

Does Budgeting Kill the Initiative and Innovation in Organizations?

Evidence from Sri Lanka Telecom.

by

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Certification

This is to certify that the research report presented by P.A.G. Gunatilake on “Does Budgeting Kill Initiative and Innovation in Organization? Evidence from Sri Lanka Telecom” can be accepted by the Department of Accounting, University of Sri Jayewardenapura in partial fulfillment of the requirement of the B.Sc. in Accounting (Special) Degree.

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Executive Report

No organization can disregard the ramifications that arise owing to today's knowledge based economy, where the traditional management accounting theories and practices are put to severe test. The traditional Budgeting and Budgetary Control systems in a Command and Control Culture are seen as a barrier to initiative and innovation in organizations which in turn affects competitiveness. This study examines this question taking Sri Lanka Telecom as its study site. The study is essentially of a qualitative nature with data collection carried out through a series of in depth interviews conducted with senior managers.

Findings of the study revealed that the problems caused by tall hierarchical structure and the bureaucratic management style within a control culture have negative behavioural implications on the organizational competitiveness. Authoritative type targets set by the top management, creation of budget slacks and single dimension performance measures are the issues, which down the initiative and innovation of the company. In spite of the negative issues, the company will be benefited by the straight forward and efficient decision making, directing the company towards one mission and controls over scarce resources of the company.

This study suggested that proper delegation of authority, use of multiple dimension performance measures, competitor benchmarking, adoption of Activity Based Budgeting, positive usage of budget slacks and changes to the organizational culture will overcome the negative behavioural implications identified.

Chapter 1

Introduction

1.1 Background to the problem

With the introduction of modern advanced technologies, the usability of traditional Management Accounting theories and techniques have been questioned by the corporate world as well as academics in Management Studies. As a main subfield of Management Accounting, the practice of Budgeting too has been re-examined and criticized by many world class business organizations, as to its appropriateness in the modern business culture. The drawbacks inherent in budgeting has compelled managers of such organizations to revise their performance evaluation and control mechanisms involved in their budgetary planning process.

The pressures arising from extensive global competition, rapid changes taking place in the market, among others, raise the important question, “how can organizations improve the budgetary planning process so that organizations could motivate the management and other employees to participate and make necessary revisions which will contribute towards developing an organization with a competitive edge.”

Traditional budgeting approaches discourage information sharing and slow-down responses to changes in the market place owing to the associated command and control culture. In order to compete successfully in the industry, modern business organizations use innovations as a weapon because, in spite of the risks involved, innovative operations can result in substantial performance improvements and, thereby the profits growth and shareholder value. The most valuable asset of an organization is the creative human capital, whose ideas can be turned in to valuable products and services.

However, with the traditional planning process, operational level employees are reluctant to make innovations or even slight modifications to the original budget. This will inversely affect the organization’s performance in the long run. Therefore, there is an

emerging need to look for a frame work, a learning process that can be incorporated into the traditional budgetary process. This will undoubtedly encourage innovation in the enterprise and result in superior market performance in the long run.

As a result, some academics as well practicing organizations have gone to the extent of advocating and abandoning the traditional budgeting process. For example, Svenska-Handelsbanken (an international bank) has abandoned the traditional budgeting process and adopted a decentralized management model (Hope et.al.,2003). As they stated, faster response rates to customer requests, innovative strategies, lower costs, more loyal customers are the major sources of competitive advantage they achieved through breaking the traditional approach.

Likewise, in Sri Lanka, the intense global competition and the loss of monopoly power in the Sri Lankan Telecommunication industry compelled the Sri Lanka Telecom Limited (SLT) to re-examine their traditional management accounting practices. Their current traditional management accounting practices do not support the company to introduce rapid technological advancements which is the key to industry competitiveness. This study intends to study the budgetary and budgetary control process at the SLT. It will focus on the drawbacks of the traditional planning and control process and its impact on the creativity of employees at the SLT.

1.2 The Problem

The traditional command and control style of budgeting and budgetary control process operative at the SLT restricts innovations and the learning process of its managers and the operational level employees. This inflicts an adverse impact on the employees at personal level as well as the performance of the organization at corporate level.

1.3 Research Question

Does budgeting and budgetary control carried out under command and control type organization systems give rise to lack of initiative and innovativeness, and if so, why?

This will be examined in the context of the SLT. For the purpose of this study command and control type organization system means an organizational environment where low degree of delegation of authority to subordinates in decisions making.

1.4 Nature of the Study

The case study method of research is applied in this study. This study will explore and analyse the budgetary system of the SLT. The case study method is well recognized as an effective method for qualitative analysis and involves a careful and complete observation of the organization in question. This study intends to identify unique features of the budgeting and budgetary control process of the SLT and will assess its impact on the level of employee creativity and in turn the organizational competitiveness.

The findings of the study may not generalizable owing to the fact that solutions to such issues are generally context driven. However, since the problem could be one which affects many an organization the findings can certainly benefit organizations confronted with problems and probing into ways of overcoming them.

1.5 Objectives

Successful completion of the research intends to achieve the following objectives in relation to the Sri Lanka Telecom.

- i. Study the budgeting and budgetary control process operative at SLT.
- ii. Examine the positive and negative behavioural interactions associated with the above process.
- iii. To find possible reasons for the behaviours observed in (ii).
- iv. To suggest ways of overcoming some of the issues identified in (ii) and (iii).

1.6 Justification

There are many complaints against the traditional budgeting process. The rigid controls involved with the traditional system do not generally allow employees to deviate from budgets and if any adverse variances are reported they are treated as poor performances by the relevant parties. This will prevent employees from making changes to the original budget even if they see it as essential to face the fluctuations in the market place, as operational level employees dealing closely with customers and know their requirements. If the operational level employees are empowered to take requisite action according to market developments, then the organization could serve the customers better.

In order to secure the market leader position within the telecommunication industry, SLT has to introduce new products and services. It is vital to retain the existing customer base while new customers are acquired, thus leading to long term survival of the organization. The loss of monopoly power and the competition that has emerged from the other land-

phone and mobile telecommunication operators in the industry has created a highly competitive business environment and the best innovator obviously captures the new market. The case in point is the introduction of Code Division Multiple Access (CDMA) technology by LankaBell, followed by Suntel, by which both companies captured a substantial portion of the potential customer base of the industry.

Therefore, there is an emerging need to address the drawbacks of traditional budgeting and budgetary control systems operative at the SLT and encourage an innovative business environment which will result in creating a learning culture within the organization.

1.7 Scope and Limitations of the Study

1. The research focuses on behavioural aspects of the budgeting and budgetary control system of the SLT and the main source of data collection is through responses given by employees. The data gathered from the employees could carry personal bias thus affecting the findings.
2. The study is based on a privately owned organization. Budgeting and budgetary control system of an organization which operates under a different management structure may have different practices which will result in contradictory findings. Thus lacks the ability of generalizing the findings.

1.8 Methodology

The data relevant for the study is obtained from two primary sources. i.e. Primary Data and Secondary data. Primary data will be collected through interviews with employees who are involved in preparing budgets as well as and some other operational level employees. The interviews will take the form intimate discussion that will be conducted at the SLT. The interviewer will be guided by a set of basic questions. However deviations and flexibility will always be maintained.

Secondary data will include publications by the SLT, previous research articles and relevant web sites.

The data gathered through primary sources will edit and summarize in order to detect errors and omissions. Then the collected data will be classified in to homogeneous groups to get meaningful relationships.

1.9 Chapterization

The Study Report will consist of the following chapters.

Chapter 1	Introduction
Chapter 2	The Sri Lanka Telecom Limited
Chapter 3	Literature Review
Chapter 4	Conceptualization
Chapter 5	Methodology
Chapter 6	Data Presentation and Analysis
Chapter 7	Conclusion

Chapter 2

The Sri Lanka Telecom Limited

This chapter will explain about the ownership, organization structure, products and markets, resources, performances and future plans of the Sri Lanka Telecom Limited.

The Sri Lanka Telecom is the market leader in the Sri Lankan Telecommunication industry with the vision of “To lead Sri Lanka to become the hub of telecommunications in South Asia”. Its mission is “To anticipate and fulfill the communications requirements of all sectors of the nation, in a service oriented work ethic which will provide total customer satisfaction through the most modern telecommunication facilities”

2.1 Ownership

Sri Lanka Telecom Limited (SLT) is the country’s first telecommunications company and is the successor to the former government owned Telecommunications Department.

The first Telegraphic Circuit in Sri Lanka was established between Galle and Colombo, and the first international telegraph communication established between Ceylon and India in 1858. In 1880 the postal and telegraph services amalgamated under the control of the Government of Ceylon. In 1980 The Telecommunication Department was formed by separating the postal and telegraph services. The Sri Lanka Telecom Corporation was formed in 1991.

In 1996 the SLT was transformed to a public limited liability company and in 1997 the Nippon Telegraph & Telephone Corporation (NTT) of Japan invested US\$ 225 million to take a 35% stake in the SLT. In 2002 the SLT acquired Mobitel, one of the four mobile operators in the country, in which it previously had a 40% stake. In 2002 the SLT went ahead with its Initial Public Offering (IPO) where the Government of Sri Lanka, the

majority shareholder, divested a 12% stake in the Company. Consequent to this IPO the Government now owns 49.5% of the SLT, NTT owns 35.2%, and the public owns the balance 15.3%. With this IPO the SLT became the largest listed company in the Colombo Stock Exchange.

The privatization in 1997 followed by its successful listing in the Colombo Stock Exchange in 2002, SLT has re-engineered itself into one of the most vibrant blue chip companies. The initial force for the transformation came from its agreement with the NTT, which provided the technical expertise to expand SLT's networks and to restyle the management culture. Even though the contract with the NTT management expired in 2002, SLT continues to have access to selected strategic and managerial inputs from NTT.

2.2 Organization Structure

The administrative activities of the SLT are carried under eight functional divisions headed by the respective Chief Functional Officers of each division. There are many sub-divisions under main functional divisions, and each Head of Division is responsible for the operations of every sub-division. (Annex 1: Organization Chart of the SLT)

2.3 Products and Markets

SLT is the only fully integrated telecommunication service provider in Sri Lanka. Its services range from provision of Domestic Wire Line Connections, Domestic Wireless Connections, International Voice and Data Services, Internet Services, Broad Band and Internet Protocol (IP) Services to Mobile Services.

The SLT serves its customers under two market segments i.e. the household market and the corporate customer market. The product portfolio and the services offered to the household market includes, provision of telephone connections, domestic calls,

international calls, operator assisted services, SLT CLI, SLT Voice Mail, Direct Inward Dialing, SLT NET (provide access to internet, prospective customers are given the choice to select either dedicated access or dial-up access via telephone lines), Integrated Service Digital Network (ISDN) and Asymmetric Digital Subscriber Line (ADSL) services. In addition to the same facilities provided to the house hold customers, the SLT provides additional services to its corporate customers which include Internet Protocol Virtual Private Network (IP VPN), SLT DATA (provide reliable solutions for businesses including resource sharing, inventory tracking, monitoring of productivity, messaging etc.), Inmarsat Service (an international mobile satellite communication system), Vision Career (the digital live video transmission bearer facility occasionally used mainly in TV signal transmission) and SLT FLY services. (transmit and receive audio-visual programmes such as live coverage of events via satellites)

In order to provide convenient services to their customers the SLT has established 23 Teleshops. These shops were designed to perform variety of services including payment of bills, registering for new connections, selling of telephone accessories etc.

At present SLT commands the fixed line telephone market with a customer base of 806,468 which accounts for a market share of 86%. With the introduction of the CDMA technology, SLT has the capacity to cater to an additional 225, 000 customers and at the end of January, 2006 SLT reached a CDMA customer level of 50,000.

Mobile telephony is clearly an area of great potential growth and SLT with Mobitel is committed to tapping this potential to the full in delivering maximum value and returns to both entities and their shareholders. Mobitel is the only service provider in Sri Lanka to have a fully EDGE enabled GSM system, a technology that enhance the EDGE power within country. With the acquisition of Mobitel SLT is the only operator to offer integrated fixed and mobile services. SLT is therefore well positioned to lead the telecom sector in all aspects.

The few recent technologies adopted by SLT are Frame Relay Technology, ISDN Technology and ADSL. The Frame Relay Technology provides benefits to the customers such as, lower cost of ownership, well established and widely adopted standards that allow open architecture and plug and play service implementation, low overhead combined with high reliability, network scalability, flexibility and disaster recovery, and inter-working with other new services and applications such as Asynchronous Transmission Mode (ATM). ISDN is an intelligent means of communication. It powers customers' business, and will change the way they work. ADSL stands for Asymmetric Digital Subscriber Line, where a regular telephone line becomes a high speed broadband digital link. It is called 'asymmetric' because it facilitates different speeds for downloading and uploading, for optimized performance.

The year 2003 was a significant year for the telecommunications industry in Sri Lanka because, during this year 32 new licences were granted to external gateway operators, which marked a new era of competition in this country. Sri Lanka's communications environment has thus changed radically from a state controlled and tightly regulated environment to a deregulated market.

In the Fixed Line Telecommunication industry SLT leads the Market with a market share of 86% followed by Suntel and Lanka Bell accounting for a market share of 9% and 5% respectively.

The main competition to SLT is coming mainly from Suntel and Lanka Bell. In addition to voice service provided, the main telephone operators have moved in to providing new value added services and new fields of applications. Other major operators in the Sri Lankan telecommunications industry are the NTT, Ericsson, Telstra, Hutchison Wampoa, and the Malasia Telecom. Therefore the industry is one of the most competitive industries in Asia and this trend is likely to continue in to the future.

2.4 Resources

Human Resource

SLT treats its human resource as the company's single most important resource in its development and success. At present it has a work force of more than 7000. SLT has ensured an attractive career option to its employees by providing a work life that is rewarding and satisfying, where skills and knowledge enhancement is encouraged which will result in personal development and initiative. The high level of human resource management at the SLT paved the path to achieve the 2nd Runner up Award (Large Scale Service Sector) at the "National Human Resource Management 2002", a competition jointly held by the Post graduate Institute of Management of the University of Sri Jayewardenapura and the Institute of Personnel management.

SLT has introduced a whole range of activities and systems such as training opportunities, motivational programmes, productivity development and employee empowerment initiatives, welfare and recreational facilities etc. in order to achieve a skilled and satisfied employee force. SLT operates five training centres which are focused on enhancing the skills and qualities required for continuous personal development of employees. The company organizes training programmes for its employees at its own training centres as well as in other training institutions locally as well as overseas. Its training initiatives specifically focus on customer orientation, team building, interpersonal cooperation, workplace cooperation, IT skills, communication skills, productivity improvement and attitude development. In addition to that SLT conducts training programmes focused on developing Project Management skills of regional staff who must manage projects at local levels. The company has entered into partnership with City & Guilds, UK and Edexcel BTEC, UK to provide internationally recognized programmes in Sri Lanka, especially in the field of telecommunications.

Employee promotions are now based on competitive examinations, which have created a culture of learning in the organisation. Another strategic concern at SLT is with regard to

its recruitment procedures. In the future the recruitment of personnel will be strictly a 'needs based' exercise. It has also focused on re-training employees to meet new tasks and to fit into new job profiles.

SLT encourages a wide range of sports at SLT which promotes a "life beyond the work place." Improving the quality of life of its employees is a constant priority for the company and therefore it has launched a medical assistance scheme in collaboration with the Ceylinco Insurance Company Limited.

SLT currently has thirty three trade unions. Sixteen of these have formed an umbrella organization, the joint organization of Telecommunication Trade Unions. Currently no formal collective bargaining agreement exists with the unions. However, SLT has struck a number of informal agreements with the unions on wages, bonuses and related matters. The current state of industrial relations is harmonious and the management and employees have been able to resolve disputes amicably.

Machines

SLT's unparalleled state-of-the-art digital transport network consists of digital microwave radio systems and an optical fibre network operating on synchronous digital hierarchy (SDH). This network is connected to over 500 digital switching nodes scattered in every corner of the country and it is the Sri Lanka's first ever Optical Fibre Inter Province Transmission Ring in Colombo and Central regions. Optical fibre rings significantly strengthen the SLT backbone transmission network and provide a high degree of reliability. SLT uses several switches like Alcatel, NEAX exchanges. These exchanges act as Regional Switching Units or Master Switching Units. SLT will continue to invest to enhance its optical fibre capabilities in its transmission network which would provide the Company with a high level competitive edge.

SLT's telecommunication network has the widest reach and is the most technologically advanced in Sri Lanka. It features a fully digitalized telecommunication transport network, reaching into every region of the country supported by its transport backbone. It comprises of 500 digital switching nodes with 80 master telecommunication exchanges divided into 29 area codes each served by a secondary switching centre.

SLT's state-of-the-art transmission network is supported by national and international telecommunications links and serves as the foundation for the telecommunications infrastructure in this country. It has become an indispensable transport medium for the corporate sector for their voice and data networks. The Company extends its connectivity through its three international gateways.

Two digital fibre optic cables, SEA-ME-WE-II (South East Asia Middle East Western East) and SEA-ME-WE-III complement the three digital satellite earth stations. With these facilities, SLT is able to provide a reliable and high quality IDD service to 219 countries and ISDN service to major destinations.

Methods

Since the telecommunication industry is highly sensitive to the changes in technology, success of the company depends on the ability to adapt new technology. Therefore SLT has changed its business processes from labour intensive to capital intensive in recent times.

Material

In order to provide an unmatched service to its customers SLT uses quality materials in their operations. Regularly used out side plant material include cables (under-ground), telephones, switches, rossette codes, installation accessories, optical fibre cables. Other

outside plant materials include concrete poles, manhole covers, hand hole covers, drop wires and telephone instruments etc.

Money

Company's capital structure consists of both equity and debt capital. SLT has an authorized ordinary share capital of Rs.100 billion of which Rs.1805 million issued and paid. Company's ordinary share capital structure is as follows.

Government of Sri Lanka	49.5%
NTT Communications Corporation (NTT)	35.2%
Employees and others	15.3%

SLT went in to record a landmark transaction by issuing USD 100 million notes to the international market to become the first company to do so. In the process SLT became the first Sri Lankan company to be rated internationally which attracted a rating of B+ from both Fitch and Standard and Poor's. In 2004, Fitch Ratings Lanka assigned its highest rating of SL AAA (sri) to SLT. This level of rating is only assigned to companies of exceptionally strong capacity to meet their financial commitments in full, and on time. At the end of December 2004, SLT total borrowings amounted to Rs.25 billions, a gearing level of 45%.

2.5 Performance

The privatization of the SLT has transformed itself from a lethargic state entity to a dynamic service provider, which enabled the company to compete with the best in the world. This it has done by upgrading its communications infrastructure, strengthening its marketing skills and strategy, installing new financial systems and controls, and making best use of its human resources.

The SLT transformed its image to a vibrant, modern, and competitive institution which led the company to list as a blue chip corporate in the Colombo Stock Exchange. In 2004 the SLT was the No.1 Company in Sri Lanka according to the LMD Business Magazine's rankings. Further SLT was recognized as the most valuable brand in Sri Lanka in 2005 and it was the third among the most powerful brands according to Brand Finance and STING Consultants' ranking.

SLT provided 53656 new fixed line connections during the year 2004 leading to a market share of 87% of the fixed line customer base. One of the landmark achievement for SLT in 2004 was the enhancement of "Project Hope", which targeted on developing telecommunication facilities in the Jaffna peninsula. SLT also entered in to a bilateral agreement with all Indian telecom operators who hold international licences, including Bharat Sanchar Nigam Limited (BSNL), Bharti Telesonic Limited, Reliance Infocom Limited and Data Access. This move will offer opportunities to increase international and generate additional revenue.

With its acquisition of Mobitel, the third largest mobile operator in Sri Lanka, SLT became the only integrated operator in this country to offer fixed line, data and mobile services. In the Mobile Telephony sector SLT achieved a 19% market share in 2004 with a customer base of 285000. Mobitel was the first to introduce EDGE technology to Sri Lanka and the company also pioneered in Multimedia Message Services (MMS), Global Position Recovery System (GPRS) and Wireless Access Protocol (WAP) facilities for pre paid users.

In the Internet service segment SLT had 70,520 customers at the end of October, 2005 for its post paid Internet, E-mail, Internet Leased Lines and ADSL products.

The growth of the tele density and the customer base of the SLT, the internet and e-mail customers, operating revenue and key financial indicators are shown in the Annex 2.

SLT's Metro Region achieved a major milestone in the year 2000 by completely clearing all faults reported within the same day. The achievement of Zero Faults Status was a significant achievement for SLT and it intends to achieve the same in other regions over the next few years.

For the second consecutive year, in 2003, SLT won the Taiki Akimoto 5S Overall Winner Award (Matale Regional Office). In addition, the SLT bagged 3 merit awards (for Polonnaruwa and Badulla Regional Offices and the Panadura Outside Plant Maintenance Center) and five Certificates of Excellence (for the Gampaha, Ampara and Bandarawela Regional Offices and SLT Training Centre, Welisara). The Kandy Regional Office brought the Nagai Yamamoto Kaizen Runner up Award in 2003.

2.6 Future Plans

With the high competition for capacity levels to respond effectively and speedily to customer demands, the SLT plans to connect the Southern, Eastern and Northern regions of the island to the centre via optical fibre cabling. It is envisaged that Southern network of 583 km and a Northern network of 564 km will be connected to the company's existing Central network by the years 2006, 2007 and 2008 respectively.

SLT's fully owned subsidiary, the Mobitel's key in the future are to maintain leadership in the offer of value added services, continue to lead in technology, promote the development of telecommunications in rural areas and play the lead role in mobile convergence to internet. With the expansion of the GSM network island wide and an

increased promotion of its Roaming facilities, plus its value added services such as Voice Mail, and SMS to existing and new customers, the SLT intends a growing Mobitel usage and revenue levels with in the next few years.

The company is planning to set up more Wi-Fi (Wireless Fidelity) zones in several key locations around the island in addition to the SLT's first Wi-Fi zone at the Bandaranayake International Airport providing internet facilities to travelers. Sri Lanka is moving towards a fully liberalized telecommunications market environment. SLT will use this opportunity to grow and to provide state-of-the-art services. SLT's goal is to make the country the hub of telecommunications in the South Asian region.

This chapter examined the ownership, organizational structure, products and markets, resources, performances and future plans of the SLT.

Chapter 3

Literature Review

This chapter will study existing research work on limitations and the new developments in traditional budgeting and budgetary control systems.

The appropriateness of traditional budgeting to the modern business organization has been questioned by many scholars. According to many management authors command and the control systems give rise to interactive forces that act as a hindrance to achieving organizational competitiveness.

A recent study by Hope et.al., (2003), explored the extent to which organizations practice traditional budgeting in their planning process. The report discussed the validity of traditional budgeting in the modern business culture. Huge sums have been invested by companies for IT networks, process reengineering, and a range of management tools including EVA (Economic Value Added), balanced scorecards, and activity accounting. But a new order has not been established by them as the budget and the command and control culture that it supports remain predominant. Further, they have commented that a breakdown in corporate ethics may have occurred due to the use of budgets to force performance improvements. The report examined some failed giant companies and they have mentioned that World Com, Enron, Barings Bank, and other failed companies had tight budgetary control processes that funneled information only to those with a “need to know”. For example, according to their report, people who worked at World Com commented that, “you would have a budget, and the CEO would mandate that you had to be 2% under budget”. Further, the report revealed that the traditional budgeting process “disempowers the front line, discourages information sharing, and slows the response to market developments until it’s too late”.

It has been commented by Jack Welch of General Electric as observed by Daum (2002), that traditional budgeting as an instrument of corporate management is increasingly seen as an obstacle to progress by managers. Typical statements are uttered in such companies are “too complex”, “takes too long”, “too inflexible, we

cannot adapt quickly enough to the market”, “does not motivate you to set yourself ambitious targets”.

Daum commented on the rapid environmental changes that occur in the market place and the need for a system which addresses the drawbacks of traditional budgeting process. The dynamics on the macro level and new challenges for companies will be increased by modern knowledge and service-oriented economy. This will result in a dominating role for soft success factors, for intangible assets. The task of today’s companies is not only to produce and sell products. To be successful and remain in the market, the right products should be developed (in the long-term), good relationships with customers, employees, and business partners should be formed (medium-term) and everything should be operated profitably (short-term). This increases the “trade-offs” in the business system and results in the increased need for regular internal reconciliations. At the same time, companies should balance their activities in shorter intervals with external developments as a result of the change dynamics in the environment. The traditional corporate management instruments budgeting and monthly target/actual comparison prove to be too inflexible and have therefore long since had their day as the only basis of the management system.

Bennett has discussed whether budgets improve management performance, reasons for so many managers to ignore budgetary information and whether different types of organizations, managerial styles and different rates of environmental change require different budget systems. And also it was realized that budgets are about people, and that existing budget systems were based implicitly on outdated theories of individual and organizational behaviour which aimed to frame useful generalizations on what budgeting can achieve, and how.

Issues raised by Hope et.al., (op.cit.,) revealed budgeting remains a protracted and expensive process, absorbing up to 30% of management’s time in spite of the number of powerful computers. A 1998 study of global companies showed that on average 25,000 person days per \$1 billion of revenue in the planning and performance measurement process have been invested. Further, they claimed that, rigid adherence to annual fixed budgets stifled innovation, hindering the corporate response to the earnings and cost pressures that arose in the 1980s and 1990s from the demands of

institutional shareholders, foreign manufacturers' entry in to domestic markets and the ratcheting up of competition. Business units became preoccupied with meeting sales targets rather than satisfying customers.

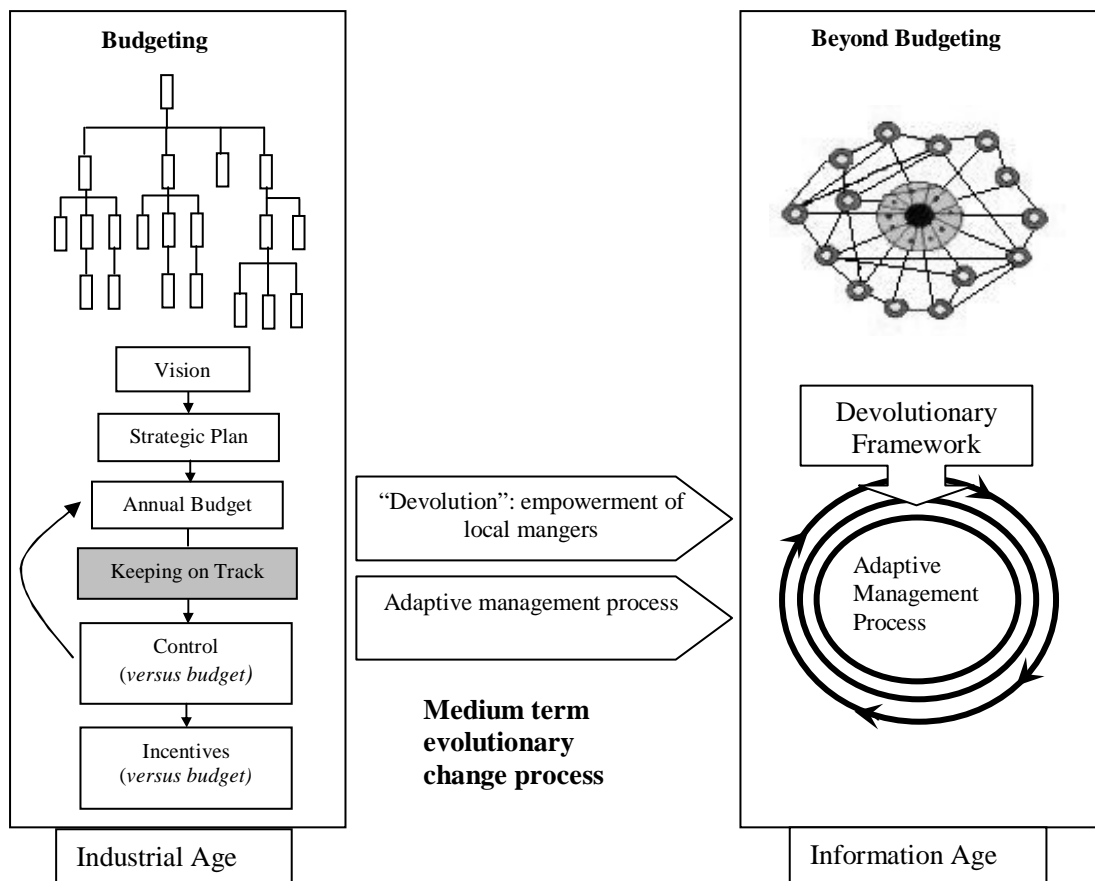
The BBRT (Beyond Budgeting Round Table) was established in 1998 in response to growing dissatisfaction, indeed frustration, with traditional budgeting. It successfully addressed three major questions, is there an alternative to budgeting?, is there a better management model?, how should it be implemented? The BBRT answered the three major questions by studying major leading-edge companies that had 'abandoned' traditional budgeting. It has also been able to establish that beyond budgeting is a coherent performance management model for the 21st Century. The BBRT helps companies to understand, evaluate, implement and benefit from the beyond budgeting model through five major steps, viz. gain awareness, relate concepts, make the case, implement the model, keep on evolving it.

Further, BBRT identified ten reasons why budgets cause problems. They are, time consuming and expensive, provide poor value to users, fail to focus on shareholder value, too rigid and prevent fast response, protect rather than reduce costs, stifle product and strategy innovation, focus on sales targets rather than customer satisfaction, divorced from strategy, reinforce a dependency culture, lead to unethical behaviour. A number of organizations recognized the damage done by budgeting and rejected the reliance on obsolete data and fixed plans. Organizations that have gone beyond budgeting represent widely differing industries and vary in size. They have all found that their performance has improved once the budgeting process was abandoned in favour of more relative and adaptive means of planning, evaluating performance and control. They saved considerable amounts of time that used to be spent on budgeting. (www.bbrt.org)

In addition to Svenska Handelsbanken, the BBRT has analyzed 13 other companies that operate completely or almost without budgets. The results are the 10 Beyond Budgeting principles that not only describe performance management and controlling processes that support a management concept "Beyond Budgeting" but also the required new leadership principles. Therefore, the two fundamental elements of the Beyond Budgeting model are new leadership principles based on the principle of the

empowerment of managers and employees, and new more adaptive management processes. The new leadership principles should unlock the full potential of managers and employees in order to enable the organization to react in an appropriate way and as quickly as possible to new chances and risks in the market environment. The CAM-I BBRT also calls this “devolution”. Adaptive management processes are not based on fixed targets and resource plans like under the budgeting model. Instead, they enable an organization for a high degree of flexibility (see diagram 1).

Diagram 1: Behavioural considerations



(Source : Daum, 2002)

Therefore, studies carried out by a galaxy of western academics observed that companies, especially in the Northern Europe, have taken steps beyond the traditional

budgeting process in their planning. For example Marginson et.al., (2005) addressed this problem in relation to Astoria Company, a leading global technology firm. According to them, “the necessary conditions of trust and empowerment in today’s organizations are not possible with budgets still in place, because the entire system perpetuates central command and control.”

Bourne (2002) commented in many large organizations planning and budgeting is slow (Shell for example have a thirteen month budgeting cycle), time consuming (according to Hackett group, companies on average are spending 25,000 person days per annum on planning and budgeting for every one billion dollars of sales) and often doesn’t produce a result that is significantly better than initial step. Budgeting system is used by most companies to integrate everything. A budget is supposed to be a plan, and also used as a forecast of what will be achieved whilst serving at the same time as a stretch target to motivate management. These different needs are incompatible, and it creates problems with planning and budgeting systems in the company. Further, the literature identified that the increase in global competition is putting pressure on businesses. Companies can no longer rely on their markets and competitors remaining unchanged for many years. The growth of China as a manufacturing base has hit many companies around the world. For those in services, the internet has disrupted some markets and created huge opportunities in others. These rapid changes can make the budget out of date extremely quickly, especially when it is only updated every twelve months.

In an increasingly complex and changing business environment, creativity is becoming a critical success factor for every organization. The identification of attitudes towards creativity and the subsequent development of creative thinking are important mechanisms for organizations to encourage creativity across all employees.

One important issue that relates directly to the BBRT’s criticisms concerns how firms are balancing the need to control costs on the one hand with the pursuit of innovation on the other. According to Marginson, et.al., (op.cit.,) innovation is crucial in a globalised economy. It requires, among other things, trust and empowerment. Budgeting stifles trust and empowerment, according to its critics, which in turn stifles innovations.

Bourne (op. cit.) observed different approaches adopted by some best performing companies. One strategy which he mentioned is Competition not budget focused. Leading companies are extremely externally focused. Comparisons are not made with budget but with the competition. Targets are set not based on current performance but by reference to external benchmarks. Incentives are disconnected from budget achievement and focused on beating the competition - both financially and in terms of achieving externally benchmarked non-financial targets.

Effective budgeting and budgetary control practices facilitate the decentralization of corporate organizational structure. The key point to be noted is, the essential prerequisite of decentralization, devolution, and the delegation of effective operational authority and responsibility to subordinate units is that central management has thereby access to high quality and timely management information in order to monitor performance, and to be able to intervene and take corrective action in the case of serious failure or major deviation from agreed strategies and plans. The budgeting system can and should provide this information. For example, at the Svenska Handelsbanken, a banking organization more than 50% of its staff has some form of lending authority. The business responsibility is decentralized to a great extent in the branches that are managed as profit centers.

The Beyond Budgeting model suggests a more decentralized way of managing. Accordingly, in place of the traditional hierarchy and centralized leadership, the model suggested enables decision-making and performance accountability to be devolved to line managers and creates a self-managed working environment and a culture of personal responsibility. This leads to increased motivation, higher productivity and better customer service. This coherent model is driven by four direct value drivers: innovative strategies, low costs, loyal and profitable customers, and ethical reporting. However, these drivers will be ineffective unless front line people have the scope, knowledge and power to deliver. The result is an organization that is lean, adaptive and ethical. (www.bbrt.org)

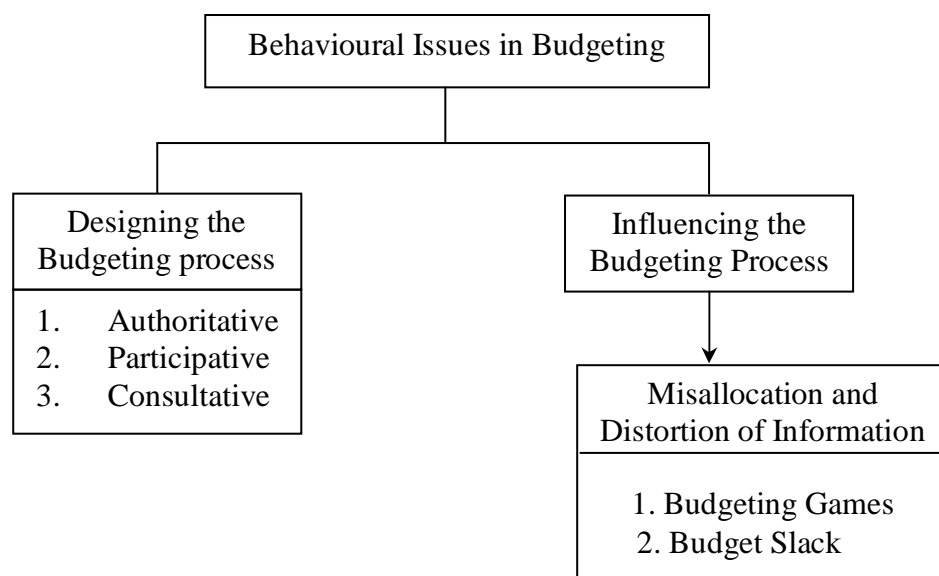
According to the BBRT, the gap between the rhetoric and the reality of devolved decision-making is huge. In order to succeed in the global market, it must be bridged. Responding effectively to change, finding and keeping talented people, producing

imaginative strategies, reducing fixed costs, building closer relationships with customers, and improving ethical behaviour and reporting, all these key success factors depend, to some degree or another, on winning the battle for the devolved organization together with its culture of personal responsibility. The central planning and budgeting process perpetuates a culture of dependency. It supports the belief that more effective the decisions are higher in the organization they are taken, this seems to be a ridiculous idea to most employees. (www.bbrt.org)

As stated by Hope et.al., (op.cit.) all signs indicate that in an empowered organization, people are free to make mistakes and equally free to fix them. Managers have wide discretion in making decisions; as a result, they can obtain resources more quickly than in traditional companies.

The questions “how do people try to affect the budget, and , in turn, how do budgets affect people’s behaviour led the social scientists to engage in extensive studies about the human factors involved in budgeting and they identified two related behavioural issues in budgeting i.e. designing the budget process and influencing the budget process. Academics identified three methods of setting budgets, viz., Authoritarian, Participation, and Consultation. (Atkinson, 2003)

Diagram 2: Behavioural issues in budgeting



(Source : Atkinson, 2003)

As depicted above, three common approaches can be identified in designing the budgeting process. i.e. Authoritative, Participation and Consultation Budgeting.

Participative budgeting encourages joint decision making and has many benefits to employees, such as greater feelings of commitment to the budgets and therefore, a higher level of motivation to attain goals and keep within the budget. Participation of employees in the budgeting process may not always be in the best interest of the organization. This is because, reward schemes which are attached to the attainment of budget targets lead managers to manipulate information and targets to achieve bonuses that are as high as possible which is commonly known as Budgeting Games. Secondly, participation results in misallocation of resources, because subordinates might ask for excess resources than they are needed to accomplish the budget target. On the other hand, authoritative budgeting inherits the drawback of the superior who prepares budgets having no clear understanding of operational activities and achievable target levels. This may result in imposed budgets giving rise to high targets and allocating less resources and vice versa. However, managers prefer this type of budgets in planning since the process is straightforward and efficient. Contrasting two methods, Atkinson (2003) stated that, research on participative budgeting has shown that employees generally feel greater job satisfaction and higher morale because they feel greater control over their jobs and in some instances higher level of performance can be expected.

Further, he argued that joint decision making is not involved in consultative budgeting because superiors determine the final budget by taking subordinates' ideas in to consideration. Instead, the superior solicits the subordinates' ideas and determines the final budget alone. For many large organizations in which complete participation is impractical, consultation is the norm. A variant of the consultative form of budgeting may occur when subordinates believe their input will be used directly in setting the budget, even though their superior really has no intention of considering their input. This process is called pseudo-participation and can have a debilitating effect on subordinates if they find out that the superior was insincere.

People tend to incorporate a safety margin when preparing budgets which overstate their resource needs. This isolates organizational members from the motivational

effects of budgets, limits the effort that these people exert, and leads to inefficient use of resources that the organization controls.

Extensive research have been undertaken by many academics on creation of budget slack. Stevens (2000) studied the determinants of budgetary slack and mentioned that, risk averse subordinates created more slack than non-risk-averse subordinates.

A research by Davila et. al., (2005) revealed that the presence of budgetary slack may also have positive consequences. Companies following strategies that require innovations and experimentation can benefit from budgetary slack because it allows managers to focus on relevant long-term and short-term objectives other than meeting budgets such as quality or customer service. In these settings, budgetary slack provides operating flexibility to increase the predictability of earnings, reduce the time spent on control tasks, reduce risks of dysfunctional behaviour, and give managers discretion to pursue multiple goals while dealing with adverse exogenous factors.

All these issues lead to the important question, “How to improve planning and budgeting processes so that organizations can plan, re-forecast and motivate management and the operational level employees to gain the competitive edge?”

Some recent observations on developments in planning and budgeting over the last four to five years revealed that number of leading companies are in the process of revolutionising their traditional approach to budgeting. Organizations are taking time and effort to review this critical process and develop planning and budgeting systems that suit their needs and circumstances. They ardently believe that they will achieve competitive advantage by resorting to this course of action.

As identified by the BBRT successful decentralization involves six principles viz. build a governance framework based on clear principles and boundaries, create a high performance climate based on the visibility of relative success at every level, provide front line teams with the freedom to make decisions that are consistent with governance principles and strategic goals, place the responsibility for value creating

decisions on teams, focus teams on customer outcomes, support open and ethical information systems.

As suggested by Hope et.al., (op.cit.,) alternative financial and non-financial measures that could be used instead of traditional measures, cost to income ratios, time to market, etc. Further they explained that business units and personnel, now responsible for producing results, are no longer expected to meet predetermined, internally selected financial targets. Rather every part of the company is judged on how well its performance compares with its peers' and against world-class benchmarks.

According to Bourne (op.cit.,) a much more widespread and practical answer is not to depend on the budget for everything. According to him the answer to the problem lies in understanding the strengths and weaknesses of budgeting and then using other mechanisms to deliver those things for which budgeting is unsuitable.

Further, he has identified a series of actions to improve the planning and budgeting process. They are (a) decouple the achievement of the budget from the compensation process, (b) decouple the budgeting and forecasting process. Budgets are ultimately concerned with resource allocation and so require management input and negotiation. Forecasts on the other hand can be done using financial models. (c) Use external benchmarking to set cost control targets. This avoids negotiating improvements over last year and creates realistic targets, which take into account the improvements being made by the competition. (d) Some financial targets are too easy to manipulate, so set direction using both financial and non-financial performance measures.

Improving financial position can be observed in the short term whilst service levels and competitiveness reduce. One classic example was Marks & Spencer who were making record profit in the mid 1990s whilst their customer satisfaction was falling. Eventually the situation caught up with them and their profitability fell. (e) Build explicit links between the major non-financial activities and resulting financial performance and manage the change in these relationships, (f) separate running costs from investments.

This may seem an obvious comment and a fundamental concept for accountants, but most organizations ignore the fact that just to stay competitive the business has to make small incremental improvements each year just to keep up with the competition. When business is going well, these small items of expenditure are simply absorbed in running costs and are probably not even noticed. Unfortunately, when budgets become tight, this discretionary spend is easy to cut. Businesses can look profitable but lose their competitive edge and the approach adopted by companies such as ABB, is to make these different types of investment explicit so that they can be tracked and monitored.

Findings indicate that many organizations attempted to tackle the problems of traditional budgeting. Most have gone beyond the existing budgetary process and in some extreme cases, companies such as Carnaud Metal Box (a French packaging company), GORUPE Bull (French Government owned mainframe computer company), Fokus Bank (a Norwegian small bank), Ahsell (a Swedish electrical product wholesaler), Leyland Trucks (a UK truck manufacturer), Svenska Handelsbanken (an international bank) and some other companies in several industries including brewery, telecommunication, food processing, chemical products etc. have abandoned it altogether. They have eliminated the annual cycle of preparing, submitting, and negotiating on traditional budgets.

Two following cases examine how Svenska Handelsbanken and Ahsell migrated to the adaptive and decentralized model of budgeting and achieved performance improvements.

1 Svenska Handelsbanken

This is a Swedish company that offers finance, home and consumer financing, life insurance, mutual funds and e-banking with 550 branches in four Scandinavian countries and the United Kingdom with 20 offices in major cities around the world. It abandoned budgeting in the early 1970s. The bank outperformed its Scandinavian rivals on just about every measure both financial and nonfinancial and it is one of the most cost efficient banks in the world. The company identified the decentralized management model as a major source of competitive advantage. According to Lennart

Francke, the Executive Vice President of Svenska Handelsbanken, the process of abandoning the budget is a very simple and an easy one. The major challenge is to rely on people to be able to run a devolved organization which is of course a difficult thing. Company's corporate goal is often identified by the high-quality people and a good business is done by using their tools. And their performance is measured in a realistic way compared to their peers. So the major challenge in the process is to enable the organization to work on a trust basis.

2 Ahlsell

This Swedish wholesaler of heating, plumbing, refrigeration, and electrical products abandoned budgeting in 1995. A fast, open information system with a strong emphasis on relative performance now provides the necessary controls for self-governance by local units. Ahlsell is now the sector's most profitable company in Sweden in both of its main lines of business (heating and plumbing, and electrical products) - a major turnaround from its position in the early 1990s. (www.bbrt.com)

Further, Wickramasinghe et.al. (2000/01) critically reviewed the application of rigid management controls and their consequences in the Sri Lankan context. In their article, the CEO of the Sri Lanka Telecom Limited has commented on the prevailing command and control culture as, "the current system is always loyal to rules, not to duty. Everybody is not really producing, but wasting your time on paper work. Nobody creates anything. You can't survive in competition." The study further noted that the company was privatized with the intention of replacing the rigidity under the government ownership with flexibility. However, they have observed some difficulties in transforming the old culture into a new flexible culture owing to some conflicts between the new management and the preceding management.

This chapter studied existing research work on limitations and the new developments in traditional budgeting and budgetary control systems.

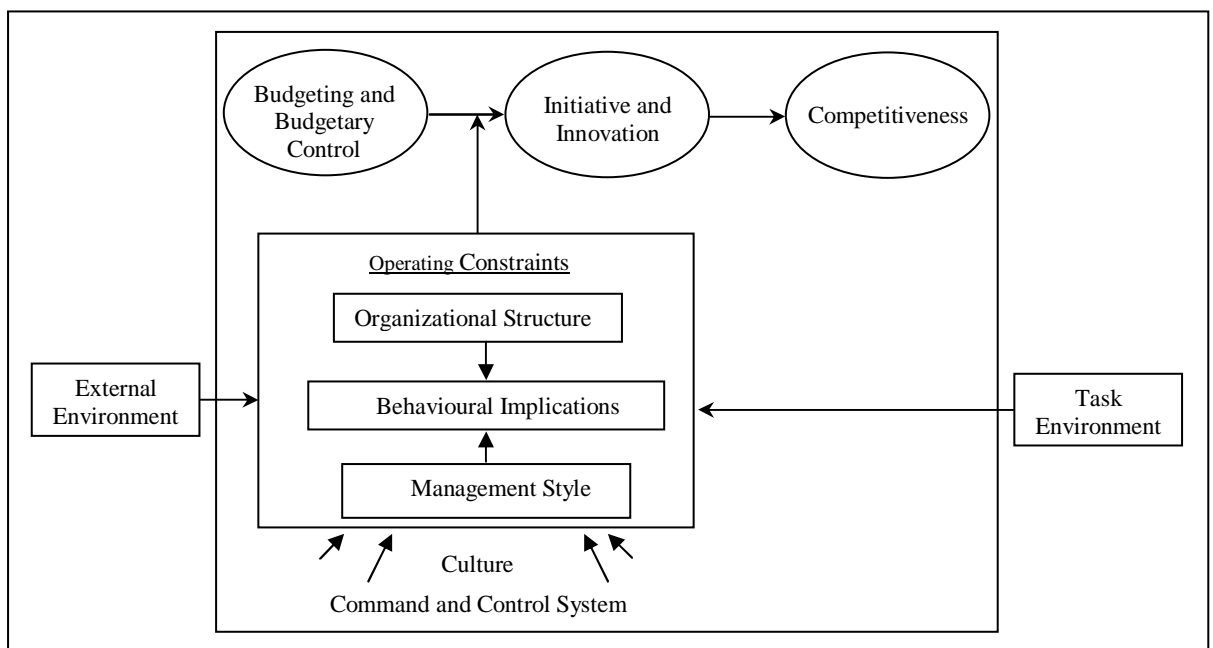
Chapter 4

Conceptualization

This chapter will explain the concepts associated with a budgeting and budgetary control system carried under a command and control culture.

The research question, “Does budgeting and budgetary control carried under command and control type organization systems give rise to lack of initiative and innovativeness, and if so, why?” is conceptualized in figure 1.

Figure 1: Role of Budgeting and Budgetary Control within the Organization and its Impact on Organizational Competitiveness



This study focuses on the impact of budgeting and budgetary control on organizational competitiveness. Organizational competitiveness can be identified as a function of Budgeting and Budgetary Control. As depicted above, the competitiveness of an organization depends on its level of Initiative and Innovation, and this serves the role of an intervening variable in the model. Further, the level of innovation and initiative of an organization is constrained by the command and control culture of an organization, environmental macro factors (external environment) and other industry

specific factors (task environment). For the purpose of this study, positive and negative behavioural implications arising out of the organizational structure and the management style under a command and control culture will be looked at.

Operating constraints that inflict on a command and control type organization system can be categorized under three main headings.

4.1 Organizational Structure

Organizational Structure is seen as the hierarchy facilitating three types of interpersonal relations within the organization, i.e. upward, downward and horizontal. The traditional organizational structure can be viewed as a series of levels, with those at higher levels having more power and authority within the organization. At present, the trend is to reduce the number of management levels in the organizational structure. Devolution and the delegation of effective operational authority and responsibility to subordinate units are essential to successful decentralization. The level of command and control depends on the level of decentralization, and an organizational structure, which facilitates management to access quality and timely information in order to monitor performance and to take corrective actions where necessary, will contribute towards ending up with a competitive organization.

4.2 Behavioural Issues in Budgeting

Often budgets do not develop smoothly owing to the involvement of human factor in the entire budgeting process. Studies have identified that the people interaction in the budgeting process has led to two related behavioural issues.

i. Designing the budgeting process

How should budgets be determined, who should be involved in the budgeting process, and at what level of difficulty should the budget be set to have the greatest positive influence on people's motivation and performance?

ii. Influencing the budgeting process

How do people try to influence or manipulate the budget to their own ends?

4.3 Management Style

The third factor under consideration is the management style of an organization. A number of studies on budgeting have concluded that the traditional bureaucratic systems, where planning is too slow and inflexible often result in ineffective performance. A management style which replaces rigid and inflexible control systems by a more flexible system will create an organizational culture which encourages self control, voluntary coordination, and novelty.

This chapter examined the concepts associated with a budgeting and budgetary control system carried under a command and control culture.

Chapter 5

Methodology

This chapter will describe the methods used in collecting and analyzing data. As this study was designed to examine the traditional command and control type organizational systems operative at the SLT and to determine the extent to which it restricts innovations and the learning process of its managers and the operational level employees, the study focused on collecting data by adopting basically a qualitative approach.

The data relevant for the study is based on two primary sources, primary and secondary.

5.1 Collection of Primary Data

By considering the nature, scope, and objectives of the study, interview method was chosen to collect data. However, telephone and email methods were also used to communicate and obtain information as appropriate.

To get an understanding about the existing budgeting and budgetary control system at the SLT, direct communication through personal interviews with some selected respondents including the Heads of Budget, Project Planning and Budgeting divisions were conducted. Further, senior managers in other functional areas especially the network planning and some other managers who are responsible for engineering developments and are engaged in providing necessary information to the capital budget, too contributed relevant information in this study. All the interviews were taped and this move helped to enrich discussions, rather than taking notes at the same time. Information gathered included the budgeting and budgetary control process of the company, problems encountered by project managers.

The interview method was a good tool to gather personal views and other relevant issues arising from the traditional budgeting and budgetary control process. Since this

study investigated especially the behavioural aspects of budgeting and budgetary control, the responses given by various parties are subject to personal bias. Therefore the interviews were conducted in a manner to cross examine the validity of the collected information from various parties.

Results from the interviews gave rise to a rich pool of information and this method provided advantages such as obtaining an in depth understanding of the prevailing budgeting system and greater the flexibility afforded to restructure questions as the interview progressed. Further, this method facilitated collecting supplementary information relevant to the study and respondent's personal characteristics and environment which are often of great value in interpreting results.

The unsystematic raw data were edited and put into order to detect errors and omissions. For further clarifications of the facts relevant people were contacted as needed. Then the write-up of the findings from the interviews was prepared.

5.2 Collection of Secondary Data

In order to gather secondary data necessary for this study, the company web site, annual reports of the company, the budget manual and some other documents prepared by the company were studied in detail. However when using these secondary data due attention was paid on the sources, timeliness of information, suitability of data and adequacy of data.

The company web site provided valuable guidance to get an in depth understanding of the company, the markets, its customers and its operations etc. Further the budget manual added much value in understanding the overall budgeting process of the company.

This chapter described the methods used in collecting and analyzing data.

Chapter 6

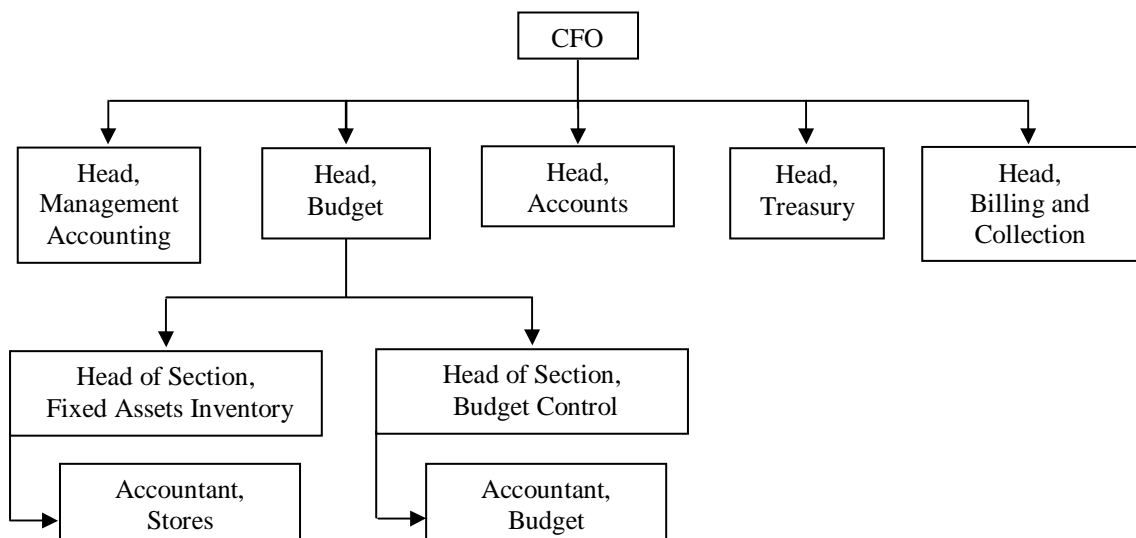
Data Analysis and Presentation

This chapter will examine the existing budgeting and budgetary control process at the SLT and analyse how it affects the competitiveness of the organization. The analysis will further examine the positive and negative behavioural implications associated with the budgeting and budgetary control process and find possible reasons for such behaviour.

6.1 The Budget Division

The budget division of the SLT operates under the Chief Finance Officer (CFO) among the other four divisions, namely, Management Accounting, Accounts, Treasury and Billing and Collection. The financial management of the company involves the collaborative work of all five divisions. The budget division concentrates on the planning, monitoring and control of both operational and capital expenditures of the company. The planning phase involve collection of information from other divisions regarding the new projects to be undertaken, progress of the on going projects, future network expansion strategies, marketing strategies and other enhancements of administrative procedures.

The structure of the budget division is shown below:



The monitoring and the control of the annual budget is done by the Budget control Section. The Fixed Assets Inventory Section provides information about the necessary improvements and upgrades the infrastructure of the company.

Accountant of the Budget Division will collect the yearly data and forward to the Head of the Section, Budget Control in order to prepare the annual budgets. Operational budgets are prepared cost center wise and forward to approval to Head of the Division Budget or CFO.

6.2 The Budgeting Process

The budgeting process at the SLT is carried out under two sections.

- i. The operational budget (OPEX Budget)
- ii. The capital budget (CAPEX Budget)

6.2.1 The Operational Budget

At present company has computerized its budgeting system to some extent, which has been developed by the Millennium Information Technology (MIT) Company. However, still the company collects data and distributes budget information through a manual system. Preparation of the operational budget is explained below.

The Accountant of the Budget Section is responsible for collection of relevant information and preparation of the annual budget. Then the Budget Division handles the operational expenditure budget which is based on the targets given by the Annual Business Plan (ABP) and the information submitted by the Accountant of the Budget Section. . The ABP is prepared by the planning division, which states the operational and capital activities to be undertaken in the next year. The operational expenditure budget of the head office is fully centralized where as the regional offices have a decentralized budget. The regional managers have the control over the operational budget allocated to each regional office.

Company has identified a number of cost centres for the purpose of preparing the annual operational budget and to make budget allocations. The budget division distributes a set of OPEX Budget forms to all cost centres in order to obtain necessary information from each cost centre. Then Head of each cost centre sends its next year's plan and the corresponding fund requirements to the Budget Division. Company uses both incremental and zero based approaches to determine operational expenses for a particular year. Expenses which are of recurring nature are determined by adding a margin to the previous year's expenses (incremental approach). However, zero based approach is adopted in determining non-recurring expenses. For example the man power budget is expected to be prepared by taking in to consideration the new recruitment, retirements of employees, over time of work. However, each cost centre should give explanations and justifications for requested budgeted expenses they have estimated and corresponding revenue generated. Further, budget holders are required to prioritise the expenses according to the importance and the objectives of the company.

After collecting necessary information from each cost centre, the budget division analyses the proposals and information provided by each cost centre in order to prepare the operational budget expenditure. Then Head of the Budget Division negotiates with managers at each cost centre to make necessary adjustments and to identify potential budget provisions. Then the operational budget is finalized and funds for each cost centre is allocated. Finally the budget division does revisions to the original budget allocation for requests made by cost centres in the month of June every year. Further, it was revealed that no budget revision has taken place for the past two years. This means operational level employees are reluctant to make changes to the budgets imposed by the top level because they are doubtful about the suggestions put forward by them are considered in budget revisions.

If there is a need to incur an expense which is not planned in the ABP, and if the value is less than Rs.50,000 the Deputy General Manager has the authority to approve the budget allocation. But the approval of Head of Budget Division should be taken for requests above Rs.50,000. However allocation of funds for such revisions and urgent expenditures are granted by the contingency balance solely controlled by Head of the Budget Division.

However, Head of the Budget Division is of the view that the present budgeting system developed by MIT is not covering essential activities and not efficient in communicating with regional offices. The company is expecting to integrate all activities and develop the OPEX budget system where employees can update information online.

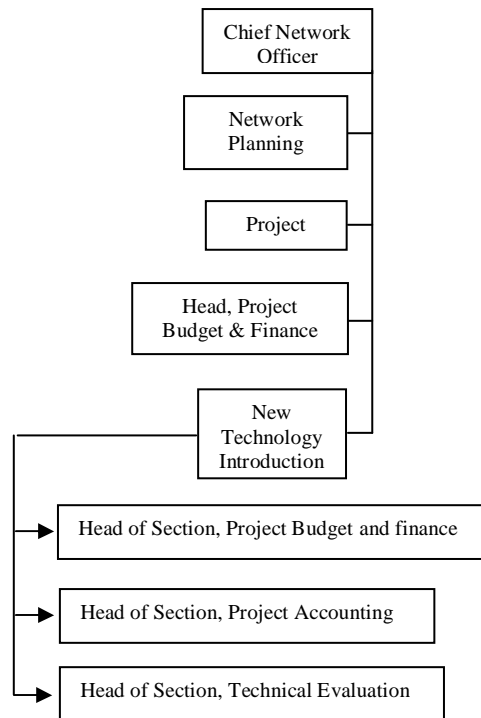
6.1.2 The Capital Budget

The Capital Budgeting procedure aims at keeping the capital expenditure on the right track, by monitoring and controlling monthly expenditure of Project Managers, Project Budget and Finance Division (PB & F), Procurement Division. The main objective of this procedure is to prevent unnecessary expenditure at the project implementation stage.

The Project Budget and Finance Division provides the required funds to the project managers according to a predetermined schedule with the Finance Division. However, Budget and Finance Division will take stern action for any malpractices or improper usage of budget and expenditure management in order to keep a sound financial position.

The company has identified some instances of improper manner of expenditure management and charging their budget requirements after finalizing the annual budget by Project Managers. According to budget planning division this happens due to incorrect identification of requirements or incorrect preparation of scope of the budget estimations, poor coordination, monitoring, control of the budget, poor record keeping of financial information, prompt changes during the implementation stage.

The collective effort of the following divisions involves the preparation of the capital budget. The diagram depicts the information flow the of the capital budgeting process.



The preparation of the capital budget take place in four stages as follows.

The Annual Scenario Plan which is prepared by the Chief Executive Officer (CEO) includes management policies and strategies of the company. Then all divisions are required to submit business proposals based on the CEO’s Scenario Plan. The proposals which are of capital nature are considered under the capital budget. All business proposals falling under the capital budget are submitted to the Head of the Budget Division with the project’s Internal Rate of Return (IRR). Often planning division assists in making new proposals by providing useful information about customer requirements, engineering advancements, technological improvements, existing and potential capacity levels. Further expansion of network projects are undertaken by evaluating new proposals made by the planning division. In addition, regional offices too provide specific information to enhance the services provided in their regions. For example, the responsibility of provision of telecommunication lines to new organizations established in a particular region is with the regional office. Therefore the regional office has to submit the project proposal to get the approval and required funds.

Then a Facility Plan is prepared for the projects which are aimed at expanding current infrastructure development work. Based on the above information a list of

potential new projects are prepared and submitted to the CEO. Thereafter group discussions are held with each divisional representative and the CEO in order to identify and prioritize the projects. Then viable projects are selected and filtered according to the IRR of projects. For example a project aiming at expanding the bandwidth of telecommunication channels in a particular region, company can quantify the incremental customer base and the relevant cash generated from new customers. Usually the company uses a rate of 18% for the purpose of evaluating the financial viability of each project.

For projects which are not making profits where the company cannot directly identify relevant cash flows are considered only if the relevant divisions make justifiable reasons. For example a project proposed to make improvements in customer services such as the Call Centre Project to be implemented recently, where company cannot directly identify the profitability of the project. Therefore the company undertakes such projects only if the proposing divisions make justifiable reasons.

At this stage company cuts off some projects even if they are viable but necessary funds are not available with the company. Therefore company forego some essential projects that keep the company's competitive position. The projects which cannot be undertaken during the period concerned are postponed to the next year. The strategic plan is prepared for selected projects to be undertaken by evaluating for the financial viability. Further, proposals outside the ABP but still very urgent are analysed by the respective groups.

Then viable proposals are presented to obtain the board approval. If the board approval is not granted then those projects are revised accordingly and again present for the approval. Expenditure of each project is analysed under several categories viz. procurement, switching, transmission, fibre and necessary funds are allocated to projects which have the board approval. Such proposals are included in the ABP and then plan for implementation. In this stage for every project a manager is appointed and an agreement is made with the contractor as how to proceed with the project throughout the period. In addition to the new projects, company has ongoing projects which are being continued.

Any revision to the original plan take much time since it goes through a formal procedure. The revision process consist of revision confirmation of requirements as per the original contract, revision of the scope, revision of invoicing schedule by the contractor, revision of payment schedule, budget and ABP, fund arrangement by the finance division.

Then a budget schedule is prepared for cash requirements of the next three months for each project. Each project manager is responsible for carrying out the project work according to that schedule. Project accounting division monitors the work at each site and payments are made according to the work completed. The monitoring process involves extra paper work which sometimes takes extra time that can be used for other activities. During the project implementation phase each project's progress is evaluated by comparing the monthly work planned and the work actually done. The monitoring process involves four stages. Evaluation of the work progress by the contractor, expenditure details and analysis of deviations up to last month by the PB & F division (to be sent to project manager 20th of every month), identification of reasons for deviations reported and projection of the cash requirements for the next three months (this report is forwarded to the division before 25th of every month), and the cash allocation which is done by the PB & F. This is done before end of every month, and the finance division revises the fund allocation. However, project managers are not allowed to make amendments to the initial budget given by their superiors. If any project manager feels that the initial plan should be amended to obtain better results or if they want more resources than the initial plan, they have to wait for the next budget revision. Any budget saving has to be returned to the project financing and budgeting division.

Summaries of each payment are sent to each project manager on 10th of every month. Project managers compare the actuals with the budgeted amounts and arrive at variances. It is the project managers' responsibility to give reasons for reported variances and the revision of the budget.

The capital budgeting process of the company is shown in the Annex 3.

6.3 Common Operational Issues

An engineer commented that the current budgeting and budgetary control process is better than the previous system under the government control. But still the process has not been transformed to one where management and employees are motivated to participate in the decision making process and contribute towards the development of the organization. Further, the tall organizational hierarchy does not support efficient information sharing among different levels.

However, since the SLT lost its monopoly power in the telecommunication industry with the introduction of private fixed line and mobile telecommunication companies to the industry, the company was compelled to concentrate on keeping its market leadership position. But the company has the advantage of a dominant position over its competitors in the industry owing to its longstanding reputation. Therefore, the planning division always tries to adopt new technologies introduced by other countries and keep the company updated with modern technology. The company does not undertake research work in innovating new telecommunication technologies because, it consumes more money and it is less costly to adopt technology from other countries. Further, an engineer stated that the company does not plan their major projects in response to competitor moves to avoid direct competition from them because still SLT dominates in the network coverage and competitors are not in a position to challenge the market position of the SLT. However less threat from competitors is one factor which has slowed down the growth of the company.

Even though company can revise the budget every six months Head of the budget division stated that for the past two years no revision has taken place. This implies that project teams are not encouraged to come up with modifications to the initial plan, because during the period many changes occurred in the telecommunication industry. If an employee identifies a market opportunity he has to wait until the next financial period. This discourages the creativity of people and demotivates their independent decision making.

Future demand for telecommunication services will increase rapidly. As a developing country Sri Lanka too has shown rapid increase in the demand for telecommunication

services due to increased usage of internet, trend of downloading films through the internet, high volume of e-mails, trend of distance learning programmes etc. The increasing demand resulted in high traffic in channels and to fulfill the demand there should be continuous innovations to sustain the market position. The company focuses on potential opportunities in the market place from market research undertaken by the Research & Development division, and changes in strategies accordingly. Since SLT dominate in coverage compared to other competitors always there is a high demand for SLT's services.

The IRR (Internal Rate of Return) criterion for valuation of every project does not suit for this type of organization because the success of the organization highly depends on meeting customer requirements which are difficult to measure through quantitative measures. Therefore, it is difficult for an employee to come up with justifications and prove the profitability of a new proposal. Thus company could use qualitative measures such as improvements in clarity of voice, period taken to restate a downed network, reduction in faulty rates, downloading time of internet files. Even though company cannot identify a direct profit generated from the above measures, those will enhance the satisfaction of customers. The company could use additional measures such as new customer acquisitions per period, revenue generated per employee, time taken to establish new connections.

The Company uses variance analysis to measure and control performances of employees. However this is not a rational way to evaluate the employee performance, because a division like repairs and maintenance highly deviate from the original budget and incur more than funds allocated. But such behaviour is not due to the inefficiency of the unit but as a consequence of increased maintenance resulted by the high demand and communication traffic. During the last year repairs and maintenance unit reported an adverse variance of 31%. Therefore, company cannot always measure performance of every division through variance analysis.

6.4 Behavioural Aspects

The positive and negative implications of the existing budgeting and budgetary control process of the company is discussed below.

6.4.1 Negative Implications

As stated above the budget planning is done according to the plans given by the ABP which is imposed by the CEO's scenario plan. Further, only the executive level employees taking part in the budget planning process. Therefore, the current budgeting targets are imposed by the top level to the bottom and company does not rely on suggestions given by non executive employees. This practice will discourage employee participation in decision making and might fail to grasp worthy opportunities to overcome the competition through their field experiences. For example, employees at regional offices know the specific requirements of their customers in each region. Requirements of customers in Badulla, Nuwaraeliya region will differ from requirements of customers in Colombo region owing to income level differences and professions they do. Colombo regional customers need more internet, IDD, Data and Voice facilities with different packages for business organizations, domestic customers where as customers in regions like Badulla might need the company's basic services for communication purposes not as complicated services as in the Colombo region. Since employees at regional offices can identify specific requirements accurately company can serve them in a satisfactory level.

The Head of the Budget Division commented that "some employees used to submit their financial requirements by keeping an additional margin (slack) because they feel that the Budget Division cuts down some expenditure what ever the amount they asked for and not get the full budgeted amount, but the Division never cut off any budget requirement with a reasonable justification." Further, she said due to the long existing government culture personnel tend submit their financial requirements without proper analysis and reasoning. Therefore, these initial proposals entail unnecessary expenditure. However, the Budget Division can identify these budget slacks by experience and the company accepts proposals that are inline with the ABP. In such instances HD negotiates with them and cuts down resource requirements. She

said that it is very hard to negotiate with different divisions, because they feel that favouritism takes place in this negotiation process. For example, conflicts arise if the Marketing Division gets more funds and the Network Planning Division gets a budget which is less than what they asked for. Often Network Planning Division is at a disadvantageous position because even if they come up with new projects, the company will not be ready to implement them successfully as the projects need more money and the company does not have prior experiences in such matters.

Further, the Head of the Budget Division is of the view that proper control and analysis cannot be undertaken since the company cannot collect the exact values at regional offices because there is no integrated system to collect information. Further, the monthly variance analysis cannot be undertaken accurately since cost centres do not fully contribute to providing monthly details regarding project and operational expenditures in preparing the monthly budgets by considering seasonal factors. For example, costs incurred for maintenance of telecommunication channels are relatively high in months like December owing to high incoming and outgoing traffic and faults. Another example is towards the year end overtime payments increase due to extra work such as preparation of annual accounts, annual audits, physical verifications etc. therefore the salary budget for the month of December is expected to be high compared to other months.

Further, personnel at the Budget Division are used to prepare the budget by adding a margin to the previous years figure rather than taking new moves in the market. For example, the man power budget need to adopt a zero based approach, because salary expenses of employees vary according to overtime, allowances, bonus payments etc. The company needs people to work more at the time of New year, Christmas seasons, which will increase the salary costs because employees in the maintenance unit have to work in addition to the normal business hours to meet the service targets.

Most of the executives of the company feel that company is in a strong financial position and possesses infrastructure which competitors do not. Therefore, they think that the company should not pay special attention on strategies to capture new markets and customers because of the image of the SLT. But this may not be the case in the long run.

Another important aspect to be pay attention is that the adherence to a single target determined by the annual budget may lead to dysfunctional behaviour. For example, a project initiated to expand the bandwidth of the network could be completed within the budgeted limits but with low quality of work. Project team would try keep the project within the budget by using low cost, low quality material, less skilled cheap labour, ultimately result in not meeting the intended quality work. Therefore, company need to introduce multidimensional performance measures such as number of faults reported per month, reduction of traffic congestion, apart from the traditional variance analysis.

6.4.2 Positive Implications

The existing decision making procedure is straightforward and efficient since the targets determined and imposed by the top level. The existing system saves management time and administrative work involved in the budgeting and budgetary control process compared to a participative budgeting system. Because taking feedbacks from operational level employees and revising the original plans accordingly takes additional time and organizational resources, otherwise the company could have used in other value adding activities in providing services. Resource allocation needs to be consistent with the corporate strategy of the company and the existing culture supports this.

Further, targets and objectives set and imposed by the top level leads to direct the whole company in to one direction. This will mitigate the problem of sub optimization. Because, if different divisions were allowed to prepare their targets and budgets, personnel in individual units will try to maximize divisional profits rather than the company as whole. Therefore, the centralized budgeting and budgetary control process operative at the SLT supports accomplishment of the company's vision in the long run.

The tight control procedures adopted by the company keep control over the consumption of company resources. Company evaluates progress of every ongoing projects at the progress meetings held in every month. In these meetings all officers

who are responsible for their individual budgets have to explain the reasons for any deviations from the original plan. Further, this makes better communication and understanding between different functional areas. Therefore, there is less room for manipulation of resource utilization because employees know that for any excess usage of resources need justifications. The next period's resource allocation will be based on the progress of the present work done and this will save additional resources allocated to projects. Further, this gives the opportunity to other project managers to learn from others and question their work.

Further, involvement of executive level officers in the decision making process make the decisions more accurate and provide a guarantee of the planning process. Because, the bold and précised decisions taken by the experienced and the knowledgeable senior personnel make the planning process more efficient. Further, the decisions taken by the senior personnel of the company give guidance to their juniors in future decision making.

6.5 Possible Reasons for such Behaviour

The following discussion will examine state the possible reasons for such positive and negative behavioural interactions stated above that emanate from the Organizational Structure, Management Structure and the Control Culture as well as other operational areas.

6.5.1 Organizational Structure

As shown in Annex 1 the organizational structure of the company consists of many managerial layers. The tall hierarchy of the organizational structure seems to act as a barrier to create an environment where employees are encouraged to communicate and involve directly in the decision making process. Therefore, ABP rarely includes input from lower level employees who have close contacts with company customers. As stated by an engineer only the executive level employees contribute to the planning process. This will mar the creative thinking of non executive employees and

it will automatically lose their chance to contribute in decision making in various aspects in the company.

All project managers have to report to the Project Planning Division. Then all projects are evaluated at this point and Project planning Division communicates with the Finance Division for fund allocation. Therefore, project managers cannot directly contact the Finance Division for necessary fund allocations. Since the personnel in the Finance Division do not possess technical knowledge, the existing process creates conflicts among project employees and the Finance Division employees. If a suggestion by an engineer was ignored by the Finance Division, then he will be demotivated to make further suggestions towards the betterment of the company. Therefore, the tall hierarchy of the organization will lose feedback from lower level employees, which will negatively affect the competitiveness of the organization. An executive level employee who is involved in the project budget preparation division stated that, “planning, monitoring, and controlling of projects are solely handled by the Project Budget and Finance Division. Even though project managers contribute information by taking suggestions from people of the project into consideration we do not depend on this information in making decisions.”

Since the company does not support an environment where authority is delegated to lower levels to make necessary changes to the original plan, employees hesitate to think new ways to do things and come up with cost savings. Operational level employees have the ability to do things innovatively with their experiences. Long term survival of the company will be supported by creative employees who are valuable assets to the company. At SLT some think that new suggestions and attempts made towards improving the competitiveness of the company make unnecessary difficulties. Further, for both favourable and adverse variances budget holders should come up with explanations. But Head of the Budget Division is of the view that people do not give proper explanations for variances. Therefore the budget division faces difficulties in analyzing the reasons for variances reported and to come up with accurate budgets.

One possible reason for positive behavioural implications arose from the tall managerial hierarchy is the clarity and completeness of responsibilities and duties

assigned to the personnel under the existing organization structure. In the first place as the levels of the structure increases more and more time and effort has to be devoted to manage the company. Because, the additional managers and the support staff, and the necessity for effective communication and coordination among different levels create additional burden to the company. The complicated communication channels create difficulties in carrying operational tasks which need instant decision making. Therefore the existing structure of the company saves management time and costs.

6.5.2 Management Style

Since the company was under the ownership of government for a long period, still there are some bureaucratic practices taking place. Pointless documentation, rigid monitoring and control procedures slow down the decision making at lower level.

An engineer who is in charge of a project commented that mere privatization does not make any difference in the traditional management process. The most important thing is the change in personal attitudes of top level managers in order to enhance the commitment in the participative budgeting and budgetary control system.

According to the view of an engineer the current management style does not address human resource management factors such as motivational promotions, career developments, which are not handled properly. Even though the company states that promotions are purely based on performance other employees feel that they are based on the CEO's discretion. The CEO has no direct links with lower level employees. Therefore he often depends on information received from some other person. Hence, a promotion may be offered to an employee who has performed poorly rather than a person who is really committed towards the organizational achievements.

The executive level employees are of the view that the budgeting and budgetary control process will be complex, uncontrollable and may give rise to manipulations, employees are allowed to participate in the decision making and make alterations to the initial plans.

The management style of the company was a barrier when implementing a project recently in collaboration of sixteen other countries. This happened to be an essential project to retain the competitive position within the Asian region. But at the initial stages it was difficult to work together with other developed countries in the region owing to the inflexible procedures at SLT. But gradually the company was able to turnaround into a culture flexible environment where project initiators could make decisions as their discretion.

The practice of strict adherence to the budget and returning any unused funds and asking for more resources when there is a need for, which adopted for a long period kept the mind of operational and non-executive level employees' within the framework set by the top level. This ruined the creativity of operational level staff and they work towards just achieving the targets and not attempting to beat the predetermined targets. This will hinder the creative thinking and employees are not encouraged to do things differently to achieve the best possibility. Since the company does not have any reward scheme tied up with the achievements of budget targets, employees are of the view that it is better to carry out the job imposed by the top level rather than taking unnecessary risks.

6.5.3 Control Culture

Although current system is considered to be better and may conducive to achieve results than the earlier organizational culture still organizational politics take place within the organization. Therefore, employees are not encouraged active participation in the decision making process. The success of a company will highly depend on the value driven corporate leaders, who serves as role models, set the standards for performance, motivate employees. However the culture prevailed for more than ten decades under the government ownership does not supported an innovative environment within the company.

The existing system does not support a culture where employees have freedom to set their own targets and schedules. Since the executive level officers do not encourage

operative level employees to think differently and come up with novelties, the operations of the company always take a traditional conduct.

Further, employees are not rewarded based on a performance basis which will demotivate enthusiastic employees in doing things innovatively and differently. The long standing culture of the company is focused on just providing telecommunication services rather than paying no heed on value adding activities. This culture was developed owing to the fact that company's monopoly power enjoyed nearly for ten decades. Therefore, the budgeting and the budgetary control system of the company too got affected by the lethargic culture which did not encourage a flexible resource allocation and performance measurement criteria.

6.6 Other issues

The Budget Division has the problem of not getting necessary information on time to prepare the annual budget. Therefore, some times the annual budget has the problem of lack of relevant data because of the inefficient communication between different managerial layers. The company is now in the process of implementing a new computerized integrated system for collecting and distribution for budget information. It is expected that this system will enhance the efficiency of the current system and save cost and save management time. The company spends more time on preparation of annual OPEX Budget and revisions, fund allocation process for the head quarters payments, cost center wide data uploading to the computer system. The new integrated system is supposed to overcome the above problems.

Budgets based on historical data focus on sales targets i.e. acquiring more customers rather than focusing on improving customer and shareholder value. Because, at present the company focuses on internally negotiated targets which tend to be incremental changes to the previous period's outcomes. The result is achieving inwardly comfortable targets to the company, but giving up prospective customers in the long run.

6.7 Improvements to the Current System

The company has planned a new online integrated system to facilitate the budgeting and budgetary control system which will mitigate current problems in collecting and distribution of budget information. Main objective of this proposed module is to automate all functions of manual work and reduce the cost, increasing efficiency of communication with different managerial levels since everybody who contributes to the budgeting system can share information online. The system will be implemented from next year and thereafter it will be a paperless system. The system will facilitate collecting data from all cost centres through online for budget preparation and all data will be centralized to the budget unit. Alterations, changes, adjustments related to each cost centre will be handled by the Budget Unit. Arrangements have to be made to get summary statements from group, sectional, divisional levels through the proposed system. In addition, the system will analyse budgets by provincial, regional levels. Approved cost centre wise budgeted data have to be distributed among all cost centres online. Facilities will be provided to do changes, transfers during the year by the budget unit.

This chapter examined the existing budgeting and budgetary control process at the SLT and analysed how it affects the competitiveness of the organization which depends on the organizational initiative and innovation. The analysis further examined the positive and negative behavioural implications associated with the prevailing budgeting and budgetary control process and possible reasons for such behaviour.

Chapter 7

Conclusions

This chapter will conclude the impact of traditional budgeting and budgetary control system operative at the SLT and its impact on the organizational competitiveness. Further, this will suggest possible alternatives to overcome the problems identified in the Chapter 6. The limitations and the future directions of the study are also discussed in this chapter.

Many academics in Management Accounting have identified traditional budgeting and budgetary control systems as static which locks organizational initiative and innovativeness. To be effective in a global economy with rapidly changing market conditions organizations have to be able to adapt constantly their priorities and have to put their resources where they can create most value for customers and shareholders. Therefore, this study made an attempt to examine how the traditional budgeting and budgetary control systems influence the initiative and innovations of the SLT. The negative and positive behavioural implications and the possible reasons for such behaviour were examined in this study.

The company undertakes the annual budgeting process under two main modules i.e. the OPEX budget and CAPEX budget. The OPEX budget concern on the operational expenses of the company while the CAPEX budget allocates funds to the projects undertake by the company. According to views expressed by most of the employees at the company, it has rigid controls, and still the company could not fully transform from the culture that it inherited from the time of government ownership. Still old employees who also work under the bureaucratic culture didn't adapt to the new culture under the new ownership. Therefore, there are certain conflicts in the decision making process between the young employees who are directly recruited to the new culture under the new management and the old employees who are used to inflexible decision making culture. Further, the study revealed that possible causes for the negative behavioural implications arose from the organization structure, management style and the culture of the company are, creation of budget slacks, authoritative type budgeting process, centralized planning system, inflexible culture, poor coordination

and communication between different managerial levels. The issues identified above hinder the initiative and innovation of the company and adversely affect the path to achieve the long term competitiveness of the company.

7.1 How to Overcome the Problems Identified

7.1.1 Delegation of Authority

As discussed in the previous chapter the centralized management structure makes the operational level staff demotivated and not contributing their best towards betterment of the company since they are not taking part in the planning process. However, the company could decentralize its operations up to an extent where at least the engineer level officers given the authority to make necessary and urgent decisions which is key to provide services at a satisfactory level. But it is important to keep in mind that there must be a proper delegation of authority and the responsibilities should be clearly defined. Managers must be free to decide the best course of action with regard to project budgets. For example, a project aimed at expanding the network coverage, the project manager should given the authority to decide the number of antennas to be installed, where to locate the towers, the capacity levels. Further regional managers could give the authority and necessary funds to undertake special events take place in their regions. For example, Regional Managers could establish temporary antennas at Nuwara-Eliya in April Season with its mobile telephony partner, Mobitel. But the company must ensure a wider control framework in order to monitor the performances of Regional Mangers.

Further, communication barriers arose from the tall hierarchical structure of the organization too created an authoritative type budgeting process within the company. The centralized decision making process discourages employee participation in planning which will lose innovative thoughts come up by non executive level employees who work closely with customers.

In place of the traditional hierarchy and centralized leadership, decentralized organizational structure enables decision-making and performance accountability to

be devolved to line managers and creates a self- managed working environment and a culture of personal responsibility. This leads to increased motivation, higher productivity, and better customer service.

However the careful delegation and decentralization of the budgeting and budgetary control system is essential, otherwise it will lose the controllability of organizational activities since a large number of staff spread all over the country. The improper delegation of authority will end up with inappropriate employment of scarce resources of the company and allowing for manipulations.

7.1.2 The Problem of Budget Slack

Even though budgetary slacks isolate organizational members from the motivational effects of budgets, limits the effort that these people exert, and leads to inefficient use of the resources that the organization controls, the presence of budgetary slack could be used in a positive manner. As the company is under increasing pressure from the need of innovative telecommunication technologies, company can follow a strategy that require innovation and experimentation can be benefit from budgetary slack because, it allows managers to focus on relevant long-term and short-term objectives other than meeting budgets such as quality or customer service. In these settings, budgetary slack provides operating flexibility, reduce the time spent on control tasks, reduce risks of dysfunctional behaviour, and give managers discretion to pursue multiple goals while dealing with adverse exogenous factors. The formation of such environment and an organizational culture will result in staff members being frequently seeking for new ways of doing things.

7.1.3 Multiple Dimensions of Performance Evaluation

The single performance measurement criteria based on financial measures appraise only one aspect. But multi dimensional performance measures, such as those in the Balanced Score Card, to evaluate the performance of individuals or units based on

their contribution to the organizations ability to achieve strategic results, such as quality improvements lowered costs, and improved customer services.

Just analyzing performance by using a method like variance analysis by comparing the budgeted values versus the actual figures leads to distortion of results. For example, a division can achieve a favourable variance by using low quality cheap material, unskilled labour at the expense of provision of satisfactory services. Further, improving the financial position can be done in the short term by reducing service levels and competitiveness. However a Balanced Score Card approach can be used to understand the real picture of company's performance. Because the Balanced Score Card measures the performance from customer perspective, learning and growth perspective and the innovation perspective in addition to the financial perspective.

Performance measures should be selected with careful consideration otherwise non-congruent behaviour may occur. For example, performance measures focused on improving company's profitability may not pay attention on customer retention in the long run. But for the long term survival the company should undertake projects which aimed at boosting up customer satisfaction of which company cannot directly quantify the results. Therefore, in such instances a Balanced Score Card approach can be applied.

7.1.4 Competitor Benchmarking

It may be appropriate to make use of external benchmarks to set cost control targets and make cost comparisons with other competitors rather than on previous year's performance. As a consequence, the company focused the cost reduction efforts on achieving competitive advantage. This avoids negotiating improvements over last year and creates realistic targets, which take into account the improvements being made by the competition.

7.1.5 Activity Based Budgeting

Company could apply the Activity Based Budgeting Approach in setting targets for activities of recurring nature and regular activities. This involves identification of every activity involved in providing a certain service. Identification of activities leads to forecast accurate budget targets and efficient allocation of funds. Further, identification of activities involved in providing services will eliminate costs incurred in non-value adding activities.

7.1.6 Changes to the Organization Culture

Attempts could be made to set the budgets by incorporating strategic initiatives including provisions for research and development in new product developments, employee training and improvements in provision of services. Though investments in research and development do not generate returns immediately, it will benefit the company in the long run. The company should try to build up an environment where, managers are encouraged to communicate with their colleagues through negotiation and discussion and seek help of other with the resulting dialogue fostering new ideas and initiative

However, mere privatization of the operations may not result in improvements and organizational competitiveness. As stated by one engineer still organizational politics take place. Sometimes promotions and other rewards are awarded not on a performance basis but based on personal relationships. Further, attitudes of employees have not changed to a level which support creative thinking. Therefore, company should adopt an environment which facilitates flexible decision making, team working culture and management commitment towards a learning organization.

However, it can be argued that there should be a budgeting and a budgetary control mechanism to maintain the control and proper allocation of resources. But the approach should not deter the company's initiative and innovation. Company should balance between control and employee initiative and innovation in order to achieve the organizational competitiveness. A budget based on historical data will not support

flexibility in decision making and discourages deviations from the predetermined budget which is irrelevant for current market conditions. Therefore, companies should make sure that their budgetary planning process is continuously updated with current advancements in the business environment.

Finally it was observed that the SLT is dominating the telecommunication industry in Sri Lanka purely because of the monopoly power they exercised nearly more than ten decades and the infrastructure they possessed. But company should find new ways to remain its position as the market leader with the market liberalization policy adopted by the government. Therefore, as identified by this study the competitive position of the company will be threatened due to lack of initiative and innovation if it couldn't change the traditional budgeting and budgetary control process which creates an inflexible and demotivated work force who are not willing to contribute their maximum effort towards the betterment of the company.

Since the study focused on the budgeting and budgetary control system and the degree to which it affects the organizational competitiveness of just one organization in Sri Lanka, generalization of the findings of the study may not be feasible. This is mainly owing to diversity and complexity of the organizational, task and macro environmental factors related to different industries. Further, owing to the fact that findings of the study is highly subjective to qualitative factors such as behavioural practices, attitudes of people, applicability of the findings may not be generalized. Essentially findings are situation driven which could unearth many a learning point to practicing organizations.

There are numerous research studies that have been undertaken by European and American scholars on the subject of traditional budgeting and budgetary process and its implications on organizational competitiveness. However, there are very few similar studies undertaken in the Sri Lankan context. Therefore, I suggest that there must be similar studies undertaken covering manufacturing and service sectors. Findings of such studies will benefit the practicing organizations in Sri Lanka to succeed in the global economy. Further, academics in Sri Lanka can develop their own knowledge rather than depending on the Western wisdom by undertaking such researches in the Sri Lankan context.

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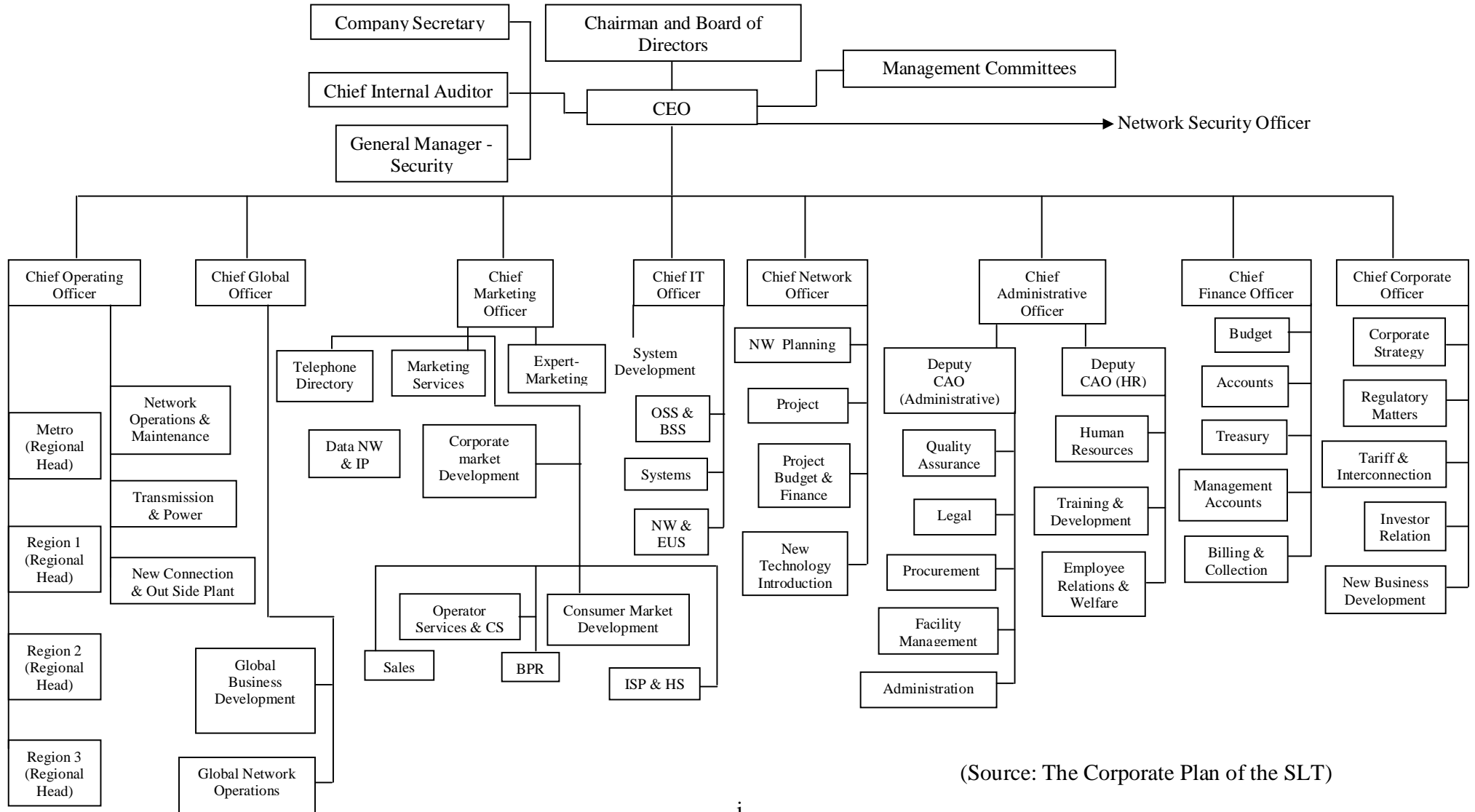
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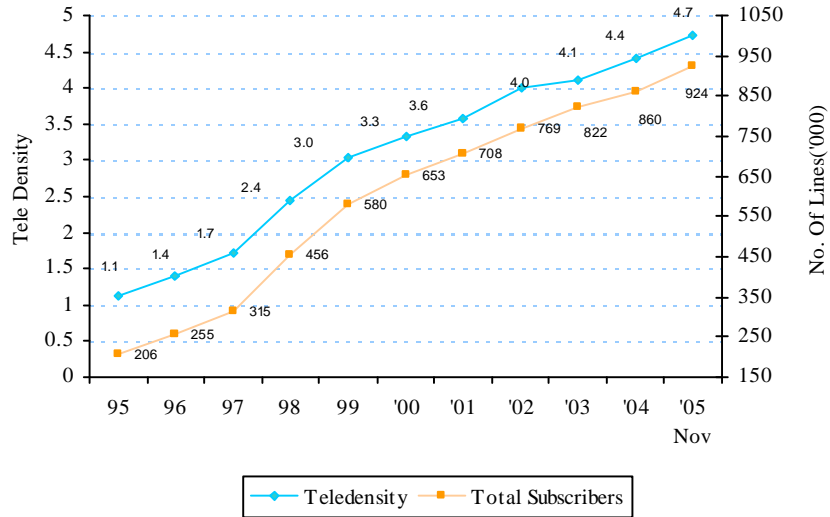
Annex 1: Organization Chart of the SLT



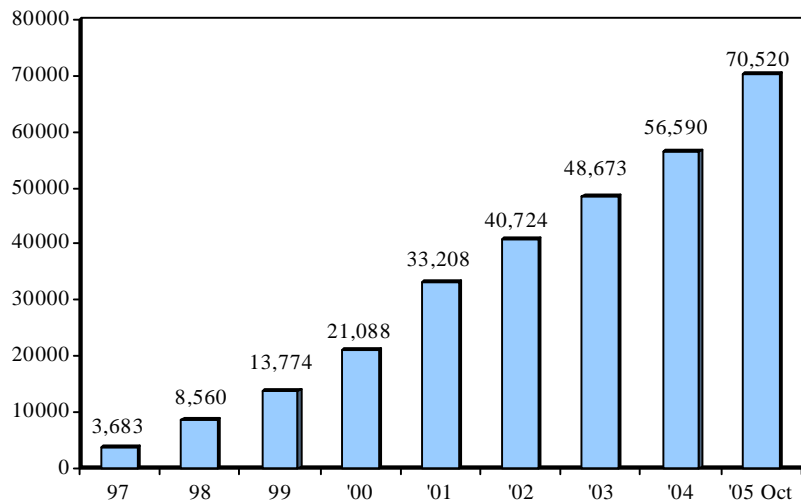
(Source: The Corporate Plan of the SLT)

Annex 2 : Performance Measures of the Company Growth

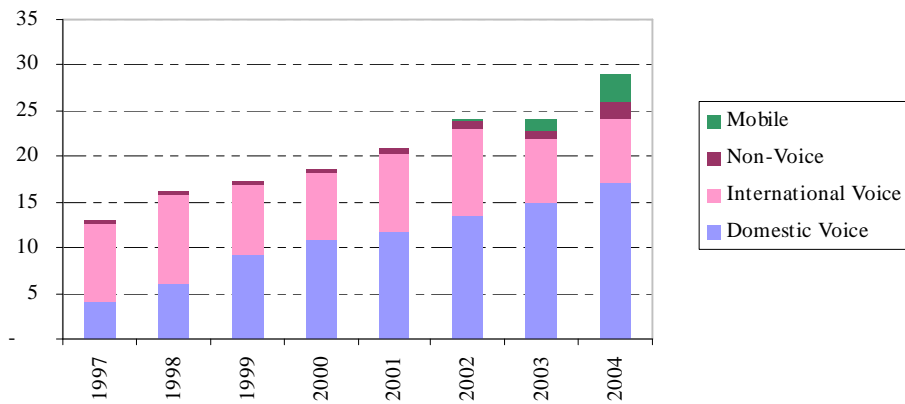
1. Number of Telephones per 100 Inhabitants and the Growth



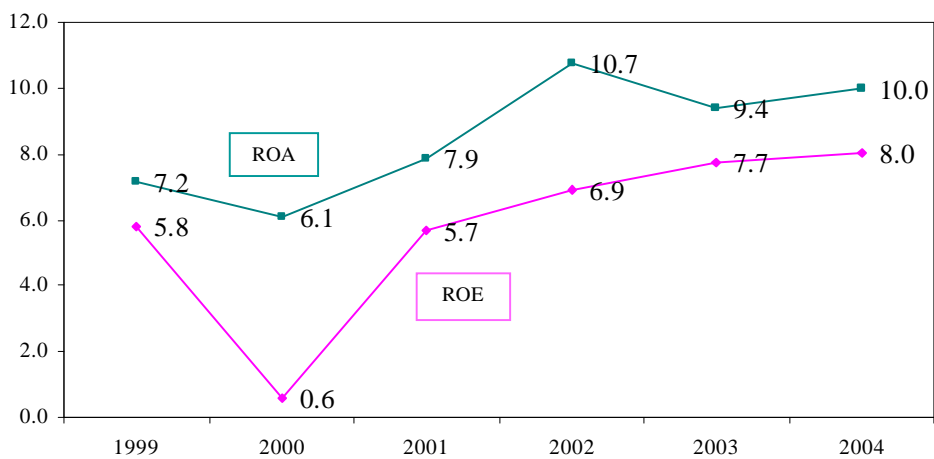
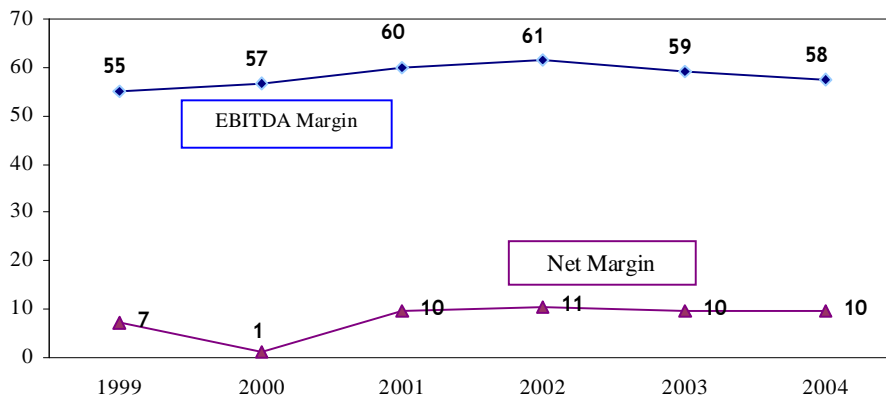
2. Growth of Internet and Email Customers



3. Growth of Operating Revenue

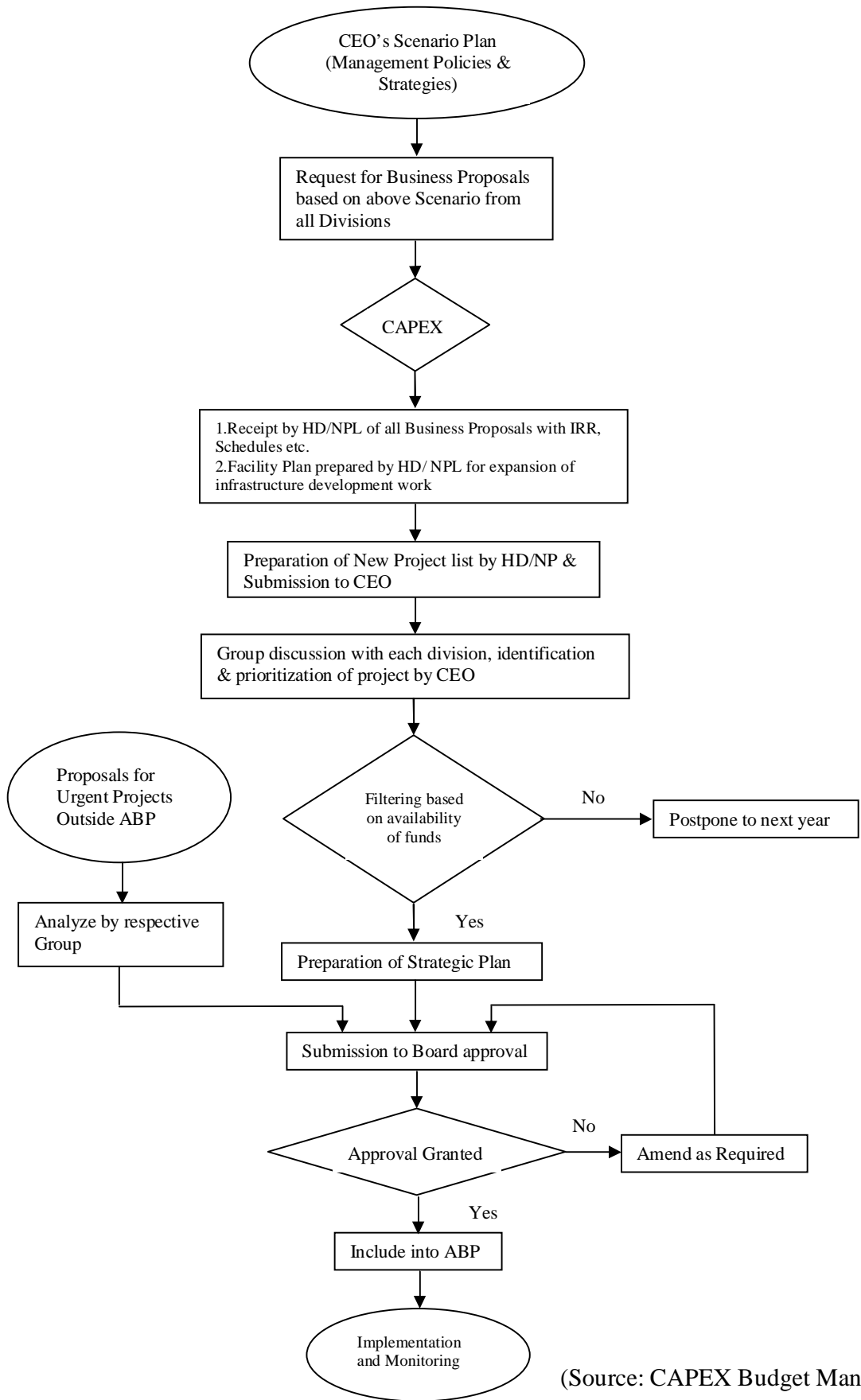


4. Key Financial Indicators



(Source: Annual Business Plan 2005)

Annex 3 : Flow Chart for CAPEX Budget



(Source: CAPEX Budget Manual)

Annex 4: Participants to the Survey

Name and the Designation of the Respondent	Date	Time
1. Mrs. K.D.N. De Silva - Head, Budget Division	01.03.2006	8.45a.m. to 9.30a.m.
2. Mr. S. Kandanarachchi – Engineer, Procurement Division	08.04.2006	1.30p.m. to 2.20p.m.
3. Mr. R. M. N. Siriwardena - Engineer, Project Budget & Finance	08.04.2006	2.45p.m. to 3.30p.m.
4. Mr. D. P. N. Samarasiri - Head, Project Budget and Finance	10.04.2006	9.30a.m. to 10.00a.m.
5. Mrs. M. A. Daya Ranjini - Head, Project Accounting	10.04.2006	10.10a.m. to 10.45a.m.