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Gunapala Nanayakkara

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Article abstract

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The Study of Best Management Practices in Sri Lanka's High Performing Companies

by
Gunapala Nanayakkara
Postgraduate Institute of Management
University of Sri Jayewardenepura, Sri Lanka

From a methodological point of view, the study of best management practices provides an interesting inductive method for those who wish to get closer to the art and science of managerial practice. In a sectoral sample of 40 large and successful companies in Sri Lanka, a group of researchers surveyed the current management practices and how they contributed to company performance. This paper summarizes the conceptual, methodological and operational aspects of the study on the five best management practices.

INTRODUCTION

The pace of investigation into best management practices in companies world around has quickened significantly over the past several years. Started around 1982 with the publication of lessons from America's best-run companies by Peters and Waterman Jr. in their *In Search of Excellence* the intellectual curiosity about managerial factors behind business success continued to grow particularly because most of the 'best-run' companies in the American sample did poorly towards the end of the decade. In increasingly competitive markets, local and global, the role of best management practices of companies is both contextual and time-bound (Hiebeler, Kelly & Ketteman, 1998:28). A *Development Dimensions International* study in 1998 showed significant differences of best management practices between Asian companies and those of the rest of the developed world (Dalesio, 1998). More interestingly, a recent study of Sri Lanka's international competitiveness concluded that while the country's overall economic performance was above the Asian average (Sri Lanka's score was 80 against the score of 73 for Asia -- excluding Japan & NICs) its international competitiveness index was much lower than the average for the same Asian group of countries (Sri Lanka's score was 34 against Asia's 45) (PriceWaterhouseCoopers, 1998). How does an economy, an open market economy like Sri Lanka's, continue to maintain a reasonable rate of growth performance without demonstrating business competency in competition? In many dimensions, Sri Lanka's performance has been paradoxical: high quality of life with low level of productivity; high level of literacy and education with low level of employment and high level of political instability with a stable democratic system of governance. Therefore, it would be of interest to the international business, professional and academic community to see how leading business companies in this Island nation of paradoxes manage their affairs.

This paper describes how the study of best management practices in Sri Lanka was designed and implemented. In November 1997, a group of academics from the

Postgraduate Institute of Management (PIM), Colombo met with representatives of the business community in order to find out the development priorities of the private sector of Sri Lanka. The objective of this discussion was to discern private sector expectations about management education in the country and, thus, to reflect upon the educational and extension work plans of the Institute. The idea of best management practices emerged after a discussion on a basic question that was raised in the deliberations, i.e. *What are we good at?* The discussants knew or presumed that Sri Lanka's management practices even in the most 'successful' companies were not favorably compared with any of the world-class management practices. Or simply because of such a belief that Sri Lanka has to leap-frog in improving managerial performance, it was concluded that a systematic study of the private sector's managerial performance be undertaken by the Postgraduate Institute of Management.

A word about the politico-economic environment of Sri Lanka's business at the time of the study (1998) is pertinent. Domestically, Sri Lanka's government is committed to support the private sector, which accounts for about 65% of the national economic activity, as the engine of nation's economic progress. This commitment, however, is severely handicapped by the government's long-standing involvement in the civil war with separatist rebel groups in the Northern and Eastern provinces of the country which costs the government in the range of 20% of its annual budget. Thus, the business has to operate in an environment of instability and often unmet political pledges for support. Regionally, the economic and business environment did not send positive signals during the study period. In fact, since mid 1997, the signals that were emanating from the East-Asian financial crisis had already made the Sri Lanka financial and capital markets to take precautionary measures and make decisions conservatively. These two principal considerations in the immediate operating business environment would have played a significant moderating influence on the practices of management that were observed in the study.

STUDY OBJECTIVES

In the process of developing a focus for the research, the researchers believed that a firm's business success would be a function of a multitude of factors that operate in the macro and micro business environments. On the macro side, there are factors in such areas of change as demographic, social, economic, technological and political forces. On the micro side, there are consumer preferences, competitor actions, suppliers, government policy and many other stake holders who have a direct impact on the degree of success of a business firm. The factors that are much emphasized in the present study are 'internal' to the organization and they represent the actions of the key decision makers. These decisions, it is believed, would have a direct and profound influence on the degree of success of a company. Thus, the study objectives are formulated with an understanding of their 'limited' role in regard to organizational performance. More specifically, the study objectives were formulated as follows:

(1) To study and document sound management practices of successfully managed large companies in key business sectors in the private sector of Sri Lanka and determine the

Five Best Management Practices of each participating company;
(2) To study, document and determine the Best Management Practice in five key performance dimensions, namely, *External* market orientation, *Internal* organizational processes, *Current* business performance, *Future* growth and development and *Leadership and culture*;
(3) To assess the business context of best management practices in a sector-wise comparison for manufacturing, trading, banking and finance, and tourism; and
(4) To assess whether company performance is correlated with a balanced spread of best management practices.

STUDY FRAMEWORK AND METHOD

Assumptions

The framework of study is organized around five logical assumptions about the manner in which business enterprises operate in markets and business organizations are managed for high performance. Firstly, it is crucial that 'performance' of enterprises is measured with some degree of accuracy, comparability and predictability. For these and other practical reasons, it was decided that enterprise performance should be identified in terms of *market capitalization, annual turnover*, *profits*, *and earnings per share*. Secondly, it was assumed that company performance is largely influenced by the kinds of management practices that are adopted by the company, and in identifying the most relevant practices the researchers would examine both techniques and values involved in the practice. Thirdly, most successful companies emphasize a few practices which they can do well (the best practices) and they are supported by enterprise corporate goals and strategies. These companies pay attention to balancing the basic factors of business management such as customer, operations, control, leadership and future. Ability to balance critical success factors has been figured in many recent studies as a key to the sustenance of success (Goldsmith & Clutterback 1998; and Kaplan and Norton 1996). Fourthly, the best management practices are sustained by company cultures which are often unique in many ways to the enterprises themselves. Therefore, company culture, particularly leadership role, patterns of interpersonal relations, environment for innovation and commitment to learning may well explain the variation of best management practices among companies. Fifthly, the organizational culture that breeds success is sustained by one or more of three forces: nature of product, technology, and market competition. Thus, the study framework can be outlined as in

Figure 1: Elements of the Study Framework

Sample

The most important characteristics that the company sample should represent were large size, business success and different operating environments of business. The following is a list of variables examined:

Size: Turnover; Market capitalization/Total assets
Business success: Profits after tax; Earnings per share
Operating environments: Manufacturing, Trading, Banking and Finance, Tourism

As a first step, the public companies that are listed in Colombo Stock Exchange (CSE) were looked at in terms of company performance reported in the CSE annual publication of *Handbook of Listed Companies 1997.* Thereafter, performance ranking was obtained from the Financial Profile for the best 50 high performing companies reported in the *Lanka Monthly Digest* (LMD) December 1997. The LMD Profile provided a ranking according to the above financial variables relating to size and success. A difficulty that the researchers encountered here was the inadequacy of the number of companies ranked (i.e. 50) for the selection of 40 companies representing the selected four key sectors. Some of the companies in the ranking could not participate in the study at the beginning and therefore, five of them were deleted from the initial sample. In order to keep 40 companies in the sample active, it was necessary to have additional companies 'involved' in the survey. Therefore, the study group had to deviate from the 'public company' population and select several companies that were not listed as public companies. These are either private local companies or private foreign companies operating in Sri Lanka. These selections were guided by the data on size and performance that had been collected by PIM earlier. This deviation enabled the group to have a fair distribution of companies among the four sectors. A total of 34 companies continued their participation throughout the study and Table 1 gives profiles of these companies.

Method

The principal stages of study were identification of management practices, analysis and determination of 'best' practices, and documentation and development of papers and videos. At each stage of the study, different methods were used and they were briefly as follows:

1. *Identification:* The study of each sample company was assigned to a study team consisting two academics from PIM and three managers (managers were either employees of the company being studied or managers who had an intimate knowledge of the company's business). Three types of information were needed: company business performance, best management practices general information, and best management practices specific information. Performance data were collected from company documents and for each company a basic document of performance description and analysis was prepared. Best management practices general information dealt with policies, procedures, actions and behaviors that were very important to the company and aimed at producing and supplying value to customers in the key areas of the company (such as products/services, human resource management, IT, marketing, finance, leadership and communication). This information was gathered from the CEO and the senior management. The third type of information was about the specific processes or products and services that represented the best management practices in a given key area of business operation. Details about these illustrative situations/examples were in the form of procedures, schemes, products or services and they were documented separately.

2. *Analysis:* Determination of 'best' practices was a team exercise based on careful analysis and comparison of information available across the sample. Initially, the company study teams were trained in the methodology of determining 'best' practices by using criteria of efficiency and effectiveness for the purpose of assessing the significance

of the practice within the company. The efficiency criteria applied to a specific practice included cost savings, time saving, procedure simplification, process improvement, clarity, ease, and measurability. Each best practice was evaluated in terms of its actual and potential contribution to the realization of the objectives identified or stated in favor of the best practice. Best practice results were examined in terms of customer attractiveness, sustainability (support of employees) and strategic properties such as difficulty of imitation by competitors. Agreement within study teams about assessment was facilitated by the technique of allocating evaluative points to each practice (maximum of 50 points for efficiency and maximumof50 for effectiveness). It was the task of the research group to assess the distribution of best practices within a company in terms of Kaplan and Norton dimensions and determine the degree of balance among best practices within a company.

3. *Documentation:* While information and opinions were being collected, the study teams made video documentation of company features, processes and CEO's statements about the company and best practices. The process of writing the final sector papers involved the preparation and review of preliminary company reports, sector drafts and discussion within the research group. A 20-minute video was developed for each sample company and a 35-minute video was developed for each sector. The five best management practices that summarized the state of the art of management in the private sector of Sri Lanka were finally compiled into one video of 35 minutes duration. These papers and videos were presented to the business community in Sri Lanka at a conference held in Colombo from November 5 to 8, 1998.

Table 1: Sample Company Profiles

Manufacturing Sector (13)	**Turnover (US $ mil.)(a)**	**Profit Rank**	**Capt. Mkt. Rank**	**EPS Rank**
1. Richard Pieris & Co.	40	13	19	22
2. Dipped Products Ltd.	35	12	20	18
3. Singer Ski Lanka (Industries) Ltd.	14	44	50	31
4. Ceylon Cold Stores Ltd.	24	18	34	9
5. Dankotuwa Porcelain Ltd.	13	*	*	*
6. Keells Food Products Ltd.	08	(3)	(2)	(12)
7. Haycarb Ltd.	05	17	14	6
8. Central Industries Ltd.	04	*	*	*
9. Nestle Lanka Ltd. (foreign)	30	19	10	40
10. Glaxo Welcome Ltd. (foreign)	22	*	*	
11. Smith Kline Beecham Mackwoods (foreign)	21	29	29	8
12. Jinasena Ltd. (private co.)	140	-	-	-
13. Hettigoda Group of Industries	06	-	-	-

(private co.)				
Trading Sector (06)				
14. C W Mackie & Co. Ltd.	60	49	47	44
15. Singer Sri Lanka (Trading) Ltd.	52	15	15	15
16. James Finlay (Col.) Co. Ltd.	24	38	32	25
17. Richard Pieris Exports Ltd.	06	(13)	(19)	(22)
18. Hayleys Exports Ltd.	04	(4)	(5)	(13)
19. IBM World Trade Ltd. (foreign)	14	*	*	*
Tourism Sector (05)				
20. Aitken Spence Hotel Holdings Ltd.	13	(31)	(11)	(27)
21. Hilton Hotels Corp. (foreign)	12	*	*	*
22. Hotel Eden (private)	06	-	-	-
23. TajLanka Hotel Ltd. (foreign)	03	*	*	*
24. Palm Garden Hotels Ltd. (private)	02	-	-	-
Banking & Finance Sector (10)				
25. Hatton National Bank	96	6	3	5
26. Seylan Bank	89	11	18	21
27. Commercial Bank	60	7	6	7
28. National Development Bank	56	1	7	4
29. Development Finance Corporation Bank	48	5	1	6
30. Sampathbank	38	9	9	29
31. CTC Eagle Insurance	24	34	21	32
32. Union Assurance	21	35	36	30
33. Vanik Incorporation	17	43	30	41
34. Lanka Orix Leasing Co.	14	14	13	10

FINDINGS

While the five best management practices that were found to be generalizable about the private sector companies in Sri Lanka are summarized below, the papers that follow in this issue of the Journal present details of these practices as applicable to the sectors of study chosen.

(a) *Long term client relationships:* In the external relations dimension of business organizations, companies valued maintaining un-broken, long-term relationships with customers through personalized attention and high-intensity interactions.

(b) *Equity and consideration in managing people:* Employee commitment to company was sought after through an emphasis on affective interpersonal relations, fairness in treatment, and employment security.

(c) *A growing passion for quality:* Quality is recognized as the core value of business as revealed by the concerns for technical perfection, skill development, and in-house programs for development of products and people.

(d) *Results-based controls*: Control of current performance is through integrative information systems focused on results rather than ways of doing.

(e) *Task before structure*: A highly active and involved senior management style that assigned priority to action over structure and procedure.

Thus, the study found that the companies in Sri Lanka are learning fast in the environment of free-market economy and making significant changes in the way they manage their business. While the companies seemed to be concerned with customers, employees, and internal operations, the researchers did not find much evidence about their attention to strategic planning and future development in technology, investments, and human resources. A future study may examine closely how these management practices are developed and maintained and why many large companies are weak strategy players.

CONCLUSION

From a methodological point of view, the study of best management practices provides an interesting inductive method for those who wish to get closer to the art and science of managerial practice. As an art, managerial practice varies across situations of business, culture and politics. Across divergent situations, one finds common threads in managerial practices that are increasingly strengthened by the waves of technology, competition, connectivity and standardization. The present study of best management practices in Sri Lanka is one of the well conceived and executed research projects on the subject for a developing country. Its findings are an interesting example of 'global' and 'local' facets of managerial practices of a third-world economy.

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