keeping the tea fresh because air cannot enter the foil envelope. The envelope is sealed fully (unlike the paper envelope).

PRODUCTION LINE: NUMBER 3

Ten high-speed IMA C2000 completely automated tea bag packaging machines are operated in this production line. The IMA C2000 (Exhibit N-3) machines are fitted with double chamber filter bags heatsealable with string and tag without metal staple. A special requirement of the tea bags produced in this line is that string is pasted to the bag instead of stapled with aluminum. The IMA C2000 represents the most technologically advanced machine for the production of double chamber teabags.

EXHIBIT N-3: IMA C2000

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Tea filling and packing are both automated in this line. Production speed of IMA C2000 is 450 naked bags per minute. A number of products are produced on this line and packaging is diversified. With envelopes, the production speed is 400 bags per minute. Auto packing speed is 100 or 50 bags into a carton. The machine is adjustable according to the required number of tea bags in a carton.

PRODUCTION LINE NUMBER 4

There is only one IMA C51 tea bagging machine on this line (Exhibit N-4). This model is popular for its high speed and high production efficiency. Production speed is up to 2000 naked tea bags per minute.

EXHIBIT N-4: IMA C51

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The IMA C51 machine represents the most advanced packaging machine, for the production and cartoning of heatsealed filter bags. Both tea cup bags and tea pot bags are produced by this machine. At the time of the researcher's factory tour, this machine produced teacup bags with a tag exclusively for McDonalds restaurants and teapot bags, tagless and stringless, for other clients.

PRODUCTION LINE: NUMBER 5

There are two huge SIG packaging machines on this line. These machines are exclusively used for producing teapot bags. These are fully automatic tea-bagging machines. Bagging, packing and counting can be adjusted as necessary.


PRODUCTION LINE: NUMBER 6

There are four UNIPACK machines on this production line. Different size teapot bags are produced on this line. The average manufacturing speed of these machines is 600 bags per minute. These machines are older than those on lines 4 and 5. The UNIPACK machines are fully automatic: bagging, packing and counting are all automated.

APPENDIX O: GEOGRAPHIC AREA OF OPERATION (1995)

**DILMAH'S UNRIVALLED SELECTION OF FINEST
QUALITY PURE CEYLON TEAS IS
MARKETED IN THE FOLLOWING COUNTRIES:**

Please see print copy for image



Source: Annual Report, 1995, p. 29

APPENDIX P: SOME DILMAH ADVERTISEMENTS**A SAMPLE MESSAGE IN A DILMAH PRODUCT**

Thank you for choosing Dilmah.
Dilmah is a very special tea.
Its founder had dedicated 46 years to tea and learned
a great deal about it. He guides his family
business passionately and caringly.
Now, you can't buy that.
Ceylon's freshest & finest tea is even
fresher & fine in foil.
Fresh tea is rich in antioxidants.
Speciality teas like English Breakfast
became famous for their taste.
The world's finest teas always come from Ceylon.
The British knew that and,
In the past, used Ceylon tea extensively.
But now times have changed.
And in Ceylon, Dilmah created its own selection
We scoured the plantation to
Recreate that original taste.
And we called them Classics!
Growing our own tea makes a world of difference.
PURE CEYLON TEA,
PACKED IN SRI LANKA

Signature of the founder:

A Sample TV Advertisement

Please see print copy for image



Source: Dilmah Tea Online.

APPENDIX Q: SOME RECENT FINANCIAL DATA OF CEYLON TEA SERVICES LTD

EXHIBIT Q-1 PROFIT AND LOSS ACCOUNT FOR THE FISCAL YEARS ENDING 31ST MARCH 2000**PROFIT & LOSS ACCOUNT**For the year ended 31st March 2000

Please see print copy for image

CEYLON TEA SERVICES LTD.

(14)

Annual Report 1999/2000

21st August 2000

Source: Company Annual Report, 1999/2000, p.14

EXHIBIT Q-2: BALANCE SHEET AS AT 31ST MARCH 2000

BALANCE SHEET

As at 31st March 2000

Please see print copy for image

21st August 2000

Source: Company Annual Report, 1999/2000, p. 15

EXHIBIT Q-3: CASH FLOW STATEMENT 2000

CASH FLOW STATEMENT

P

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Source: Company Annual Report, 1999/2000, p.16

EXHIBIT Q-4: SUMMARY OF SELECTED INFORMATION(Rupee amounts in thousands, except per share data and ratios) *Years Ended March 31*

TRADING RESULTS (Rs. 000's)	2000	1999	1998	1997	1996	1995
Turnover	1,464,451	1,192,939	1,071,402	1,078,027	465,371	399,852
Operating Expenses	1,101,548	923,775	1,048,422	950,917	412,619	330,769
Other Income	45,254	146,675	109,402	41,121	21,840	24,985
Interest Expense	53,156	(79,390)	(16,438)	(18,801)	(12,492)	(17,389)
Profit before Income tax	355,002	336,449	115,944	149,281	62,100	76,679
Income Tax on Profit	(33,101)	(13,686)	(7,776)	(16,706)	(814)	(2,118)
Profit after Income Tax	321,901	322,763	108,168	132,574	62,914	78,797
SHAREHOLDERS FUNDS						
Share Capital	70,000	70,000	70,000	70,000	70,000	70,000
Reserves	1,046,909	745,508	443,746	353,077	239,165	192,001
Net Assets	1,116,909	815,508	513,746	423,077	309,165	262,001
ASSETS						
Fixed Assets	233,150	274,928	317,503	161,646	190,381	195,181
Investments	41,477	41,477	52,969	52,947	52,947	52,947
Current Assets	1,548,666	1,204,954	946,382	679,528	833,718	542,139
LIABILITIES						
Long Term Liabilities	22,1000	37,700	53,300	6,665	14,663	35,240
Deferred Liabilities	35,949	41,123	31,677	23,051	29,612	30,309
Current Liabilities	648,336	627,028	718,131	441,328	723,606	462,717
Net Assets	1,116,909	815,508	513,746	423,077	309,165	262,001
RATIOS						
Return on Shareholders funds	28.82%	39.57%	21.05%	31.33%	20.35%	30.08%
Current Ratio	2.39	1.92	1.32	1.54	1.15	1.17
Interest Cover (No. of times)	6.06	4.06	6.58	7.06	5.00	5.00
Earning per Share (Rs.)	45.98	46.11	15.45	18.94	8.99	11.26
Dividend Cover (No. of times)	15.70	15.37	6.18	7.58	3.99	5.63
Value Added by the Export of Teas	436,782	319,587	179,804	197,030	94,259	111,590
Value Added per Employee						
No. of Employees	210	466	371	450	410	314

Source: Ceylon Tea Services Ltd Annual Reports to shareholders: 1995, p. 27; 1996/97, p.25, 1997/98, p.27; and 1998/1999, pp. 28-29, or calculated from information therein.


STATEMENT OF VALUE ADDED

Appendix

For the Year Ended 31st March 2000

Value added is the wealth the Company has created by exporting value added teas.

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Source: Company Annual Report, 1999/2000.