

Creating Organizations

Effective

[Practice Insights](#) > [Notes on Strategy](#)

Creating Effective Organizations

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1. Introduction

In a [previous note](#) we discussed the need for creating development organizations that are effective. It may be useful in this regard to consider certain criteria for evaluating and designing effective organisations. Let us look at some of these.

1.1 The Need to articulate the objective

There is a need to clearly spell out the purpose that is to be served by creating an organization. Often people think of the creation of an organization as the objective and neglect the fundamental purpose it should serve. For example, the creation of a school or a hospital cannot be a social objective unless there is a need in the given context to improve education or healthcare.

The articulation of objective is important because it enables us to consider all alternatives and select creation of a new organization only if it is the most appropriate one. As we have noted in the previous note, there may be cases where the creation of an organization is unavoidable as the other options are either unviable or costly. Another reason, often the commonest, could be our tendency to believe that the existing organisations have failed in their purpose and we can create something superior. Improving the existing ones is less 'glamorous' and more difficult than building newer ones (even

if they too end up with the same failings). We are tempted (by the desire to attain immortality?) to create memorials for ourselves while being alive. Though it may satisfy our egos, it may not be the ideal route for achieving social ends. Hence, the articulation of the objective in terms of societal purposes is required to avoid these pitfalls.

1.2 Ability to be cost-effective under changing economic conditions

Let us take the example of schooling and consider different ways of funding a private school to educate children from poor families in a locality. This can be through (a) sponsoring a fixed number of staff positions; (b) giving money depending on the number of students in the school, and; (c) providing a fixed grant to the school.

It is easy to see that the first two ways help us to change the funding if there is a decline in the number of students going to that school for some reasons (like a decline in the number of children in the locality; students/parents not liking the school; or, better schools coming up in the locality). But it will not be easy to reduce a fixed grant in this case because the school may have already employed a number of teachers based on the grant and reducing this number would be difficult. So, does the manner in which the funding is made or the organization is created allow it to evolve according to the changing reality? This should be an important consideration.

One reason for this is what is called 'dynamic efficiency'. Sometimes interventions are designed in a specific context due to the absence of a market. For example, there may be a need for social intervention if people in a village have acute dental problems and there is no proper supply of dental-care services there or the care available in the village is of spurious nature. However, this situation may change over a period of time with private and public dental-care centres

being set up. Once any such service is available, how people would respond to the existing service-provider is uncertain. The important point is that the mechanism should be able to internalize the changes in this regard without a wastage of resources.

With the above points in mind, we consider the prospects of and challenges faced by certain generic organizations that altruists or development practitioners may create to address social issues.

2. Community organizations

It is common to see altruist individuals or agencies supporting or creating community organisations. A self-help group of women as part of a micro-finance initiative is a popular example. Micro-finance as a way of addressing the problem of access to credit for poor people depends on the peer-pressure within the community. There are obvious advantages of such organisations. They draw on the existing communitarian feelings; mutual dependence within the community and may be seen as more enabling than the dependence on a bureaucratic organization manned by outsiders.

However, the success of such community interactions depends on a number of factors. The idea behind the effectiveness of community interactions is that people live and/or interact regularly in a social context and can influence the behaviour of each other. Each member benefits from community interactions and these are likely to continue for a long time. If one of them deviates from mutually agreed upon norms, he/she could be punished through social ostracization. The potential threat of such social exclusion may discourage people from deviating from commonly agreed upon or expected norms.

However, we need to note that there are conditions which are needed for these interactions to work well. Non-cooperation by

others in future will hurt a person only if she/he expects to interact with these people, say, by living in the same community for a long time. What if the person plans to move out soon (say, migrate to a city)? What if the person has moved to a new locality recently and plans to move out again? What if the person deals with outsiders for most of his needs (purchases, employment, and so on)? Such a person may not be perturbed by the potential threat of non-cooperation by others in the community and therefore, have no incentive; nothing that binds them to honour an agreement, spoken or implied.

One may argue that we do not take into account 'self-motivation' here. There are people who may stick to promises even if they are costly to fulfil, but expecting this from everybody is unrealistic. Even such moral compulsions to stick to a norm may disappear if the community interactions are of a transient nature.

There is another reason why people may break community norms. Think about a woman SHG member who has taken a significant amount of loan through micro-finance and has agreed to pay back within a specific duration. Then, there is some emergency in her home (say, serious illness) leading to unexpected expenditure and instead of paying back the loan, she uses the money meant for this purpose to tide over the emergency. Though she is aware that such non-payment may lead to some punishment (non-cooperation by her peer members or non-availability of loans in future), and it could be costly, addressing the current need is more important than the potential benefits that she may get in future by adhering to the community norms. (We may consider this as the impact of heavy discounting of future costs and benefits). So, when people are in such dire needs, it may work against sustaining cooperation in community interactions.

Hence, community organizations may not lead to the expected benefits in a number of contexts. This could be because some people there do not expect interaction among themselves as of

a long-term nature, probably due to dependence on wider markets, including migration. There should be another consideration before attempting to build community organisations. The mechanisms that sustain the cooperation are mediated through an internal power structure, and the exercise of such powers held by some people (say, landlords) may not be in tune with 'modern' ideas of individual and human rights.

3. Producers' or workers' cooperatives

In many cases, small producers like farmers or weavers could be brought under the umbrella of a producers' organization, which is more formal than a community organisation. Though the ultimate ownership of such an organisation rests with the members, their rights and responsibilities are restricted by legal norms. The 'Amul' brand is a well-known example of a federation of producers' organization in India. The need for such an organization comes from the fact that each of the small producers may not be in a position to carry out certain activities needed for the production (say, procurement of inputs or marketing of outputs) in a cost-effective manner. The processing and marketing of milk is a typical example. Similarly, reaching wider markets can be difficult for one weaver or a small weaving community. Though for-profit private organisations can carry out such marketing by buying from small producers, the latter may get only a part of the surplus (of this economic activity) and the major share would be taken by the private company. Hence, there is a rationality and usefulness in development practitioners enabling small or petty producers to organize themselves into a cooperative society or a producers' group. However, the success in this regard depends on the identification of those activities which cannot be carried out efficiently without the joint arrangement. These may include certain activities like marketing, large-scale processing, procurement of inputs, which require expert knowledge. Starting a producers' organization for the sake of it (by considering that it could

be useful) may not be effective, since individual producers may not be interested in a joint arrangement. For example, a producers' organization is useful for milk production but may not be so for those who cultivate paddy. This is so since joint processing, storing, marketing are more important for milk.

There is another problem with such cooperative firms, wherein a set of people come together to carry out an activity. Here, every member could be an employee and (part) owner of the cooperative firm. For example, a set of poor women may be brought together to start and operate a pickle-making unit. There is a possibility that the organization is not owned by anyone, or that every member-employee has equal rights. This may lead to the use of more labour than is socially desirable, leading to the dissipation of surplus that can be generated from this economic activity. This is explained in the box below.

The Problem with Workers' Cooperative

Assume that there is a pickle-making unit by a self-help group of women. Members can either work in this unit or take up some unskilled work in the nearby town. Those who go to the town get Rs 250 per day. The following table gives the values of income from working in the unit as more and more people join it. The net income (B) is total income minus the cost of raw materials for making pickle.

Number of people working (A)	Net income (B)	Marginal income (increase in income as one more person works in the unit) ©	Average income for the workers $D = B/A$	Profit, if there is an owner (total income minus wages for the workers) $E = B - A*250$
1	300	300	300	50
2	700	400	350	200
3	1050	350	350	300
4	1320	270	330	320
5	1500	180	300	250
6	1620	120	270	120
7	1680	60	240	-70

As a few more people start working with the unit, there is an increase in income initially. This is so since fewer workers cannot do all the required work in a day. However, this additional or marginal income decreases when more and more people join the unit. This could be due to the congestion or the limited facilities available – building space, kitchen, stove, and other facilities (capital) are fixed. Since it is a firm owned by the workers themselves, each person may get an equal share of the net income (or average income). Hence, each worker will take up outside work only if this average income is less than what she can get elsewhere. Thus, six women will work at the pickle-making unit (since at this stage, the average income is Rs 270 which is slightly above Rs 250 – the outside income) producing a total income of Rs 1620.

If this pickle-making unit is owned by one person who employs these women as workers. Let us assume that the wage rate is the same as that of outside work. Then, the profit the owner earns from the unit is given in the last column of the above table. It is clear that the owner will not employ more than four workers, since adding one more worker would reduce his/her profits (the cost of an additional worker is Rs 250 whereas the additional income by doing so is only Rs 180). This may also encourage the two unemployed workers to take up outside work. Hence, the total surplus/gain, in this case, is Rs 1320 produced from the pickle unit and Rs 500 gained through unskilled work (totalling Rs 1820). This is higher than the total income of workers when no one was owning the pickle unit. Thus, the lack of ownership encourages more people to take up the work in the jointly owned firm and produce a less amount of total income.

An outcome similar to that of the private ownership can be obtained if the SHG manning the pickle unit manages it as a privately-owned firm. For example, it should allow only four people to work there, and encourage others to take up work outside. The profit (or extra income) that can be earned by this regulation can be used for activities that enhance the welfare of all members of the SHG.

Hence, workers' cooperatives are likely to be successful only if these are managed like private organisations for efficiency and the resulting profit can be used for enhancing the welfare of all workers. This is the reason why there are only a few

successful workers' cooperatives. The 'Indian Coffee House' is one example. Another is the [Uralungal Labour Contract Co-operative Society](#) in Kerala.

There should be another consideration in the creation of micro-enterprises for poor people. This is to overcome the problems of self-employment of these people by bringing some of them together as part of a single enterprise. There are many poor (and illiterate) people who are unemployed or underemployed or whose own work does not generate adequate incomes. Hence, these micro-enterprises are a solution to give them modest but stable incomes. However, we should note that such an enterprise may have recurrent problems, for example, it may not get adequate capital to expand operations. Let us assume that this constraint can be overcome through micro-finance or other such initiatives but technical and managerial expertise may be needed for scaling up, enhancing the productivity and incomes of these workers. One can argue that such expertise can be hired when needed but that may not be easy. In a context where capital and expertise for management are scarce, and underemployed workers are abundant, an easier way is to encourage private enterprises so that these workers get employment. There is also a need for enhancing the skills of workers so that their productivity and income will go up in the formal sector employment. Since this may not be easy in the case of adults (and illiterate) whose educational status cannot be improved, a sustainable solution for employment of poor people is to educate them and encourage them to be part of private enterprises. Hence, private enterprises need to be facilitated.

4. Private firms

The setting up of private companies is also socially useful and these too can be attempted by altruistic actors or development practitioners. One may argue that these would be attempted by profit-oriented (and self-interested) actors, which is true. However, there could be a role for altruism

here. As discussed in the case of workers' cooperatives, the ideal situation would be for the private firm run by an altruist to be managed like any other for-profit firm so that it generates profits, a part of which can be used for society's benefits (including those of the workers). A strategy of diluting profit-orientation (thereby allowing lax behaviour on the part of workers and managers), though may be useful for the existing employees, may not enhance the benefits of the society as a whole. One way of using money for society's benefit is to reinvest a major part of the profit for the expansion of production and/or creation of newer private enterprises if these are economically viable. This may lead to the creation of more surplus in the economy, more employment for potential workers, and more revenues for the society (say, through taxes to the government) to be spent on public services including health and education. So, a private entrepreneur who is not consuming a greater part of the profit for his/her own conspicuous consumption but is reinvesting it is indeed 'doing good'. Hence, it is not impossible to 'do good' by creating private for-profit oriented companies.

5. Non-governmental Organizations

It is common to see altruist or development practitioners creating NGOs for social purposes. (There are those who do it for self-interest and those are not being considered here.) Historically, religious organizations played an important role in this regard in most societies. These are also NGOs of a kind which ran schools and hospitals. How do we see religious organisations as part of altruism? In fact, a major source of altruism can be (or has been) due to the perception that it is needed as part of the religious practice for achieving religious ideals (say, salvation or leading a better life on earth). Hence, many people either practice religion-driven altruism or fund the altruistic activities managed by religious institutions. However, a major part of the actions driven by religious missionaries (funded by the followers)

could be to spread the message of the religion and to increase the number of followers.

Secular NGOs have emerged in large numbers in the last century in most parts of the world. Most of these are founded on certain altruistic ideals. Obviously, increasing profits is not the objective of any NGO – religious or secular. Activities which are not attractive to private firms – say, the provision of schooling or healthcare to the poor – may attract investment by these NGOs.

Those who create NGOs may inculcate their ideals among the employees or they may select those people who are in agreement with such ideals. But identifying whether a potential employee conforms to the ideals of the organization is not easy. Employers may use screening or signalling devices. Past experience in certain altruistic activities could be a signal in this regard.

In working with an NGO, the maximization of income may not be the explicit objective of the employees, they may be willing to work for the organization at wages lower than the opportunity costs (what they can get outside in comparable jobs). A doctor working in a medical mission hospital may be working at a salary lower than what he can get elsewhere. Moreover, the indoctrination or the internalization of organizational ideals would encourage these people to give less importance to material (monetary) incentives than the non-material ones. They are also expected to have a higher level of self-motivation and so there may not be a great need to give more money to motivate them. And since they are self-motivated, they may do their duties even without intense supervision. In addition, the employees of such an organization may see a part of their work as altruism, and thus may be motivated in giving a part of their services free of cost. All these may make the cost of provision of services by NGOs relatively cheap.

The advantages NGOs have are that they can be flexible in terms of the composition of the personnel needed, timings and sequences of action to meet the actual circumstances, and not be rule-bound (as a government organization¹, which has to follow well-defined rules due to inherent incentive problems); they may bring in an emotional touch to their work; and, they may encourage the people to overcome existing structural barriers in a locality (whereas, such an encouragement can be provided by governmental organization only with the appropriate institutional or legal backing). Moreover, some of the actions initiated by an NGO can be continued by the local community/social organization after they become adequately aware.

However, the founders of NGOs have to be cautious too². All employees need not internalize the organizational goals or see their work as altruistic. This would mean that when NGOs do not or cannot give a salary equivalent to market rates, they may only get those employees who are commanding lower wages in the market (implying that their quality is also lower). This may affect the quality of the service provided. The fact that some people are working at below-market wages may prevent a realistic evaluation of their services. So, what they deliver may be either not of the desired quality or may be influenced by their pet ideas (those who are driven by altruistic ideals are also likely to have their own ideas about the best way to achieve stated goals) and correction (by the employers) can be difficult.

Another challenge could be that those who join an NGO with an altruistic ideal may change their views over time. This could be because they are no longer enthused by the ideals or because they have realized the futility of a career based on altruism. However, in the absence of other job opportunities, they may continue with the NGO despite lower levels of self-motivation. Making them work could be a challenge then. Also, in every NGO, there may be a need for skills or expertise for

which others who may not necessarily be aligned to the ideals of the organization may have to be recruited. A hospital catering to the poor (run by an altruistic agency) may need all kinds of medical experts, and it may be unrealistic to expect that all such experts would serve for altruism alone. Therefore, there are two types of employees in the organization, professionals expecting normal salaries and working conditions; and others who are motivated by the ideals of the organisations. Managing these two sets of people who have different sets of aspirations amicably within the same organization could be a major challenge.

6. Political organisations

What about starting a new political party as part of development practice? What about becoming a politician with this purpose? Politics is an important domain which can bring about systematic changes in any society. Historically, one can identify a number of politicians who have sacrificed their lives and careers to bring about political change in their countries. However, even though we may see many politicians who sacrifice their incomes (or material gains) to join politics, acquiring political power (with all its attributes, and some of these may be material and others, symbolic) could be driven by self-interest. We cannot consider the willingness of a person to become a politician as a reflection of altruism, even if it means sacrificing a well-paying job for a political position with a relatively lower pay. There are many others who sacrifice significantly even without acquiring political power. But 'political action' is an important space for development practice and development practitioners need to take note of political economy. This has been discussed in detail in [this note](#).

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