Challenges in Managing Development Organizations – Part I

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By V Santhakumar

1. Introduction

In most situations, development practice requires the creation of new organizations. These may include a school or a health-care centre or a mechanism to organize agricultural or other (petty) producers so that they may gain from the benefits of participating in larger markets. However, it is not unusual to see some of these organizations created by development practitioners failing or turning into white elephants over time. Hence, there should be a greater focus on the functioning of these organizations. Some of the issues in this regard are discussed here and in the following notes.

If organizations are not functioning well, it could be due to the way their affairs are managed or because the people working in these organizations do not follow instructions or expectations. This may lead us to think of them as inefficient or morally corrupt, which may be true to some extent. However, the issue is, whether we can create organizations which have reasonable `internal pressures' or mechanisms to ensure that they carry out what they are expected to, without incurring unreasonable costs. Before thinking about designing an appropriate organization, we need to think about the need for an organization.

2. The Need for an organization

Is there a need for an organization in a given context to address a problem? Let us consider an example. Enabling all children in a village to get a school education could be the objective of a development practitioner. However, establishing a school in the village may not be the objective, but only a means to achieve the objective. If many children in a village do not attend school, there can be various interventions, such as a) starting a school in the village; b) helping a private organization to start a school there; c) giving financial support to parents to send their children to a nearby school. You may note that the creation of an organization (here, school) is only one of the options before the development practitioner. There are other options to achieve the objective without creating a school. Hence, the decision to create a school should be taken only after considering all the other alternative ways that enable the schooling of all the children in the village. Setting up a school would only be required if the reason for the prevalence of the problem, that is, children not getting the benefit of schooling, is the absence of a school.

The term 'organization' is meant to indicate a number of people working together with an implicit or explicit agreement or arrangement for a common purpose. However, as in the previous example, such an organization is needed only in certain cases. Let us take another example. A person who wants to earn an income by selling bread and cakes has these options, (a) buying from other bakeries and reselling these in his/her locality; we may call this the `market' option since here the items are bought from other sellers when required; (b) getting into a contract with a bakery to supply a specific quantity of bread and cake regularly so he/she can retail in his/her locality, which is called the `contract' option; and, (c) employing a few other people to make bread and cake to sell, which is the `organizational' option. So, creating an

organization is one of the options for the purpose.

There are merits and demerits of each of these options. For example, the market option is fine when there are many sellers supplying service or the quantity of the item required. If a development practitioner wants to provide milk or biscuits to children from poor families in the city slums, there may not be a need to create a new dairy or biscuit factory as these items can be bought from the market. However, what if there are not enough suppliers? Think about a situation where the plan is to supply milk to school children in a relatively backward block but there may not be enough milk suppliers in the area. So, milk will have to be brought from the nearest city on a regular basis. This may encourage the practitioner to get into a contract with a dairy in the city. This dairy may have to make provisions for producing the additional quantity of milk for this purpose.

A contract puts both these parties into a `binding' situation. What happens if the development practitioner unexpectedly decides not to take milk for a few days from the dairy? If the dairy is not paid for this milk, it may incur losses as it may not be able to find new buyers for the unsold milk. This is the vulnerability on the part of the service provider in a contract. In an inverse situation, what happens if the dairy does not deliver enough milk on a day due to some reason. There could be a loss of face for the practitioner since he/she cannot provide milk to children on that day. This is the vulnerability encountered by the buyer of a service through a contract. All these concerns may have to be considered at the time of signing the contract. There may not be insurmountable issues in the case of a milk supply contract but there can be in the case of other items and services.

What if the quality of service for which the contract is made cannot be monitored easily? This may be an issue for milk too but it can be tested periodically to ensure that it meets the standard. What if a practitioner or altruist gets into a

contract with a private, old-age home to provide care to a set of homeless and destitute, older people? The private, old-age home may have the incentive to minimize the cost (or maximize profit if it is a for-profit company). What if they try to reduce cost in such a way that it reduces the quality of care provided to the aged? Certain aspects of the quality of care can be monitored, like it may be possible to carry out a random check on the quality of food once in a while or of the number of care workers employed. However, it will not be easy to ensure that the workers treat the aged occupants with respect and empathy. The altruist who pays for the service may find it difficult to ensure that the quality of care meets the specified standard on all accounts. If it is to be ensured, then he/she may have to employ a full-time supervisor or may have to take over the management of the care-home which will lead to the organizational option that we have discussed earlier. In certain cases, depending on the importance of the attributes of service which cannot be monitored easily, such an organizational option may be selected. Here, we have discussed one issue — the difficulty of monitoring the quality of service — as one reason for not preferring contracting but opting for the organizational option, but there are other issues as well.

To contract out or to employ?

In many small towns (counties) in the US, the local administration does not contract out some activities even though they are legally permitted to do so. Clearing of trees and snow fallen on the roads during winter/storms is one such activity. Why they prefer to have employees carry out this task is a subject of analysis. Contracting has some inbuilt problems. First, it is relatively difficult to specify the conditions of the contract regarding the quantum of activities to be carried out as part of an uncertain natural event or calamity. Even if a contract exists with a firm for this purpose, it may ask for an additional (or renewal of) contract for this emergency requirement. If a new firm is to be commissioned to carry out the task, there may not be enough time to prepare a contract. Since the county is facing a contingent situation, the new firm may try to extract an unfair deal. So, the county prefers to carry out these activities through its own employees as it is relatively easy to exercise control over them in an emergency situation. Employing people may be costlier than contracting out since employees need supervision to get the expected work done by them. However, such an additional cost may be justified in certain cases due to the difficulties in contracting out such services.

In general, it may be difficult to use private companies for emergency purposes, which is the reason why fire control service is provided by the state. Likewise, emergency ambulance services are provided by the state or non-profit agencies in many countries. What if the ambulance company tries to extract an unfair deal in a contingent situation? On the other hand, it may not be costly for society to have private or for-profit firms providing ambulances to transport dead bodies.

A number of factors may have to be considered while taking a decision on whether to contract out or to employ people. How difficult is it to judge the quality of the work, how important it is to control the transactions/processes of work, the possibility and the cost of changing contracts to meet exigent situations, etc. are some of these factors. Consider another case where a bank in the United States plans to outsource its back-office operations to a Business Process Outsourcing (BPO) firm in Bangalore. This may be to capitalize on the cheaper cost of labour in India. The bank has various options in this regard, (a) contracting out through an open tender to the BPO which quotes the lowest price; (b) contracting out to a joint venture of the bank and a local BPO firm; or, (c) creating a fully owned subsidiary in Bangalore to carry out the back-office operations. Given the nature of the operations which are to be outsourced, the bank may prefer options (b) and (c) even if it costs more than (a). This is because the bank may want to have a certain level of control through part or full ownership of the firm which carries out the back-office operations. This may be to ensure, for example, the confidentiality needs of the banking operations.

Even in normal operations of private companies, they may recruit persons with a longer-term employment for certain activities and may depend on contract labour or outsourcing for certain other activities. The decisions on the tasks needed to be carried out by own employees depend on a number of factors including the difficulty to monitor the work, the value of experience acquired through the operations within the firm, and so on. Hence, it is not surprising that private companies go for permanent employment even if they can legally depend on contract workers.

There are, therefore, two important lessons in this. First, setting up an organization is only one of the options to get or provide a service and it is not necessary in all contexts. Secondly, there are a number of genuine reasons why creating an organization is preferred even if there are other options.

3. Managing an organisation with a social purpose

The major challenge in any organization is to ensure that each employee functions in a manner that leads to the attainment of the organizational objective. An organization has an objective for which it hires employees. A problem arises when employees have different objectives. Then, the challenge is how to motivate them to do the tasks required of them. A number of factors impact the severity of this challenge.

Let us take a simple example. I start an NGO. My work requires a lot of photocopying, so, I decide to hire a person for this purpose. The salary for this employee is fixed at Rs. 10,000 per month. He/she photocopies 300 pages a day but the organization's objective is to have a greater number of pages photocopied daily, a task that is possible if the person works diligently. There is a need to find out why the person is not able to photocopy more than 300 pages per day. One may do an occasional check, but what if he/she has a sense of the possible check and is lax at other times? One solution is to hire a supervisor to keep a regular watch on the employee, but that involves the cost of the supervisor's salary. What if the supervisor too shirks his/her responsibility? Must I, then, engage a supervisor for the supervisor?

Are there other solutions? Can this person be paid a wage according to the number of pages copied instead of a fixed salary per month? Then he/she would have an incentive to maximize the number of pages copied. But there can be another problem with this. The person, in trying to photocopy a greater number of pages may not pay attention to the quality of the copied pages, necessitating a quality-cum-quantity-

based wage rate. Here, I, as the owner, may have to use alternative payment or incentive-compatible options to encourage the employee to act in a manner favourable to the interest of the former.

There could be another strategy. If this particular employee can get only Rs 10,000 in any other job in the market, the organization may give him/her Rs 12,000. This may encourage him/her to be loyal to my organization and to work sincerely even without much supervision.

One is inclined to think that reality is not this complex and that many employees do their expected work without much supervision. The assumption behind the photocopying case described here is that the employee has no self-motivation to work, and he/she will attempt to shirk his/her duties if there is no supervision. This may not be a completely correct characterization of people. There is a possibility of self-motivation and we discuss this in a section that follows. It could be possible that some people carry out the work expected from them even without much supervision. On the other hand, it is not so uncommon to hear stories where employees do not take their responsibilities seriously. One can think about a typical government office in this regard. Hence, the possibility of shirking responsibility by an employee in an organization cannot be ignored. One may have to consider appropriate strategies to address this.

This kind of a problem may arise even if the development practitioner is a funder and uses another organization for achieving his/her objective. For example, an altruist or a development practitioner who finances a private school should ensure that the school has the incentive to enrol all the eligible children in the locality. There can also be a few payment methods which are `incentive compatible' in this regard. For example, if the money given to the school is based on the number of children it admits, it may admit as many students as possible. Similarly, if the funding is based on

the number of staff positions depending on the number of students, then also the school or the teachers may have an incentive to admit all the children. On the other hand, if there is a lump sum grant, irrespective of the number of students or staff positions, such an incentive may not exist. Similarly, the funding is based on the performance of students, the school may have an incentive to deny admission to those students who do not perform well in exams. Some of these issues are discussed [here](#).

Even if the school admits all the children, there can be the concern of whether it provides the expected quality of services. If the school is interested in making profits, it may try to save costs by compromising on the quality. For example, it may try to employ inexperienced teachers by paying low salaries. Hence, monitoring may be needed. Therefore, it is clear that in hiring, whether it is an employee or an organization, it is necessary for an altruist or development practitioner to consider if the employee or the organization has the incentive to do the expected work. Incentives and motivations can be of many types. We discuss these next.

4. Non-financial Incentives

However, there can be non-material or non-financial incentives, like recognition in society. Medals, awards, recognition certificates without any monetary prize are used in different organizational and social settings. There can also be certain `intrinsic' incentives. For example, people may get joy by helping others or by contributing towards social purposes even without the recognition by outsiders. There are many NGOs (including religious, spiritual or ideological) where people get much less material compensation for work than what they can get in their corresponding job markets. In addition to the material compensation, they are motivated by joy or finding a 'meaning' in life derived from contributing to moral or ideological purposes. This is also closely related to the altruism or development actions that we

discuss here. There is evidence that people are willing to pay for objectives which are not directed at their own benefits. Hence, it is not at all correct to believe that people are driven only by financial incentives and/or purely selfish motivations.

Some people may do their jobs well even without explicit monitoring by others or without looking for financial incentives (beyond the fixed salary). This can be due to self-motivation. It is also true that many people may not like to work in a context where their superiors do not trust them even though they may continue to work there for want of other comparable opportunities. Here, the lack of trust affects self-motivation to work well. Also, people usually take up long-term occupations. In a particular job, the expected income may not change much. Since the possible financial gains from a life-long occupation are more or less fixed, people may attempt to derive joy by focusing on the non-material elements by committing more time and energy to their jobs. It may be difficult to imagine that those scientists and professors who devote most of their time on research do so for possible material gains. However, there could be a self-interest in getting more than just the salary.

Such non-material and intrinsic incentives are more important in organizations which have social or altruistic purposes. There are two interesting issues here. First, the importance of such incentives may be higher in the case of certain services or activities. Secondly, there can be interesting twists in the relationship between financial and non-financial incentives.

The output of certain services is not tangible or measurable. A person may consult a doctor, take treatment but may still die. It is quite possible for a person to die even after taking the prescribed medical treatment. Then, it may be difficult to establish whether the doctor has treated the patient well or not. To some extent, this is true for

education too. There are tangible and intangible dimensions of education. Test scores or passing examinations can be the tangible outputs, which can be monitored by parents (users of education as a service). On the other hand, such monitoring could be difficult for intangible outputs of education, for example, the inculcation of creative thinking or values that make a student socially responsible. Such difficulty in measurement may work against ensuring the effectiveness of the service providers through monitoring and based solely on external (including financial) incentives. This is the case when a development practitioner starts a school or health-care centre to benefit a specific section of the society.

Moreover, financial incentives can be harmful in some of these contexts and this is discussed in detail here. What happens if doctors are allowed to charge more fee for the additional attention they give to patients in a hospital serving people from all sections of society? They may pay more attention to those who can afford to pay and neglect those who cannot. The doctors may even prolong the treatment of those who can pay even if the treatment is not required. These are not hypothetical cases in India. There are government doctors who give enough attention to only those patients who make additional, underhand payments. There are numerous other situations in which financial incentive work against self-motivation.

Even when non-material incentives are important in a context, their hold may change over time. Hence, some periodic reflection of why some people work in an organisation with a different set of motivations would be useful. The trade-off between material and non-material incentives can be different for different people depending on their preferences and endowments. Even this trade-off can change for the same people over a period of time. Some organisations start with certain ideological/altruistic features which may disappear or degenerate over a period of time. For example, an organisation

started with a non-hierarchical structure may motivate some youngsters to join, but they may get disillusioned when they realize that such hierarchies cannot be completely absent. The commitment to an idea or a belief may enable people to sacrifice certain material incentives, but the strength of this commitment itself may change for individual reasons.

To some extent, there is a difference in the challenges faced by those who give money or spend a relatively short period of time on a voluntary basis for `doing good' and development practitioners, who select a career with a social purpose. There could be a higher level of inflexibility in the latter. For those who decide to contribute money for doing good at any point in time, they can stop this contribution at any time, if their economic conditions or their preference/ideas/motivations change. The economic conditions of the outside world may also change. Poverty, ill health, underdevelopment and such other issues warranting actions by altruists may also change, and this may encourage them to change the focus of their actions. The future is uncertain, and it is normal to see changes in both economic conditions and preference/ideas of people over time. Hence, the ability to change one's decisions to suit the emerging realities and thoughts is important. This is higher for people who contribute money and/or voluntary time for `doing good'. On the other hand, such an ability may be restricted for those who select development practice as their longer-term career.

5. Internal versus external mechanisms of correction

So far, we have discussed ways of improving the efficacy of an organization by strengthening internal mechanisms (say, by improving the incentives of employees). This is administered by the internal hierarchy of the organization. For example, when some teachers in a school are not doing their expected job well, we expect the Head Teacher to take actions. There is another way of enhancing the effectiveness of an organization.

That is by giving a greater role to its users. This could be the assumption behind strengthening, say, a parents' association, with regard to the functioning of a school. Here, we are expecting the `voice' of the disgruntled parents to work as a pressure mechanism to make the school deliver (what the parents want). Hence, the attempt is to create mechanisms that will put external pressure on organisations (and the employees) to be effective. A number of services provided by development practitioners are suitable for the creation of such external mechanisms for enhancing effectiveness.

However, the ability of external stakeholders or users to influence an organization is also influenced by a number of factors. It may not be easy for parents from economically disadvantaged groups or patients to demand better services from school teachers or medical professionals respectively, even if the school or health-care centre has formal mechanisms, such as users' associations. If there is only one such facility in a locality, people who do not get good service even after voicing their grievances may not be in a position to shift to another service-provider. This will again encourage the employees of the facility to neglect the voice of the users. Hence, it is not correct to assume that external pressure can enhance the effectiveness of organisations in every context.

There could be a relationship between internal mechanisms and external pressures. The users are likely to be active if they feel that the articulation or expression of their voice can make a difference. However, this may require the internal hierarchy to function well — to take note of the grievances of users and make changes in the system (including encouraging the employees to respond or change their behaviour). On the other hand, if the internal hierarchy is unresponsive or not in a position to change the system, users may see no point in airing their grievances. In general, one can see three equilibriums, (a) the internal mechanism is very effective so

that external users do not have to voice their concern; (b) the internal mechanism is reasonably effective to make changes in the system when its deficiencies come to light and here external stakeholders have an incentive to express their voice; and (c) internal hierarchy is so ineffective that external stakeholders do not see the usefulness of articulating their grievances. All these issues may be kept in mind while designing an organization.

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