

HIGHER FINANCIAL DISCIPLINE IN ORDER TO ACHIEVE EFFECTIVE LOGISTICS

1. Higher Financial discipline is a vital factor for any organization. It's about securing the financial flexibility and control which are essential to gaining a competitive edge. Maintaining a high degree of financial discipline carries risks in particular, the risk of underinvestment at a key juncture in a financial recovery. Competitive advantage flows from financial discipline as attention to finance fundamentals enables companies to extract cash from their operations and put it to work in their businesses. Therefore financial discipline can be identified as social and organization behaviors that applied how to manage the finance.

2. The objectives of the financial disciplines are maximizing the economy, timeliness and quality in financial decision making in the public (government) or private sector requirements. When considering about public, the responsibility of financial disciplines are higher because government utilizes public funds.

3. Public sector in Sri Lanka is the largest sector in south Asian region in comparison to available total workforce in the country. At present Sri Lanka public sector compromise with 1.3 million of employees. Public sector is appointed by the Government and

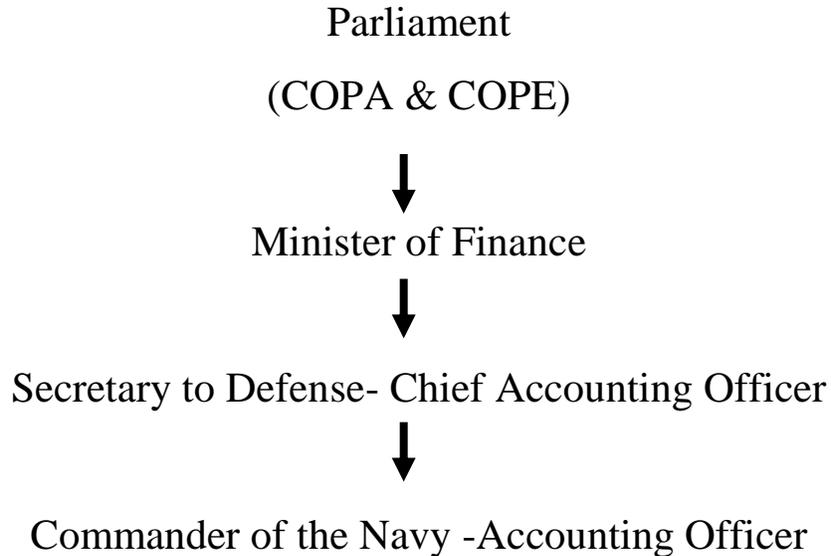
Government is chosen by people of the country. Therefore Public sector is mainly responsible to the people of the country and therefore they are responsible to render expected service to the people. Usually people expected peace, law and order, basic human requirements and other infrastructure facilities from the government. In order to maintain these services government required money. The money for expenses as capital and recurrent are collected from people by various tax sources, and other revenue sources from government own enterprises and by different fines. Therefore ultimate owners of such entities are general public.

4. Public financial management involves management of public funds in an orderly and efficient manner for the benefits of the people. It is only thorough effective financial management that discharges its accountability to the people. Good regulatory framework and institutional arrangements will facilities effectives financial management. That's not only values and norms of the society too contribute in this affair. Sri Lanka public most observe Buddhism, and others are from Hindu, Muslim and Christianity. Such religions are educating become to be more discipline in every endeavour. Therefore majority of our public are self behavior. Such organizations culture lead to better working environment. However endless desires and not satisfaction lead to complexity.

5. In order to control this human nature, laws and regulations were introduced. The financial discipline includes compliance with local laws,

regulations and international standard and obligations in order to ensure transparency and consistency. In order to ensure transparency and consistency of public fund, it whole responsibility finally holds by the Parliament. Then parliament delegate it authorities to the Minister of Finance and direction is given by National Budget. Minister of Finance's authorities and powers are delegated to the Secretaries of different Ministries. They are callas Chief Accounting Officers. Under these chief accounting officers various departments, boards, corporations are operated. The Head of departments, boards, and corporations are known as Accounting Officers and they are responsible to the chief accounting officer for maintain financial discipline as per the rules and regulation. Then Chief accounting officers responsible to the Minister of Finance for maintain direction and orders vested by him and parliament. Then parliament appoints COPE (Committee on Public Enterprises) and COPA (Committee on Public Accounts) in order to ensure transparency and accuracy of all government transaction based on Auditor General Report. In that way government maintain Check and Balance in their public fund management system.

6. As an example, the hierarchy of public finance management system of SL Navy in point of government view,



7. Then we have to understand what are the areas that government utilize these public fund. Broadly recurrent expenditure and as a capital expenditure. From that major portion of government money utilized as a salary and wages under the recurrent expenditure. Other major portion allocated to capital and consumption activities. Here logistics play vital role in acquiring required recourses and services. In that Logistics operations are responsible for the efficient and effective handling of goods and services with the ultimate aim to minimize costs, improve customer service and to create a competitive advantage. Logistics management as part of Supply Chain Management that plans, implements, and controls the efficient, effective forward and reverse flow and storage of goods, services and related information between the point of origin and the point of consumption in order to meet end-users requirements. Logistics performance encompasses multiple service

metrics, such as lead time and on-time delivery, which are related to each other. The purpose is to monitor, control and direct logistics operations. The central objective of measurement is to enable improvement of customer service in the direction of customer's requirements. The customers' needs are about increased expectations on lead time inventory availability and availability of delay information and accurate order. To be able to continuously improve logistics performance, a number of activities preceding measurement are necessary. Logistics are essential for an effective management of the operations inside of any organization.

8. When it comes to an organization aspect such as transport, storing, space, equipments, infrastructure, finance and many other facts are to be considered to achieve planned goals and objectives. Out of these facts, the major aspects of the management should be financial aspect. Correct use of finance could bring up an organization or erroneous use of it could collapse the organization.

9. When consider about the military services like SL Navy and other government organizations, the financial disciplines and principles are stipulated according to the Government Procurement Guidelines- 2006 , Financial Regulation (FR), Circulars..etc;.

10. The Government of Sri Lanka initiates Procurement Guideline-2006 is for guide and ease public procurement action. Following special features help to build up effectiveness of government procurement

process as guidelines. These are comprehensive guidance on procurement process and serve as hand book for public servants. It combined requirement of financial regulations, circulars, instructions and current developments in the form of a hand book in a user friendly manner in single document. It avoid delays in procurement demand, adherent procurement price scheduled, streamline the procurement process, reduce weakness, achieve the objective of procurement, safe guard the public servants from baseless allegations, and guided procurement action efficiently. In Procurement Guidelines -2006 include following separate details chapters in order to enhance financial discipline,

- a. Procurement methods
- b. Preparation systems
- c. Bid evolution
- d. Award contracts

11. Public sector should adhere to these guidelines and directions when they engaged in procuring, construction and repairing activities. It ensure transparency and opportunity for all bidders and enhance efficiency while maintaining high financial discipline of public sector by eliminating unnecessary delays in procurement action. The main objectives of introducing Procurement Guideline were,

- a. Maximizing economy, efficiency and effectiveness
- b. Adhering to prescribed standards, specifications, local laws rules
- c. Fair, equal and maximum opportunity
- d. Expeditious execution of works and delivery of goods and services
- e. Compliance with local laws and international obligations
- f. Ensuring Transparency and consistency
- g. Retaining confidentiality of information

12. Then purchase can follow under mentioned purchasing methods for secure discipline of financial in based on value and nature of the requirement.

- a. International Competitive Budding (ICB)– 3.1
- b. National Competitive Budding (NCB)– 3.2
- c. Limited / Restricted International Competitive Budding and Limited / restricted National Competitive Budding (LICB and LNCB)-3.3
- d. Shopping– 3.4
- e. Direct contracting-3.5
- f. Direct contracting Repeat order -3.5 II
- g. Repeat order– 3.6

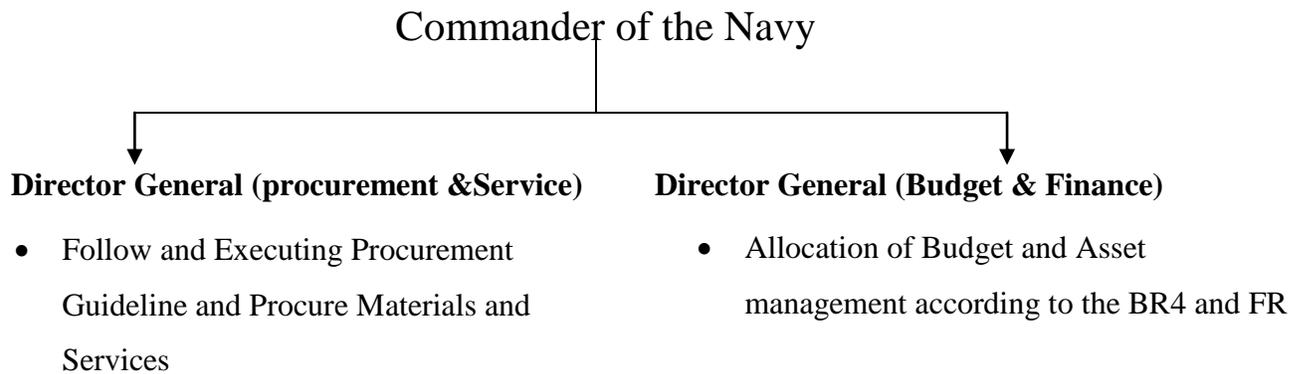
- h. Force Account – 3.7
- i. Emergency procurement – 3.8

13. According to the procurement guideline -2006, military organizations are authorized to do some minor or major deviations in order to complete certain transactions considering nature of urgency and need of purchases. In such a situation in order to maintain financial discipline or in other word to maintain check and balance, internal arrangement has been developed.

14. Sri Lanka Navy's procurement procedure based on fundamentals of Check and Balance theory. Here there are that two Director Generals ensure executing of Procurement Guideline, FR and BR4 in sequence to ensure transparency in each stage of following mile stones in order to maintain higher financial discipline.

- a. Initiating → Customer or End-user
- b. Approval → Authority executing by Guideline-2006{DPC, DG (P&S), AA,GLOGD...etc;)
- c. Certify → QC Board
- d. Payment → Director Finance

As an example,



15. SL Navy carries it's their procurement system in Naval Headquarters level and Area level. The Procurement system is decided on the value of the items and nature of the goods and services. The financial limits, approval and procedures have ensured in order to counter the transparency of each mile stones activities. By practicing relevant options, public organizations can easily pursue the bid procedures and ensure on time execution of requirement and satisfaction of end user requirements. Without restarting the procedures in urgent cases (or save time), the guideline has provided the facility to continue the procurement under some conditions like direct purchase methods or repeat order systems. Although, it is not essential to follow the rules and the procedures in order to furnish the requirements at all the times, it is expected the relevant nature of procurement over the relevant options or tools to create the transparency.

16. In the preamble I have mentioned that maintaining a high degree of financial discipline carries risks in particular, the risk of under investment at a key juncture in a financial recovery. Competitive advantage flows from financial discipline as attention to finance fundamentals enables companies to extract cash from their operations and put it to work in their businesses. As our Commander of the Navy repeatedly mentioned in his speeches that the “enemy today is not known and of their whereabouts”. The navy’s’ today task to surveillance of more than the 21 times of land area in the sea since logistician are having bigger task to meeting requirement of developing Sri Lanka Navy to the future.

17. Ladies and gentlemen let me to quote two military philosophers to defend the today’s context in naval logistics of our commanders thought. Sunztu the Chinese military philosopher had highlighted “proper planning before war” in his book “Art of War” which today widely referred by many logistician in decision making process and Clausewitz the Prussian Military philosopher who elaborated “the fog of war” in his book “On War” are more applicable to naval logistics as our planning to be constructed assuming different strategic, operational and tactical level conditions which may encounter in future.

18. We can find many financial collapses due to improper financial discipline. Adams Smith, considered as father of modern economics advocated the market economy. However his avocation came in to

question at the end of roaring twenties of US economy and which was the begging of great depression. The society in the roaring twenties commonly stated where to next dime goes but in great depression they said brother can you spare a penny. Adams Smith in his book Wealth of Nation mentioned about an "invisible hand" in Laissez faire conditions. In my understanding the invisible hand is all about the higher financial discipline in our businesses.

19. The great depression was the eye-opener to the economist in the western world to regularization of the economic activities and state intervention. Keynesian economists often argue that private sector decisions sometimes lead to inefficient macroeconomic outcomes which require active policy responses by the public sector, in particular, monetary policy actions by the central bank and fiscal policy actions by the government, in order to stabilize output over the business cycle. Keynesian economics advocates a mixed economy – predominantly private sector, but with a role for government intervention during recessions.

20. With the collapse of eastern block at the end of cold war questioning the validity of Carl Marks social economics theories. The communist world welcomed regulated mixed economic policies for their prosperity. Today it is evident that China, Russia and other communist countries taking the harvesting of their decisions. However it's alarming to us proper disciplines a necessity in finance when studding in the

recent slow progress of Chinese economy. Values of Chinese stock markets continued to drop despite efforts by the government to reduce the fall. Forbes journalist argues that the "stock market crash does not indicate a blowout of the Chinese physical economy." China is shifting from a focus on manufacturing to service industries and while it has slowed down. Also IMF encourages China to "continue to be a responsible global citizen and liberalize its exchange rate, while intervening to ensure a gradual decline.

21. The US economy recover from the great depression in 1930 due to the production of raw material for WWII and subsequent industry in the military sector. However while reading the US history it is found that deregulation of economic policies in 1970's onward resulted United States housing bubble in year 2006 and 2009. The mortgage-backed securities which is the financial innovation in that time led the instability in the housing market since need of proper finance discipline was evident.

22. We Sri Lankans are observing four main religions. Buddhism, Hinduism, Christianity and Islam preaching good governance self discipline for the community. If we focus of the common lessons of these four religions it's about self discipline and good governance. Therefore it fabricates good human to the society and ultimately it create discipline family to the society which economist identified as small unit of the society. Then it leads to development of village and finally direct

to development of the country. As per the former priminister SWRD Bandaranayake said “first we have to develop the man, and then we have to think about country”.

23. Therefore by maintaining a higher discipline in public funds it able to provide transparent process in efficient, effective manner by integrating all the sectors and satisfying end user requirement while providing maximum value to each rupee spent on procurement process.

CONCLUSION

24. Budgeting, Accounting, Reporting and Auditing plays an important role in discharging public accountability. Parliament is responsible for the public finance control or management. Higher discipline in procurement process are maximizing economics, timeliness and quantity in procurement resulting in least cost together with high quality, adhering to prescribed standards, specifications, rules, regulations and good governance by providing fair, equal and maximum opportunity for eligible interested parties to participate in procurement action. By participating majority of suppliers and make more competition leads to maximize the efficiency and effectiveness of public procurement process.

25. SL Navy plays a major role in the public sector as a one of large government organization and utilize large portion of public fund. Therefore as an important government sector organization it is very important to maintaining a higher financial discipline in order to improve the effectiveness of the logistics system and satisfied end-user requirement.

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