

# **Accounting as a Hegemony**

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This is to certify that the Research Report

**Accounting as a Hegemony**

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the University of Sri Jayewardenepura in partial fulfillment of the requirements of the  
Bachelor of Science in Accountancy (Special) Degree.

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## **Dedication**

(A reflection of un-avoidable values of mine.)

**To my  
father,  
mother,  
sisters,  
brothers,  
and  
Amila.**

## **ACKNOWLEDGMENT**

This was a real difficult task and will not be a success if I did not get the support of few people who was always behind me. I cannot finish the work with out making a note to express my gratitude to them.

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## ABBREVIATIONS

|             |   |
|-------------|---|
| <b>AOA</b>  | Articles of Association                   |
| <b>B.C.</b> | Before Christ                             |
| <b>CFD</b>  | Commercial and Finance Division           |
| <b>CSL</b>  | Computer Systems Limited                  |
| <b>DHL</b>  | Dairy Holdings (Hong Kong) Limited        |
| <b>EBS</b>  | Electronic Banking System                 |
| <b>FCMP</b> | Full Cream Milk Powder                    |
| <b>FRs</b>  | Financial Regulations                     |
| <b>ICA</b>  | Institute of Chartered Accountants        |
| <b>ISA</b>  | International Standards for Auditing      |
| <b>JOL</b>  | Jones Overseas Limited                    |
| <b>KPMG</b> | KPMG Fords, Rhodes, Thornton & Co.        |
| <b>LPL</b>  | Leader Pacific (Hong Kong) Limited        |
| <b>MD</b>   | Managing Director                         |
| <b>MPHL</b> | Milk Products Holdings (SEA) Limited      |
| <b>NZDB</b> | New Zealand Dairy Board                   |
| <b>NZML</b> | New Zealand Milk Lanka (Private) Limited. |
| <b>NZMP</b> | New Zealand Milk Products Limited         |
| <b>RFMP</b> | Reduced Fat Milk Powder                   |
| <b>SCB</b>  | Standard Chartered Bank                   |
| <b>TMOL</b> | The Maharaja Organization Limited.        |

## **ABSTRACT**

Domination is occurs when there is an asymmetrical relationship between objects, such that one has limited capacity to act. With this the concept of power relation can be identified. Power relations are characterized in terms of conflict or alliance between forces and again he says that power relations are said to arise whenever there is action upon the action of others. To live in society, is to live in such a way that action upon other action is possible – and in fact ongoing. A society without power relations can only be an abstraction. It should be noted that this ideas on power have made a shift of forms of power from external disciplinary regime to internal exercise of power. Therefore, it is noteworthy that when controls are exercised those controls will become power.

# CHAPTER 01

## INTRODUCTION TO THE STUDY

### Background of the Study

In any process either linear or non-linear, controlling of the process is considered as an essential activity. In isolation, controlling itself can be viewed as a process. Accounting control is one of the major parts in controls procedures in any organization. When accounting is evolved over time, controlling aspect of it was oftenly emphasized, even though today it is widely considered as an information system. Emerged importance of accounting, as an information system does not mean that controlling nature of accounting is diminished. In most of the places it is still used as a controlling mechanism.

When controlling is taken into consideration, it is a symbolic process created by human beings and when controls are operationalized, it becomes a power. However, commonly observed resistance towards controls and / or power cannot be observed in relation with accounting and accounting controls.

New Zealand Milk Lanka (Private) Limited has been selected as the ground of the study. NZML is a company operates in dairy product industry in Sri Lanka and it is a dominant player in milk packeted product industry segment. At the end of the financial year 2003, the Company had 474 employees (Source: Financial Statement for the year ended 31 May 2003). Around seventy percent of them are minor employees working as factory staff, office staff, and transport staff. Even in this context, where large number of staff is subject to various controls, accounting controls has not been questioned by them.

## **Research Problem**

According to my above stated argument that is when controls are operationalized, it becomes a power; and based on the background of NZML, there is a doubt whether accounting controls has a hegemonic acceptance within organizations.

## **Objectives**

I intend to achieve following objectives through this study.

- To identify how accounting controls are exercised in organizations in Sri Lanka.
- To find out whether accounting controls has a hegemonic acceptance in organizations.

## **Significance**

Studies in Sri Lankan corporate sector, which make an emphasis on organizational power, are hard to find. The significance of the study is therefore clearing out the doubt that whether accounting controls are used in organizations as a power in organization or not.

## **Limitations**

The study is carried out in a context where researcher is a citizen in a country affected by post-colonial social constructs and values are exists. This is the major limitation of this study. Further, being just an undergraduate accessing to information of a multinational company is not an easy task. And therefore, this study was carried out with minimum access to information. This leads to another limitation of the study. The analysis of the study is limited to my knowledge and experience on post-positivistic research techniques.

## **Methodology**

Methodology of the study is based on post-positivistic research paradigm. The Gramscian understanding of hegemony will be used as the methodology of the study. This is an idiosyncratic research study and it is indeed a case study of accounting and accounting control system of NZML.

## **Chapterization**

This report consists of five chapters including this chapter. Second chapter is to discuss the methodology of the study. Third chapter is to review the existing texts related to power, accounting, and accounting controls. In the fourth chapter analysis of the study is presented and finally the fifth chapter is for conclusions and summarizing.

## CHAPTER 02

### METHODOLOGY

#### Introduction

Studying a social phenomenon cannot be done without a having a science. *Logy* is a word coming from the Greek language, which gives the meaning science. The science of methods can be termed as methodology. Methodologically this research is a qualitative one, which is in the post-positivistic research paradigm. It is an in-depth analysis of accounting and accounting control system of New Zealand Milk Lanka (Private) Limited; indeed a case study. Gramscian understanding of *hegemony* has been used as the logy (science) of the study.

Concepts coming in the above sentences, such as post-positivism, case study, accounting controls, and Gramscian hegemony should be made clear before consider the methods applied in the study.

#### Methodology

In the post-positivistic paradigm<sup>1</sup> of social research, it is believed that the reality is a critical realism. In *critical theory*, virtual reality is explained as a result of crystallization of social, political, cultural, economical, ethnic, and gender values over a period of time. Therefore, there are reviews of historical evolutions frequently throughout this study. Further, there is a transactional effect between the values of the inquirer (or the knower) and the phenomenon. This means knower's values can be affected and affect the phenomenon. Due to this reason the study might reflect my inter-subjectivities.

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<sup>1</sup>Paradigm is a basic set of beliefs that guide action.

This study has been conducted as a case study. For the study purpose only a single social unit: New Zealand Milk Lanka (Private) Limited (NZML), has been selected. That is a company involves in manufacturing and/or trading activities in dairy products industry in Sri Lanka. This is an idiosyncratic study. Therefore, findings will not be generalize since so called generalization is an illusive status.

There can be many forms of controlling mechanisms in any business concern. For example strategy control, production control, quality control, human resource control and accounting control. In this study only the accounting controls has been considered. Accounting controls has been defined by Banerjee as controls aim to achieve accountability in financial matters and in doing so, cover the recording of transactions, establishing responsibilities for maintaining financial records including that of assets (Banerjee, 2001: 21). In addition to this any other control which use accounting information also considered in this study.

To understand the operation of these controls, Gramscian understanding of hegemony is used as a spectrum. B.J.Bacock as quoted by Celgg (1998: 105), has defined hegemony as the intellectual, moral and philosophical leadership provided by the class or alliance of class and class fractions which is ruling successfully achieves its objective of providing fundamental outlook for the whole society. This can be applicable to micro or organizational level as well. For the purpose of the study organizational level hegemony has been defined as collective acceptance of intra-organizational powers and controls without significant resistance.

### ***The Ground: New Zealand Milk Lanka (Private) Limited.***

The social unit selected for the study is NZML. This is a multinational company belongs to Fonterra Co-operative Group of New Zealand. The Company has been incorporated in Sri Lanka as a privately limited liability company under the Companies Act No. 17 of 1982. Company is a dominant player in local packeted milk powder industry. This was selected for two reasons. There was some exposure with the Company for me and I

preferred to study a manufacturing company. However, the Company involves in very limited manufacturing activities and packing of bulk milk powder is the major operation.

## **Methods**

Three study methods have been adapted during the period of gathering evidence. They are namely interviews, observations and review of existing texts.

It is important to mention that how I got an opportunity to get the access to NZML. Auditor of the Company was KPMG Ford, Rhodes, Thornton & Co. (KPMG). I had an opportunity to be a member of the KPMG audit team appointed to NZML. Audit was carried out in NZML for a period of nearly three month in mid of 2003. NZML was popular among auditors as a client who was highly concerning the sensitivity of information. Therefore, in certain cases certain information were not given to us at all or certain information were given only to our management. However, during this period I had a good exposure to the Company's accounting system and people there. Understanding I gained through that has made my study easier.

By working as an auditor, I was able to build up a fair relationship with the Accountant of the Company. During that time I have discussed with him about my intention of doing this study in NZML. As a result after two months of the completion of the audit, I was able to contact the Accountant of the company with out much difficulty. For the purpose of my study he gave me several interviews, which always took more than hour. However, in many instances information was not given due to their confidentiality (?).

**Interviews.** Interviews were one of my methods in gathering data. I have done four interviews with Accountant and three with other manages of the Company. All these interviews were done during November and December in 2003. All of them were unstructured interviews and however, areas to be discussed in the interview were informed to the interviewee prior to the interview. Average time taken for each interview was more than one hour. Discussions were recorded using a micro recorder with the permission of interviewee. Accountant, Information Technology Manager and System

Administrator of the Company were interviewed to obtain facts related to accounting system, related controls and history of the Company. General idea of the accounting system and controls was obtained from the discussion with the Accountant. To understand electronic accounting system, a discussion was held with System Administrator. A former Accountant, who is now Manager Information Technology, gave certain information on the historical evolution of NZML such as formation of the Company, number of employees at the beginning, starting of packing milk powder and subsequent changes occurred in the Company.

**Review of Existing Texts.** This was another method I have applied in gathering facts. Such text are, for example company records held with Registrar of Companies, Financial Statements of the Company, management reporting packs of the company and news letter of the Fonterra Group 'Big Picture'.

Company's historical evolution was reviewed by using the Company records held with Registrar Companies. In mid of December 2003 I visited 'Samagam Medura' (Office of the Registrar of Companies). From those records formation, objects, directors, capital contributions and name changes of the Company was reviewed.

Financial statements, management reporting packs, other reporting and Company's newsletter was obtained and reviewed to identify the indications of symbolization of power.

Even though, NZML do not have a separate website, I have visited websites of Fonterra, New Zealand Milk and Maharaja Organizations through which group controlling and structures were identified.

Finding from review of text was taken down as rough notes and /or saved in floppies. They were then summarized using word processor.

**Observations.** Observations are the other way of gathering the evidences. This was basically done when I was involved in the audit of the Company. In addition when I

visited the Company for interviews I went there one hour to thirty minutes before the time of the appointment. This additional time was spent to look around the Company.

### **Case Study Analysis**

The facts collected through interviews, text reviews and observations were summarized and word-processed. Those word-processed facts were gone through for number of time and recorded interviews were heard several time and these facts then converted into a form of case study. After that through a process of thinking analysis was done.

## CHAPTER 03

### LITERATURE REVIEW

#### Introduction

In this chapter, I review the existing literature related to this study. And the discussion will basically flow through two constructs: power and accounting and accounting controls in organizations. The argument will be built up through these literatures. In the first part of the chapter, I will focus on presenting my reviews on power, which will basically pay the emphasis on the *Gramscian understanding on hegemony* and its application in micro level context. Then the discussion will be moved on to accounting and accounting controls, and their historical evolution.

#### **Power: *conceptions and misconceptions***

In Sociology, power is a central theme. Further, it can be identified as a relative concept; it is not absolute and it depends on the context and the relationship there (Arora, 2000: 338). Degree of power possesses, that is some groups (or individuals) having more of power than others, will result in power inequality. This concept sometime referred as social inequality and/or power distance too (Arora, 2000; Game, 1991).

Power and nature of power cannot be precisely defined. To understand the concept of 'power', knowing about its different perspectives are helpful. Power can be discussed from two different perspectives: *macro* and *micro*. Macro perspective refers to power in social context whereas micro perspective refers to power in organizational context. Weber's definition on power is frequently used to denote macro perspective of power.

The probability that one actor in a social relationship will be in a position to carry out his own will despite resistance of others.

Weber (1968: 15)

In this definition Weber has used the phrase 'own will' to define power. This reflects the Weber's understanding of power, in which power is viewed as something used to carry out one's desires and as something coming as an external force. This definition gives a negative sense on power.

Micro perspective of power is the other one. The following is a definition, which has been applied in many texts (Mintzberg, 1983, Russell, 1986, Dawson, 1996) to indicate micro perspective of power.

The power of A over B equal to the maximum force which A can induce on B minus the maximum resisting force which B can mobilize in the opposite direction.

R.John and P.French Jr. in Mintzberg (1983: 2)

This definition gives an idea that power is something quantitative (i.e. measurable and/or comparable). This quantitative idea on power is closer to Russell's idea on power. Russell (1986) has clearly stated that power is a quantitative concept. Power has been defined by many writers in different contexts in many different ways: However, it is difficult to craft a generic definition for power.

To clear out the conceptions and misconceptions on power, it is advantageous to study some of the different notions of power. I review ideas of some of the Western writers: Niccolò Machiavelli (1469-1527), Thomas Hobbes (1588-1679), Max Weber (1864-1920), Antonio Gramsci (1891-1937), Bertrand Russell (1872-1970), and Michel Foucault (1926-1984).

## **Niccolò Machiavelli: *on strategy of macro-power***

Machiavelli is among early writers of power and politics who has contributed to the Renaissance in Italy and thereby Europe. Some writers suggest Machiavelli as the first political scientist (Jayawardane, 1986). According to Clegg (1998), Machiavelli writes on strategy of power.

Machiavelli has divided all kind of States, powers exist either past or present into two: republics and principalities. And has categorized principalities under two: hereditary and new. In addition, he has identified further sub-divisions in above two forms of principalities. Machiavelli's suggestion to 'the prince' who acquired a country with different language, customs or laws, is to go and reside in that country so that his power will be more secure and durable (Machiavelli, 1992: 08). In addition, Machiavelli advises the prince in such a context to be the head and defender of less powerful neighbours, weaken the more powerful neighbours and avoid equally powerful neighbours to come into the country. Machiavelli writes on human desire to acquire power, in the following manner;

The wish to acquire is in truth very natural and common, and men always do so when they can, and for this they will be praised not blamed; but when they cannot do so, yet wish to do so by any means, then they are folly and blame (Machiavelli, 1992: 14).

This is why Gunasinghe (1986) argues that Machiavelli's thought was the path (or strategy) that will be justified by the destination or final outcome and therefore if the objective is fair enough using any strategy will also be considered as fair (Gunasinghe, 1986). To an ordinary person ('private person' as per Machiavelli's terminology) can become a prince by two ways neither of them are fortune or genius rather they are wicked or nefarious way and through the favour of the fellow citizens (Machiavelli, 1992: 37). Severities (cruelties) as Machiavelli argues, can be properly used if it is used for one's security and thereafter turned to the advantage of the subjects. It is said bad use of severity is using few in the commencement, multiply with the time rather than decrease

(Machiavelli, 1992). Machiavelli asks prince to concern on the subject of art of war for the survival of power;

A prince ought to have no other aim or thought, nor select anything else for his study, than war and its rules and discipline; for this is the sole art that belongs to him who rules, and it is of such force that it not only upholds those who are born princes, but often enable men to rise from a private station to that rank (Machiavelli, 1992: 66).

These unethical concepts and arguments (in some perspectives) are justified by Machiavelli himself in the following intense;

... as I know that many have written on this point, I expect I shall be considered presumptuous in mentioning again, especially as in discussing it I shall depart from the methods of other people. But, it being my intention to write a thing which shall be useful to him apprehends it, it appears to me more appropriate to follow up the real truth of a matter than the imagination of it ... (Machiavelli, 1992: 70).

There was no necessity to define the concept of power, rather Machiavelli has advised his 'prince' in how to use power to acquire and maintain the 'principality'. The way of using power can be identified as politics and therefore, Machiavelli can be identified as a political scientist. Gramsci who frequently used the ideas of Machiavelli says,

Machiavelli did not have recourse to long-winded arguments, or pedantic classifications of principles and criteria for a method of action. Instead he represented this process in terms of the qualities, characteristics, duties and requirements of concrete individual (Gramsci, 1996: 125).

Gramsci was in the view that individuals no more capable of creating the State even though it is the main idea of Machiavelli's 'Prince'.

## **Thomas Hobbes: *deductive approach to macro-power***

Hobbes due to his contribution to power, has considered as a noteworthy writer in English literature on power. Hobbes' approach to power is deductive reasoning (Jordan, 1985: 25). He starts his book '*Leviathan*' with a discussion on man and individual's desires and then based on that has develop the concept of State or in other words macro level power. All human beings as per Hobbes, try to move their desires to satisfaction continuously. Desires are of two types: inborn and learnt from experience. In this background, Man is different from animals because they can speak and reason. Hobbes says that the 'right of nature', which is the basis of his argument as,

the liberty each man has to use his own power, as he will himself, for the preservation of his own nature – this is to say, of his own life – and consequently of doing anything which, in his own judgment and reason, he shall conceive to be aptest means thereunto. (Hobbes, 1958: 109)

According to this every man has a power, which can be used for the benefit of him/herself and usage of this power will be continued until the death. Then here a question arises on the man's ability and right to suicide him or herself. But Hobbes argues that man has the right only to preserve and not to damage and that is he termed as the 'law of nature'. So that he built the concept of commonwealth as a result of man's effort to preserve him. Commonwealth as per Hobbes, can obtain 'sovereign' power in two ways: institution and acquisition. If there is no sovereignty,

there is no place for industry, because the fruit thereof is uncertain: and consequently no culture of the earth; no navigation nor use of the commodities that may be imported by sea; no commodious building; no instruments of moving and removing such things as require much force; no knowledge of the face of the earth; no account of time; no arts; no letters; no society; and, which is worst of all, continual fear and danger of violent death; and the life of man solitary, poor, nasty, brutish, and short (Hobbes, 1958: 107).

In this he try to show that the sovereignty as the supreme form of power. Hobbes writing here further reflects the competitive commercial society in which he lived in

seventeenth century in England and it shows that his effort was to formalize the commercial society.

### **Max Weber: *on modern conceptualization of power***

When it comes to organizational power or in other words micro level power, Max Weber a German sociologist, is a dominant writer. His main conception was 'bureaucracy' which is widely applied in organizational contexts. He is considered as a contributor to classical viewpoint of evolution of management thought.

Weber's definition on power is which read as, the probability that one actor within a social relationship will be in a position to carry out his own will despite resistance, regardless of the basis on which this probability rests (Weber, 1968: 15). He introduces a concept call 'imperative control'<sup>1</sup> which looks from the side of parties affected by power. Weber defines imperative control as the probability that a command with a given specific content will be obeyed by a given group of persons (Weber, 1966: 152). In both of these definitions Weber uses the word probability by which he gives an idea that there can be situations where power cannot be exercised. Here he limits the scope of the definition by limitations such as 'given content' and 'given group'. With this imperative control he couples the concept of discipline. As per Weber discipline is the probability that by virtue of habituation a command will receive prompt and automatic obedience in stereotyped forms, on the part of given group of persons (Weber, 1968: 16). This automatic compliance is important in organizational settings. He explains that for the existence of imperative control there should be a person (organization of persons) who is capable of successfully issuing orders to others and it dose not require a administrative staff (words within the bracket were added). Here he suggests that with any other group of person can be take part in imperative control even though it is uncommon. The notion of authority he expressed as 'imperatively co-ordinated'. Authority he defines as a legitimate exercise of imperative control. He agued that the basis from which power can be exercised can vary on social context that is historical and structural circumstance and has

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<sup>1</sup> Editors and translators has noted that this word does not give the correct meaning of Webber's term '*herrschaft*'. See footnotes of Weber, 1968: p 15 and Weber, 1966: p 152.

introduced three types of authority: rational-legal authority, traditional authority and charismatic authority.

### **Bertrand Russell: *quantitative power***

Russell (1986), an English philosopher defines power as the production of intended effects and according to him it is a quantitative concept. His approach into power based on the intention. In his view, it is easy to say, roughly, that A has more power than B, if A achieves many intended effects and B only few (Russell, 1986: 19). Russell again writes,

There are various ways of classifying the forms of power each of which has its utility. In the first place, there is power over human beings and power over dead matter or non-human forms of life. ... Power over human beings may be classified by the manner of influencing individuals, or type of organization involved. ... (a) by direct physical power over his body, ... (b) by rewards and punishment as instruments, ... (c) by influence on opinion, ... (Russell, 1986: 19).

For all the three above, he has given examples such as, (a) military and police power, (b) power of propaganda and (c) power of education. He further argues, 'by influence on opinion', it includes the opportunity for creating desired habits in others and he divide power as traditional power which comes with the force of habit for instances law, religious and quasi-religious beliefs and newly acquired (naked) power like military power (Russell, 1986).

Russell in his writing does not identify the macro and micro forms of power, even though he talk about various forms of power. In his discussion he identify the three forms of power which are actually micro level forms of power, however, the example he has given to those forms are in macro form of power. Clegg (1998) has made a comparison between Russell and Weber as both of them use the approach of the power of intention. Further, it is clear that Russell's view of power is an external enforcement.

I have reviewed ideas of Machiavelli, Hobbes, Webber, and Russell on power. Machiavelli was a writer discussing the strategy of macro-power. That is the ways and means of acquiring and maintaining the State power. Hobbes has discussed how individual power can be developed in to a sovereign power of a State. Due to this manner of discussion, his approach can be identified as deductive reasoning. Webber discussed about micro-power. And he discussed about the perspective of the parties affected by power, which is not common on writing of power. Power has been identified as a quantitative concept by Russell. However, all these writers had a common notion that power is 'an external force.' Gramsci and Foucault have deviated from this idea. These two ideas are reviewed in the following paragraphs and Gramscian hegemony is discussed in length, as it will be used in analysis in the study.

### **Michel Foucault: *exercise of power***

Foucault, a recent post-structuralist French writer, has made a significant contribution towards the discourse of power. Power as per Foucault in its primary sense is the capacity to do or become certain things (Patton, 1998: 65). He talks about subject of power, the subject can present in various forms as power of human beings can be exercised in infinite different ways. Most interestingly Foucault argues that exercise of power is neither good nor bad (Moss, 1998; Patton, 1998). Reason is that use of power will result in new knowledge and states of domination are not always to be avoided. Foucault gives the education process as an example. However, some argues that Foucault has failed to give a criteria of judgment on which progressive forms of domination can be identified (Patton, 1998). For this the answer given by Foucault is that concept of human subjects provides a means to distinguish domination from other forms of power. Domination is occurs when there is an asymmetrical relationship between objects, such that one has limited capacity to act. With this the concept of power relation can be identified. Foucault noted power relations are characterized in terms of conflict or alliance between forces and again he says that power relations are said to arise whenever there is action upon the action of others (Patton, 1998: 66). To live in society, Foucault explains, is to live in such a way that action upon other action is possible – and in fact ongoing. A society without power relations can only be an abstraction (Patton, 1998: 67).

It should be noted that his ideas on power have made a shift of forms of power from external disciplinary regime to internal exercise of power (Game, 1991: 41). Therefore, it is noteworthy that when controls are exercised those controls will become power.

### **Gramsci: *Hegemony and Collective Will***

Gramsci is one of the Italian Neo-Marxist who critically analyzed Machiavelli and grabs the theoretical aspect of '*The Prince*' into his concepts (Gunasinghe, 1986: 8). Hegemony, the modern prince and role of organic intellectuals are the main contributions of Gramsci. Concept of hegemony, which is discussed in here, is basically a new concept introduced by Gramsci to the Marxism.

Quintin Hoare and Geoffrey Nowell Smith who edited and translated the Gramsci's Italian book has stated that,

... it is also worth noting that the term "hegemony" in Gramsci itself has two faces. On the one hand it is contrasted with "domination" (and as such bound up with the opposition State/Civil society) and on the other hand "hegemonic" is sometimes used as an opposite of "corporate" or "economic corporate" to designate an historical phase in which a given group moves beyond a position of corporate existence and defence of its economic position and aspires to position of leadership in the political and social arena (Gramsci, 1996: xiv).

Further, there are certain instances where editors had not used the term hegemony still it implies the meaning of hegemony. Therefore, Gramsci should be read with this background. He develops the concept throughout the book and in his book discusses the concepts such as organic intellectuals and their role, the modern prince and the hegemony, which are all interrelated and required a synthesized close-up.

According to Gramsci, there are two ways of the supremacy of social group manifests: Domination and Intellectual and moral leadership. Even though, here the term

hegemony is not been used it implies the hegemony by the phrase ‘intellectual and moral leadership’. His formulates that,

A social group can, and indeed must, already exercise “leadership” before winning governmental power (this indeed is one of the principle conditions for the winning such power) (Gramsci, 1996: 57).

In this instance writer means the hegemony by the word ‘leadership.’ He argues that without winning the intellectual and moral leadership or becoming the status of hegemony, social class cannot become the State. Gramsci says that, after becoming hegemony, it can become a dominant when it exercises power but after shorter period it should continue to lead (Gramsci, 1996: 57). This implies that even though domination is used as strategy of power it should not be used in a continuous manner.

By domination Gramsci means, as much as the absorption of the enemies’ *élites* means their decapitation, and annihilation often for a very long time and he argues that it is as an in-effective way of leading. Gramsci’s most clear expression on hegemony reads as,

The hegemony will be exercised by a part of the social group over the entire group, and not by the latter over other forces in order to give power to the movement, radicalise it, etc. on the “Jacobin” model (Gramsci, 1996: 106).

It is clear that Gramsci uses this concept to motivate the communist movement in Italy. Hegemony according to the above idea is not an external force of power rather it is the collective will of the members of the class which operate as a power. The concept of hegemony has been defined by B.J.Bacock as,

The intellectual, moral and philosophical leadership provided by the class or alliance of class and class fractions which is ruling successfully achieves its objective of providing fundamental outlook for the whole society (Clegg, 1998: 105).

This is a crystallization of Gramsci’s concept. To create the hegemony the dominant group within the social class should acquire, according to Gramsci,

1. autonomy *vis-à-vis* the enemies they had to defeat, and

2. support from the groups which actively or passively assisted them (Gramsci, 1996: 53).

Dominant group here is a fraction of the social class who uses its intellectual capacity to form the hegemony. Gramsci use the word 'dominant' to explain these intellectuals which leads to a misconception with hegemony. That is not similar to 'domination' as appears many dictionaries suggest. It should be noted here that the word dominant has been used to indicate the leading role of the particular group. Under 'The Notes on Italian History' Gramsci discusses a six-step process by which subaltern group becomes a State (hegemony). Those phases are,

1. the objective formation of subaltern social groups, ...
2. their active or passive affiliation to the dominant political formation,  
...
3. the birth of new parties of the dominant groups, ...
4. the formation which subaltern groups themselves produce, in order to press claims of a limited and partial character;
5. those new formations which assert the autonomy of the subaltern group, but within the old framework;
6. those formations which assert the integral autonomy (Gramsci, 1996: 52).

This process shows how collective will of a class gradually converted into a State. In this State controlling mechanism can be identify as hegemony. Even though, Machiavelli in his book created a powerful individual, Gramscian argue is that,

- ... the new Prince could not in the modern epoch be an individual hero, but only the political party (Gramsci, 1996: 147).

When intellectuals do not play their role properly, the social class will not be able to become the State rather they will be able to achieve some social development within the class and will not go further. Gramsci (1996: 9) put this responsibility to all the member of the class saying that 'all men are intellectuals'.

## **Accounting as a Hegemony**

Accounting is a controlling mechanism within organizations. This control mechanism with its operations becomes a power within the organization. With the recognition given by the employees of the organization and their interactions with accounting, this symbolic process will become hegemony in organizational contexts. This means accounting acquires the collective will of the employees of the organization. This hegemonic acceptance has come to accounting due to its historical evolution. Therefore, historical evolution of accounting and its evolution within Sri Lanka has to be reviewed to understand its hegemonic nature.

## **Historical Evolution of Accounting**

Even though, accounting has a long history, which will spread towards before Christ era its formal appearance occurs with the Luca Pacioli's (1445 – 1520) famous dissertation on double entry accounting system. According to Santis (2001);

In 1494, Pacioli published his famous book “Summa de Arithmetica, Geometria, Proportioni et Proportionalita” (The collected knowledge of arithmetic, geometry, proportion and proportionality). One section of this book was dedicated to the description of double entry accounting. ... The Summa made Pacioli a celebrity and insured him a place in history, as “The Father of Accounting.”

There are numerous literatures on existence of some sort of accounting records before Pacioli. Santis (2001) again comments;

... as man began to trade, we established the concept of value and developed a monetary system. Evidence of accounting records can be found in the Babylonian Empire (4500 B.C.), in pharaoh's Egypt and in the code of Hammurabi (2250 B.C.). Eventually, with the advent of taxation, record keeping became a necessity for governments to sustain social orders.

During the early days, when accounting evolve in the western world especially in Europe the controlling aspect of accounting was more emphasized. In their book *Accounting in Transition* Garrod and Mcleay (1996) are writing under the heading of ‘The Changing Objectives of Financial Reporting’ that;

In the past, with power firmly in the hands of the authorities, the countries of central Europe operated accounting systems which had their main objective the provision, in one form or other, of financial statistics by enterprises for use in higher level budgets. In the extreme case of such a system, little or no information was made available to outsiders at the level of the firm or, indeed, used for internal management and control purposes (Bailey 1988). The recent changes that have occurred throughout the central Europe have seen a move away from this situation in the direction of more open accountability.

This fact that is the paradigm shift from more control emphasis to accounting as an information system can be observed in many texts. Glautier and Underdown (1994) has said;

Changing social attitude combine with development in information technology, quantitative methods and the behavioural science to affect radically the environment in which accounting operates today, thereby creating the need to re-evaluate the objectives of accounting in a wide perspective. Accounting is now moving away from traditional base, encompassing record keeping and such related work as the preparation of budgets and final accounts, towards a role which emphasizes its social importance.

It is now put the emphasis on accounting as an information system and Glautier and Underdown (1994) argue that accounting can be viewed as an information system because;

Accounting is a social science which lends itself easily to analysis as an information system, for it has all the attributes of a system. It has a basic goal, which is to provide information, and it has clear and well-defined

elements in the form of people and equipment. Moreover, accounting has the typical activities of system, consisting of input, processing and output, ...

Even though, today accounting has been considered as an information system, which provide information for economic decision-making controlling aspect of it has not been diminished. As Leitch and Davis (1992) explained, the accounting system can contribute significantly to overall control structure of the organization.

### **Accounting in Sri Lanka<sup>1</sup>**

According to the *Mahawansa* (the chronicle of the Sri Lanka), the history of Sri Lanka goes back to 2300 years or more. The prince Vijaya from North India came to Sri Lanka with his men in 543 B.C. and established human settlements in the country. The introduction of Buddhism from India by Mahinda Maha Thero in 307 B.C. is an influencing event in the history of the country. The Portuguese came to Sri Lanka in 1505 acquired coastal and started their economic activities. Dutch arrived after the Portuguese and finally British were successful in acquiring the administration of the whole country on 02<sup>nd</sup> March 1815. In 1948 Sri Lanka gained its dominion independence from British rulers. During this period colonial rulers have established their economic system in the country. Even though there is a possibility to exist some kind of an accounting system earlier, this is the beginning of modern accounting in Sri Lanka.

Before dawn of nineteenth century British rulers appointed an '*Accountant and Auditor General*'. This has happened just after three years (in 1799) from their acquisition of coastal areas of Sri Lanka in 1796. it is accepted that the auditing function of any accounting entity has to be kept independent and separate from its accounting function. However, during the early days of colonial period, rulers did not want so called auditors independence to be maintained. Instead their purpose was that these functions should

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<sup>1</sup> These information were obtained from following websites. History of Sri Lanka from web site of Ministry of Cultural Affairs at <http://www.mca.gov.lk/History/history.htm>, history of Auditor ...

facilitate the ruling of colonies. Until 1931, when Donoughmore Constitution comes, these functions were not separated.

British have introduced Financial Regulations (FRs) as a tool, which help the administration. FRs are applicable to all the ministries, departments and statutory boards. Specific financial and accounting policies and procedures are given through FRs. Today, FRs are issued by the Minister of Finance on his power given by the Parliament.

In 1950, a recommendation was made to the Government by the 'L.M.D. de Silva Commission on Company Law' that an institute should be established to regulate the accounting profession in the country. The recommendation was acted upon only in 1959, when a bill presented in the Parliament to incorporate the Institute of Chartered Accountants (ICA) of Ceylon. The Act No.23 of 1959 was passed in Parliament in September 1959. The Act came into operation on 15th December 1959 by virtue of the Gazette Notification dated 3<sup>rd</sup> December 1959 issued by the Minister of Commerce. Power to perform as an auditor or an accountant can only be granted by the King or Queen. The document empowering any person to act as an auditor was known as the charter. Therefore, the institute has established to perform in a similar manner to Institute of Chartered Accountants of England and Wales. In 1972 Sri Lanka became a republic and ICA of Ceylon became ICA of Sri Lanka. According to the institute website, one of the objectives of the Institute is to maintain professional standards, and acquaint members with the methods and practices necessary to maintain standards and however, we do not have a set of standards and we use International Accounting Standards in Sri Lanka. It is clear maintaining the professional elite is the hidden objective of the ICA of Sri Lanka. After 1978, with the introduction of open economic system foreign companies such as NZML started in the country.

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General form his web site at <http://www.auditorgeneral.lk/history.htm>., and history of ICASL from its web site at <http://www.icasrilanka.com/>.

## **Accounting: *From Power to Control***

It is the time now, to relate the power into controls for the purpose of understanding accounting controls as hegemony. Control as in the case of social inequality, is another concept frequently used with power. As Oxford Advance Learners' Dictionary (1996) suggests,

Power is the ability or opportunity to do or act. ... influence, authority.  
... ascendancy, *control* ... (italics added)

Some suggests that there can be different forms of power such as influence, coercion and control (Kuper and Kuper, 1996: 657). Further, Mintzberg (1996) writes that, in English language word '*power*' is used as a noun and word '*control*' is used as the verb for the same. Moreover, Minz and Gioia (1983: 459-476) writing the paper '*The Interrelationship of Power and Control*' to Human Relations, argue that control of organizational resources (resources control) is the primary source of interpersonal power and interpersonal power is the controlling individuals (personal control).

Control or controlling has been defined in many different ways by writers in different contexts. Manz and Gioia (1983) have quoted few definitions and stated that;

One definition that Lawler suggested to describe control is "to direct, to influence, or to determine the behavior of someone else." This definition of control is similar to one proposed by Tannenbaum namely: "any process in which a person or group of persons or organization of persons determines, i.e. intentionally affects, what another person or group or organization will do." The common element of these two definitions one again centres around the idea of influence.

By analyzing the Lawler's definition controlling can be analyzed into three levels; control over person, control over group and control over organization. When it comes to business context controls or organizational controls, it is termed as internal controls.

Internal controls have been defined in many texts based on the objectives of the internal controls<sup>1</sup>. For example following two definitions can be given.

International Standard on Auditing<sup>2</sup> (ISA 400 – Risk Assessment and Internal controls) has defined it as;

... all the policies and procedures adopted by the management of an entity to assist in achieving management's objective of ensuring, as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information<sup>3</sup>.

Further, American Institute of Certified Public Accountants define the same as;

Internal controls comprises the plan of organization and all of the co-ordinate methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies<sup>1</sup>.

Internal control system consist two elements. See ISA 400 Risk Assessment and Internal Controls, Leitch and Davis (1992) and Banarjee (2002). Namely control environment and control procedures. Further, control procedures can be again broken into administrative controls and accounting controls. See the Banerjee's conceptualization of internal control system (Figure 2-1).

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<sup>1</sup>Some of the definitions can be seen in [http://audit.ucr.edu/internal\\_controls.htm](http://audit.ucr.edu/internal_controls.htm) and <http://www.bc.edu/offices/audit/controls/definitions/> and all of them define it focusing on its objectives... and all of the said definitions are based on the Committee of Sponsoring Organizations (COSO) of the Treadway Commission which is a committee made a earliest studies on internal controls.

<sup>2</sup>This standard on auditing is prepared and published by the International Auditing Practices Committee (IAPC), and it is a standing committee of International Federation of Accountants (IFAC). ISAs can be obtained from <http://www.ifac.org/Committees/IAPC>.

<sup>3</sup>In Sri Lanka this same definition has been adopted by the Institute of Chartered Accountants of Sri Lanka (ICASL) in their standards on auditing i.e. Sri Lanka Auditing Standard (SLAuS).

Banerjee (2002) defines accounting controls as controls aim to achieve accountability in financial matters and in doing so, cover the recording of transactions, establishing responsibilities for maintaining financial records including that of assets. Page and Hooper (1992) argue that internal controls and accounting controls are one and the same in small companies and in large companies internal controls can be divided into above two types.

All internal control procedures have two major objectives:

1. To protect assets (especially cash and inventory) from being lost or stolen.
2. To ensure that the accounting records are accurate and complete. ...

Large companies, such as General Motors, have hundreds of thousand of employees located all over the world. ... The problem of such a vast number of employees is that top management cannot supervise (in any direct sense) all the workers. As a result, controls must be developed to ensure that top management's policies and directives are carried out. Thus, in addition to asset protection and accounting accuracy, internal control has the following further objectives:

3. To promote efficient operations by reducing waste and duplicate effort.
4. To encourage the following of company policies and procedures.

The first two objectives ... are called accounting controls. The later two objectives ... are called administrative controls.

We have seen that these objectives are used in earlier in defining the internal controls. Page and Hooper (1992) have given following tools as accounting controls operate in an organization.

- ▶ Double-entry method
- ▶ Audit trail
- ▶ Bank reconciliation
- ▶ Subsidiary ledgers
- ▶ Billing statements

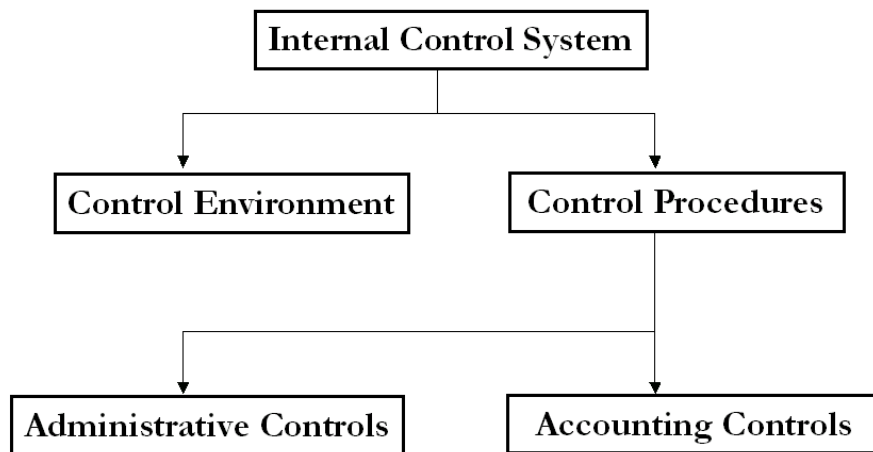
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<sup>1</sup>This definition is give by AICPA in their Statement of Auditing Standard No. 1 has been quoted by Leitch

- ▶ Communication with vendors.

**Double-entry method** – According to Page and Hooper (1992) this is the most important error-detecting feature of accounting system. Double-entry accounting system requires dual agreement of each transaction entry and it points up errors, since rarely will an error in one-half of an entry be exactly offset by an equivalent error in the other half.

**Figure 2-1: Banerjee's Conception of Internal Control System**



Source: Developed base on Banerjee's (2001)text.

**Audit trail** – Audit trail is also an important error detecting control in an accounting control system. This will ensure the arithmetic accuracy of financial data and as Page and Hooper (1992) suggest it allows the accountant to track backwards through the accounting records to the source of an error.

**Bank reconciliation** – Not only the bank reconciliation but also any other reconciliation can be used as a another error detection control especially the bank reconciliation provide an independent check that all cheques, deposits and miscellaneous charges were recorded properly (Page and Hooper: 1992).

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and Davis (1992).

**Subsidiary ledgers** – This is an important control as it can be used as a preventive control as well. Page and Hooper (1992) write that this control provides cross-checks of the general ledger control account with the subsidiary ledger totals.

**Billing statements** – Page and Hooper (1992) are explaining; this will provide independent check of accounts receivable subsidiary ledger account balances.

**Communication with vendors** – Page and Hooper (1992) are explaining again; this control will provide independent check of accounts payable subsidiary ledger account balances.

## **CHAPTER 04**

### **FROM GROUND TO THEORY: AN ANALYSIS OF NZML ACCOUNTING CONTROLS AS A HEGEMONY**

#### **Introduction**

In this chapter, I present the finding related to my study and the analysis is also presented at the same time. The social unit selected for the study is New Zealand Milk Lanka (Private) Limited (NZML), which is a leading company in dairy industry in Sri Lanka. The chapter contains the historical evolution of accounting in Sri Lanka, NZML, historical evolution of its accounting system and accounting controls. Finally, the chapter discusses the manner in which accounting controls acts as an organizational hegemony.

#### **Accounting in Sri Lanka**

According to the *Mahawansa* (the chronicle of the Sri Lanka), the history of Sri Lanka goes back to 2300 years or more. The Portuguese came to Sri Lanka in 1505 acquired coastal and started their economic activities. Dutch arrived after the Portuguese and finally British were successful in acquiring the administration of the whole country on 02<sup>nd</sup> March 1815. In 1948 Sri Lanka gained its dominion independence from British rulers. During this period colonial rulers have established their economic system in the country and this is the beginning of modern accounting in Sri Lanka.

#### **The Company**

NZML is a privately limited liability company incorporated with the name 'Jones Foods (Private) Limited' on 7<sup>th</sup> August 1985 under the Companies Act No. 17 of 1982. Its

company registration number is N (PVS) 2026. NZML is a multinational company, which involves in importing, processing, packing and marketing dairy products. They do command 65 percent of the Sri Lankan Full Cream Milk Powder (FCMP) segment of the market and 58 percent of Reduced Fat Milk Powder (RFMP) segment. NZML is the single and largest importer of New Zealand FCMP in the World. Anchor, Ratthi, Anlene and Annum are few of their known brands. The Company was promoted by The Maharaja Organizations Limited (TMOL). Later it has become a joint venture company between New Zealand Dairy Board (NZDB) and TMOL. However, currently it is a member of Fonterra Co-operative Group of New Zealand.

Facts given above are a symbolic identification of NZML, and for a deep understanding it is better to find out the Company's historical evolution.

## **Historical Evolution of the Company**

**Start of the company.** As mentioned earlier NZML has incorporated on 7<sup>th</sup> August 1985 with the name Jones Food (Pvt.) Ltd. and the Memorandum and Articles of Association has been signed by the subscribers on 22<sup>nd</sup> July 1985 two week before its incorporation. All of the three subscribers were British in their nationality before becoming nationals in Sri Lanka. They have taken one share each for the purpose of satisfying the statutory requirements of minimum number of members and acquire the share qualification for directorship. All three subscribers were appointed as the directors of the new Company. They, at the time of their appointment to the NZML board, were directors of TMOL as well. There were four members in the initial Board of Directors of the Company including said three subscribers and another director from TMOL board to represent the parent company.

In the Memorandum of Association its primary objects were set to empower the Company as importers, exporters and dealers of milk, milk powder and related dairy products. Initial capital was amounted to Rs. 1 million and was fully invested by Jones Overseas Limited (JOL). JOL is a member company of the TMOL group. Kreston MNS

& Co. was the initial auditors and Ceylon Secretarial Services Limited was appointed as the initial secretaries of the Company.

During this time there was no separate division or department to do accounting activities. There were only 12 employees at the start of the Company. Those activities were handled by TMOL group. This reflects the hegemonic nature of accounting. A sound system of accounting was not exists as no hegemonic necessity was there.

**Start of a Joint venture.** On 6<sup>th</sup> November 1987, after two years of incorporation members of the Company have passed a special resolution to increase the share capital of the Company from Rs. 1 million to Rs. 30 million. At the same time another special resolution has been passed to amend the Articles of Association (AOA) especially to change the primary objects of the Company to enable the Company in engaging manufacturing, processing, importing and exporting milk, milk powder and related dairy products. In addition, this amendment to AOA had made following effects.

- Converting the Company into a joint venture.
- Introducing NZDB in to the AOA as ‘foreign collaborator’.
- Increasing the number of minimum directors up to four heads.
- Allowing NZDB to nominate directors to the board of the Company.
- Incorporating pre-emptive clause to disallow transfer of shares to non-members.

11<sup>th</sup> of the same month NZDB contributes to the share capital of the Company by investing Rs. 666,600. Following month, that is December three new directors were appointed to the board and of them 2 directors were appointed by NZDB and the remaining one is the Director – Commercial and Finance today. To symbolize the changes, company name has been changed to ‘Anchor Foods (Private) Limited’ on 14<sup>th</sup> January 1988, incorporating the NZDB’s famous brand name Anchor. Further, to lighten the Director Board three local directors had given their resignation from their positions on 23<sup>rd</sup> March 1988.

In the year 1988, Company has implemented its amended new primary objects by importing bulk milk powder and packing them with in the island. Until such time the

Company was engaging in importing and distribution of picketed milk powder from New Zealand.

During the four years from 1988 to 1991 in several instances JOL and NZDB have increased their contribution to share capital. Towards the end of the 1991 composition of share holdings were as follows. Rajandram Maharaja, Rajandram Rajamahendran and Mrs. Sumithra Moonasinghe one share each, JOL 1,499,997 shares and NZDB 733,334 shares.

With the expansion of activities of the company, need of an accounting control system came-up. Company therefore developed an accounting system and an employee jointed the Company as a clerk at the formation has promoted the accountant. With this hegemonic acceptance of the accounting control can be seen. At the time of appointment he was not a qualified a professional accountant. However, he came from TMOL group and that leads to his raise as a hegemonic leader.

**To become a multi-national company.** In 1992, as a part of their re-structuring process of their group, NZDB has introduced their new global company logo and segregated its business into two strategic units and one of them was named as 'New Zealand Milk Products Ltd' (NZMP). To reflect this change Anchor Foods has changed its name to 'New Zealand Milk Products Lanka (Private) Limited' on 30<sup>th</sup> September 1992. At the same time NZDB has transferred its shareholding to Milk Products Holdings (SEA) Private Limited (MPHL). MPHL is the holding company of all the NZMP member companies in Asian region. MPHL and Dairy Holdings (Hong Kong) Limited (DHL), another member of NZMP group have increased its shareholding in New Zealand Milk Products Lanka (Private) Limited.

Towards the end of 1993, NZMP group had gained a 75 percent stake in New Zealand Milk Products Lanka (Private) Limited. On 29<sup>th</sup> November 1993 composition of shareholding in the Company was in the following manner. Rajandram Maharaja, Rajandram Rajamahendran, and Mrs. Sumithra Moonasinghe one share each, JOL 1,499,997 shares, MPHL 2,940,000 and DHL 1,560,000 shares.

After one month, on 30<sup>th</sup> December 1993, Company had passed another special resolution to change its name again. This time name change was done in a manner, which reflects TMOL involvement to the Company. New name was 'New Zealand Milk Products TMOL Lanka (Private) Limited.'

By this time, Computer Systems Limited (CSL), a member company of TMOL had acquired the local agencyship of BPCS accounting software from SSA Incorporation of USA. TMOL had taken a decision to introduce this software package to all the member companies in its group. As a result New Zealand Milk Products TMOL Lanka (Private) Limited also had to implement this package. Until BPCS was implemented, as I mentioned earlier, the Company was using an in-house built package for accounting purposes. This was a point where hegemonic characteristic of accounting unveiled. The idea of the general employees about this system, when I ask what do they think of the system, was 'it is the decision of the group so we have to accept it.' However, accountant had a different idea about the system. According to him this system is sufficient for present work.

In 1996, Company has appointed new executive director for Commercial and Finance activities. Responsibility of this director was to ensure the efficient usage of financial and information resources and operation of distribution channels. Same year the Company has changed their auditors and appointed KPMG as the new auditor. This was because of KPMG was the global advisory firm of the NZMP group.

On 12<sup>th</sup> July 1999, company name was changed for the last time and present name, that is 'New Zealand Milk Lanka (Private) Limited' was given to the Company. Due to NZMP intention to acquire the full control of the Company word 'TMOL' was eliminated from the name of the Company.

On 10<sup>th</sup> December next year, TMOL had transferred all its shareholding to Leader Pacific (Hong Kong) Limited (LPL). LPL is also member company of the NZMP group and after this transfer the Company had amended and removed the definition of 'Joint venture' from its AOA. With this, NZML had become a multinational company (MNC) and directors appointed by the TMOL had resigned from their position and NZMP had

increase their nominees to the board. In this year the Company secretary was changed and Mrs. Rudrani Balasubramaniam was appointed as the new secretary to the Company. She, at the time of her appointment, was a director of the TMOL group.

Even though, NZML is a fully owned subsidiary of Fonterra Group, some of the power/control relationships with TMOL are still remain. For instances;

- The Company still uses the BPCS accounting package and CSL acts as the application service provider of the Company.
- Secretarial services are provided by a member company of TMOL and Company secretary is a group director of TMOL.
- Payroll processing of executive staff of the Company handled by a member company of TMOL.
- Two of the directors of the Company are former director of TMOL group.

With this understanding, now I will turn to look at how accounting controls of the Company operates.

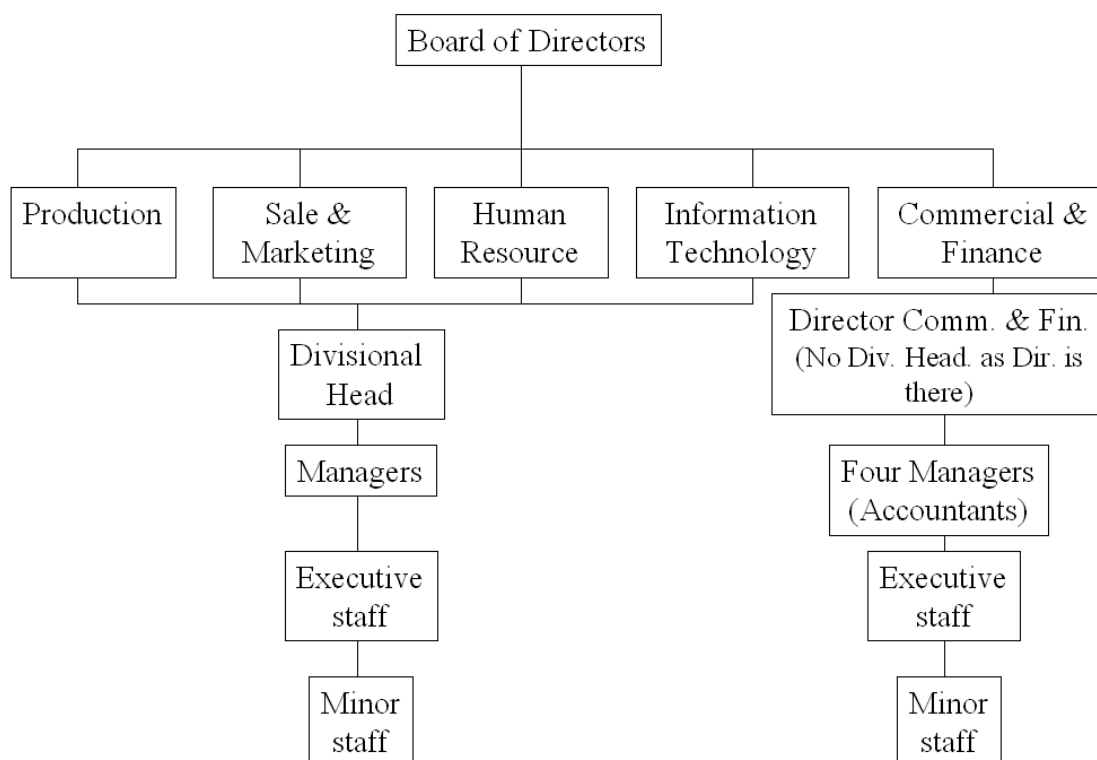
### **Hegemonic nature of Accounting Controls: *within NZML***

Commercial and Finance Division (CFD) is the division involves in accounting activities. This division unlike other divisions, is headed by an executive director who has come from TMOL. From the beginning of this division a director appointed by TMOL holds the position. This gives the division a hegemonic importance. As per the accountant of the Company objective of the division is to ensure the efficient usage of financial and information resources and operation of distribution channels. However, this objective has no operational meaning. The Company does not have any investment and financial decision to take. All the financial activities and decisions are done and taken by the regional treasury of the group. Further, according to treasury policy, no investment can be done by the company and it is instructed the Company to maintain the bank balance at zero level. These fact shows that CFD does not have finance activities to do. Distribution channels and transportation is also done by a separate sub-division of the

Company. With this it is clear that CFD is mainly for purpose of accounting control of the Company. Name given to this division leads to give it a hegemonic acceptance among the employees.

Through the structure of the Company, power of the Board of Directors has been distributed to five divisions. Namely, Production, Sales and Marketing, Human Resource, Information technology, and Commercial and Finance. Levels of power can be identified as Board of Directors, Divisional Heads, Managers, Executives and Staff. Accounting and related administrative activities are coming under the Commercial and Finance division.

**Figure 3-1: Summarized Organizational Chart**

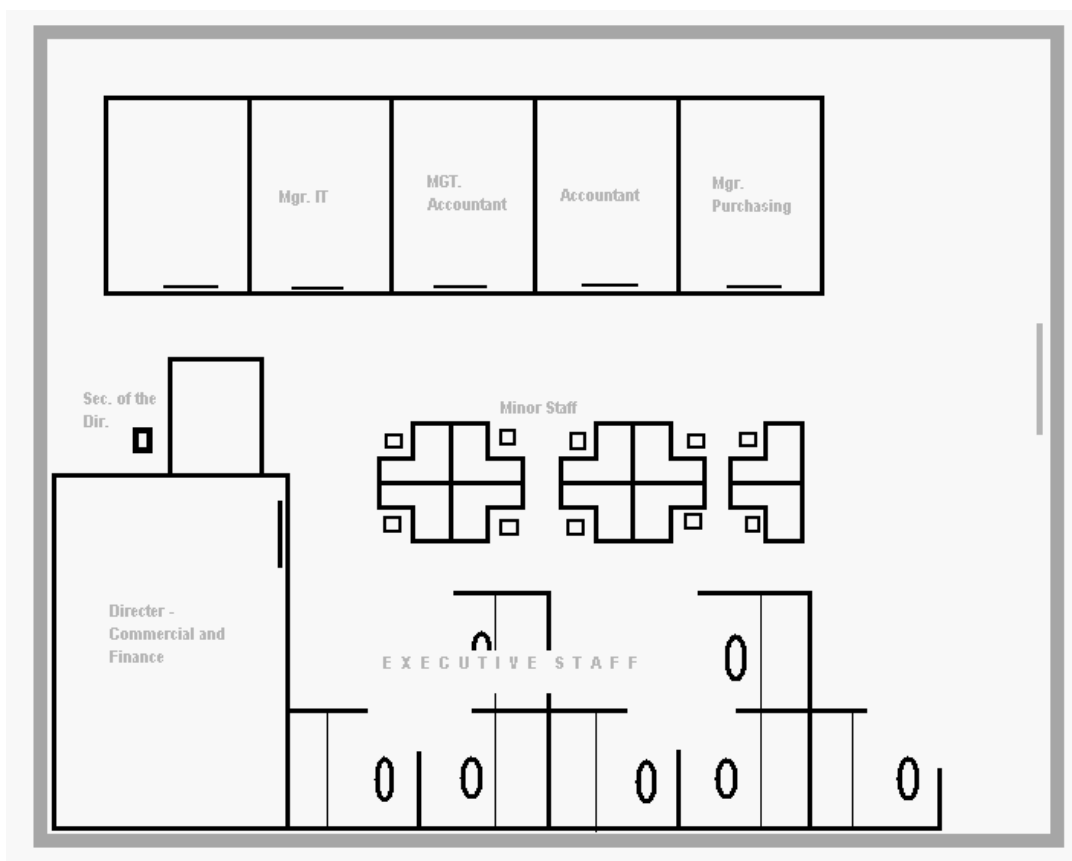


Source: Developed based on Organizational Chart of NZML.

The accounts division of the Company is in the second floor of the Company's administration building. Except for the lunchroom of the administrative staff complete

floor is occupied by the Commercial and Finance division. Office of the Director Commercial and Finance is available in the same floor. There are four accounting professionals in the division. They are Senior Manager Information Technology who was the previous accountant, Management Accountant and Accountant and Accountant of Newdale (a sister company). Accountant's position is similar to a position of any manager. There are more than 20 in the staff and more than half of them are executive staff in the division.

**Figure 3-2: Layout of the Commercial and Finance Division**



Source: developed based on Research findings.

Lay out of the CFD is another symbolization of accounting hegemony. Director has given a special room and comparatively this is the largest room in the floor. Each accountant has been given a separate room. All these rooms including the director's room are sound proof and covered with glasses. Executive staff has given open cubical

and minor staff has given an open tables as given in the figure. Due to this hegemonic lay out activities of the minor staff can be directly observed by the Director, Accountants and Executive staff. This is how hegemonic power of accounting materializes.

All the four accounting managers have been given portable computer (laptop), which is not commonly available among other managerial staff. Further, all the managerial staff of the Company has been given speakerphones with direct line for incoming and out going calls. It was observed that in the Accountants specially use this facility to carry out various discussions. This was not observed among other managers.

When calling to NZML from outside, a recorded voice of an operator can be heard. It directs the caller to three divisions. They are Sales, Marketing, and Finance. According to the telephone operator Sales and Marketing always get call from sales representatives, agents, dealers and customers. If caller want to speak to other divisions human resource or production he / she should know the specific extension or has to wait for operators involvement. Finance (Accounting) Division has this privilege, indicating its hegemonic power.

Further, there is another important hegemonic characteristic with CFD. That is, all the reporting to Fonterra group is done through this division. This includes all marketing, sales and production information, and human resource issues in addition to information generated by the CFD. According to the Accountant, task of him and his division go beyond accounting activities. He says 'all the information generated within the Company is coming out from the Finance Division.' Due to this, the hegemonic link of the company from it owners coming through this division.

When it is come to Accounting and related controls financial authorities, electronic information system, reconsoliations, control accounts and subsystems, performance improvements, budgeting and policies and procedures are important.

It is important to mention about the accounting period of the Company. Most of the companies incorporated in Sri Lanka have 31<sup>st</sup> December or 31<sup>st</sup> March as their financial year-end. However, in NZML 31<sup>st</sup> May is the year-end. This does not comply with the Sri

Lankan tax legislations and accepted practice. This financial period has been selected because this is the financial period of the Fonterra Group. Selecting an accounting period other than this does not give a hegemonic impotence, which can be obtained by this. Towards the end of the financial year staff has to work long hours to complete the year's work. This might extend up to midnight some times. They accept this saying 'this is the dead line of the group somehow it should be achieved.'

Financial authorities of the Company are laid with the Managing Director (MD) of Fonterra Group and he/she has delegated his authority to regional MD. Capital expenditures more than USD 25,000 (Rs. 2.5 million) and other payments to external parties more than Rs. 5 million should be approved by regional MD. In the Company level financial authorities can be summarized as follows.

- Any two managers can make payments (excluding unbudgeted capital expenditures) up to Rs. 25,000. In this regard Accountant is also considered as a manger.
- For the payments more than Rs. 25,000 can be made by a manager and a director.
- Commercial and Finance Director has authority up to Rs. 1 million with a manager.
- MD of the Company can make payments up to Rs. 5 million and capital expenditure up to 2.5 million with a manager.

Electronic information system of the Company is BPCS 6.2. BPCS is an abbreviation, which reads as business panning and control system. This system has been developed by SSA Incorporation of USA and CSL is the agent for this package in Sri Lanka. Due to TMOL decision to implement this package in all the companies of the group NZML had to adapt to BPCS. This system uses OS 400 operating system and AX400 server to operate. NZML is the only company in the Fonterra group using this accounting system and operating system is only available in New Zealand and Sri Lanka. Due to this reason accounting system has not been integrated to the accounting system of Fonterra. All the required information by the group is reported manually (by way of e-mails or faxes). System allows only five types of persons to log in to it. They are security officers, operators, programmers, database administrators and users. Very few staff members have profiles other than 'users'.

Reconciliations can be considered as a pure accounting controlling. In NZML there are number of reconciliations to be performed. Bank reconciliation is the most important amongst all the reconciliations. NZML prepares bank reconciliations for all the current accounts it has with banks. The Company maintains three current accounts with Standard Chartered Bank (SCB), which is the banker of the Fonterra Group. At the beginning of the accounting period ended on 31<sup>st</sup> May 2003, Company had current accounts with two other banks; namely Bank of Ceylon and NDB Bank. All those accounts were closed after a decision taken by the Board of Directors. Company has connected to the SCB through the Electronic Banking System (EBS). This makes the reconciliation work easier and faster. Reconciliation is done by a separate person independent of maintaining cashbook and Accountant has to check the reconciliation and forwarded to Director Commercial and Finance for review. Other than this Company has following reconciliations.

- Fixed asset register with the general ledger fixed assets account.
- Sale ledger balance with sales sub-system
- Purchases ledger balance with purchases sub-system
- Debtors age analysis with ledger balance

When it comes to policies and procedures of the company all the policies have been developed by the group or developed in Sri Lanka to comply with the group policies. Because of this employees tend to accept these policies as hegemony. I have asked the Accountant what will happen if these policies were not accepted and complied with? He had a long answer. 'In a company like this, which is no longer a conventional private limited company, a multi-national, policies and procedures are the remote control of the parent of the company. And for them 50 million profit is not important if you do not comply with the policies and procedures. Profit of 5 million is important than that if you have compliance. There are no such good or bad employees as long as you work hard. If we want to implement a policy it's a political game. We have to clean other's mind so that the policy is accepted.'

In the performance evaluation of the company, accounting gains hegemonic importance. NZML has a detailed process for performance evaluation. Initially every employee has to

develop their objective for the year based on the company's objectives. Objectives of the strategic plan are divided among the divisional heads. Those objectives will be shared by the managers. Then those will be share by the subordinates of them. Those objectives set by each employee should have 'smart' (specific, measurable, attainable, relevant, and time-bounded) characteristics. These objectives have to be documented and they are reviewed by immediate manager in the same hierarchy on a quarterly basis. He / she will give a rank and pass it to one-up manager in the next level of hierarchy. He / she will review the given rank and decide final rank with representative from Human Resource Division. This rank will give the basis for performance evaluation. However, accounting plays a hegemonic role in this process, as strategic plan of the company is consisting more of financial objectives. Specific objectives were not given for my review due to the confidentiality. However, according to the accountant, it pays more attention to targets such as turnover, profit, return on equity, sales volume and market share.

## CHAPTER 05

### CONCLUSIONS AND SUM-UP

The study has reached its ending. Therefore, it is the requirement now to have a brief look on the reviews and analysis of the study.

This study has been conducted as a case study and Gramscian understanding of hegemony has used as the methodology of the study. Through the literature review I have reviewed the different ideologies of different thinkers of power. There it was reviewed that power can be an internal exercise and it can be in the form of hegemony. With this understanding accounting and accounting control and their historical evolution was reviewed. In Sri Lanka accounting is a colonial dowry. Therefore, it gains a hegemonic importance among the people with a post-colonial mentality.

From the study carried out in NZML, it has been proved that the hegemonic acceptance of the accounting and accounting control system is materialized in organizational chart, space and layout of the CFD and numerous other ways.

Among the professionals who work in organizations, accountants have a greater acceptance and power. Accounting processes a controlling value within organizations. Resistance, which is commonly observed against controls, cannot be seen against accounting and accounting controls.

Historical evolution of accounting in Sri Lanka provides the basis for this acceptance. Accounting for Sri Lankans is a colonial dowry. In sub-conscious or unconscious level in our mind, we have some importance given to those accounting and accounting controls those coming from the colonial rulers of west. Due to this accounting and accounting controls gains a hegemonic importance in the organization in concern.

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