# Unit One: Management, Organisations and Performance

## Unit Information
- Unit Overview
- Unit Aims
- Unit Learning Outcomes
- Unit Interdependencies

## Key Readings

## Further Reading

## References

## Multimedia

### 1.0 What is management?
- Section Overview
- Section Learning Outcomes
- 1.1 Management functions
- 1.2 Management roles
- 1.3 Different types of manager
- Section 1 Self Assessment Questions

### 2.0 Organisations and their objectives
- Section Overview
- Section Learning Outcomes
- 2.1 What are organisations?
- 2.2 Comparing public sector, commercial and non-governmental organisations
- 2.3 Organisational objectives
- Section 2 Self Assessment Questions

### 3.0 Organisational performance
- Section Overview
- Section Learning Outcomes
- 3.1 Drivers of performance
- 3.2 Assessing performance
- Section 3 Self Assessment Questions

## Unit Summary

## Unit Self Assessment Questions

## Key Terms and Concepts
UNIT INFORMATION

Unit Overview
We start this module by considering what management is all about. We conceive of organisations as groups of people acting together in pursuit of common goals or objectives and the role of managers as being to deploy available resources in the best way so as to achieve the objectives of their organisation. The unit thus also considers how organisational objectives are determined and explores the links between objectives and performance. It contrasts objective setting in public sector, commercial and non-governmental organisations, and considers what is distinctive about the objectives of organisations engaged in ‘development’ activities.

Unit Aims
- To introduce the key functions of management.
- To consider how objectives are set in different types of organisations and the implications of this for managers.
- To consider what is distinctive about the objectives of organisations engaged in ‘development’ activities.

Unit Learning Outcomes
By the end of this unit, students should be able to:
- summarise the insights that arise from the ‘functions’ and ‘roles’ views of management
- explain how the job of manager varies across senior, middle and junior management
- list the key elements of an organisation and explain why each is important
- contrast how objectives are set in public sector, private sector and non-governmental organisations
- explain the major drivers of performance for both organisations and individual employees
- compare the ways in which performance may be assessed across commercial, public sector and non-governmental organisations

Unit Interdependencies
This module considers the particular challenges for managers working in rural areas of developing countries and also how the challenges of management vary across organisational types (public sector, private sector and NGO). In this unit we think primarily about organisational types and save fuller consideration of the rural development environment for Unit 2. However, some reference to rural contexts and relevant concepts (eg task specificity) is unavoidable in this unit. These will be explained more fully in Unit 2.
KEY READINGS

Section 1


This chapter of the textbook covers much the same ground as section 1 of the unit, providing additional arguments, examples and insights. Look here for a discussion of the purpose of management, organisations, management functions and roles.

Section 2


This chapter of the textbook describes the corporate planning process within a large commercial organisation, which involves both the setting of objectives and deciding the major strategies to be pursued in order to achieve them. A key point is that the strategy or plan at one level generates the objectives for the plan at the level below. Whilst the unit stresses the complexity of objective setting in public sector and non-governmental organisations, such organisations should also strategise as to how best to achieve the objectives that are identified. Note that this chapter comes close to the start of that part of the textbook dealing with ‘Management in Practice’. Most of the material in Part 3 of the textbook assumes that there is a clear corporate strategy to which other management functions can be aligned.


In this chapter, Hannagan discusses whether there are unique challenges that confront public sector managers or whether management skills are transferable across sectors. Questions of accountability and objectives are dealt with on pages 108–110. The chapter also touches on the question of performance, relevant to Section 3, and addresses issues of public sector reform which we will return to in later units.

Section 3


Explains how organisational strategies and plans should feed into performance management systems for staff. Relevant to Section 3.
FURTHER READING


Relevant to Section 3 and the issues of performance monitoring and target setting in an agricultural development context.

REFERENCES


Sightsavers (undated) *Sightsavers* website.  


Tearfund (undated) *Tearfund* website.  


**MULTIMEDIA**

Available on your e-study guide.

Audio file: Colin Poulton interviews Christie Peacock, Chairman of Sidai Africa Ltd.

Christie reflects on lessons learnt as CEO of FARM-Africa regarding management in rural development, plus the differences between NGO and commercial approaches to rural development. Sidai Africa Ltd is a social enterprise, which means that it uses a commercial approach to achieve social goals. Listen to this interview to complement your study of Section 2.2 of this unit, in particular, although the topics covered are relevant to several parts of the module.

More information on Sidai Africa Ltd can be found at: [http://www.sidai.com](http://www.sidai.com)

Audio file: Colin Poulton interviews Alex Georgianna, Project Manager for the Tanzania Cotton and Textile Development Programme.

Alex reflects on the new challenges that he has faced in moving from senior management positions in the private sector in the US to a position with a charitable foundation, working in close collaboration with a state regulatory agency, on issues of public policy and service delivery affecting half a million smallholder households in Tanzania.
1.0 WHAT IS MANAGEMENT?

Section Overview

We start this unit by considering what management is all about and what managers actually do. Key functions of managers are to plan, organise motivate and control, so that the organisation achieves its objectives. However, if this sounds rather neat and clinical, evidence suggests that the reality of most managers’ lives is a lot more chaotic! At this stage we assume that management in a rural development context is similar in many key respects to management anywhere else. We will critically assess this assumption later on.

Section Learning Outcomes

By the end of this section, students should be able to:

- summarise the insights that arise from the ‘functions’ and ‘roles’ views of management
- explain how the job of manager varies across senior, middle and junior management

1.1 Management functions

Management is often described in terms of the basic functions that managers are expected to carry out so as to achieve the objectives of their organisation. As 1.1.1 explains, many theorists have tried to define what these key functions of management are. However, the results are often some variant on the classic statement of Fayol (1916), who defined management in terms of:

- planning
- organising
- commanding
- controlling

Note that ‘commanding’ is often now expressed as ‘leading’ or ‘motivating’. This function is about getting the best out the people working for the organisation. The most appropriate or effective way to do this may vary both by context and according to the tasks that the organisation sets out to undertake.

1.1.1 The meaning of management

There is no generally accepted definition of ‘management’ as an activity, although the classic definition is still held to be that of Henri Fayol. His general statement about management in many ways still remains valid after more than 80 years, and has only been adapted by more recent writers, as shown below:

‘To manage is to forecast and plan, to organise, to command, to co-ordinate and to control.’ Fayol (1916)

‘Management is a social process... the process consists of ... planning, control, co-ordination and motivation.’ Brech (1957)
‘Managing is an operational process initially best dissected by analysing the managerial functions … The five essential managerial functions (are): planning, organising, staffing, directing and leading, and controlling.’ Koontz and O’Donnell (1984)

‘Five areas of management constitute the essence of proactive performance in our chaotic world: (1) an obsession with responsiveness to customers, (2) constant innovation in all areas of the firm, (3) partnership – the wholesale participation of and gain sharing with all people connected with the organisation, (4) leadership that loves change (instead of fighting it) and instils and shares an inspiring vision, and (5) control by means of simple support systems aimed at measuring the “right stuff” for today’s environment.’ Peters (1988)

The definitions proposed by Brech, Koontz and O’Donnell represent changes of emphasis rather than principle. For example, Fayol’s use of the term ‘command’ is dropped in favour of ‘motivation’ (Brech), or ‘directing and leading’ (Koontz and O’Donnell). Tom Peters’ view of management, by comparison, shifts the emphasis away from describing what management is about and stresses what it is that managers need to do. Nevertheless, even his enthusiastic prescriptions for dealing with chaos are tempered by references to ‘participation’ (i.e. motivating), ‘leadership’ and ‘control’.

It has to be recognised that the above definitions are extremely broad. Basically, what they are saying is that ‘management’ is a process enabling organisations to set and achieve their objectives by planning, organising and controlling their resources, including gaining the commitment of their employees (motivation).


The definitions in 1.1.1 assume that the organisation has clear objectives – a critical assumption that we will explore further below. Of course, senior management will contribute to the shaping of those objectives. It is then the responsibility of managers to devise strategies and plans that will enable the organisation to achieve its objectives; to ensure that the organisation has adequate resources (human, financial etc) to fulfil these plans; to ensure that systems are in place that facilitate the efficient use of these resources; to communicate vision and in other ways motivate staff to contribute their best efforts towards the organisation’s success; to oversee systems that monitor progress, and to take corrective measures where things are not going to plan or where circumstances dictate modifications to that plan.

Management within the production function

The core functions of planning, organising, leading and controlling reflect the importance of organisations making efficient or effective use of the resources (personnel, capital etc) that are available to them. In economics, efficiency is about maximising output from a given bundle of available inputs or alternatively about achieving a desired level of output with the minimum quantity of inputs.

Economics sometimes assumes that the operation of market forces will be sufficient to bring about such efficient combinations of resources. However, the essence of the discipline of management is that such outcomes are not achieved purely through the operation of an ‘invisible hand’. Rather, efficiency and effectiveness are the result of good management. In other words, management restores human agency where economics can be rather impersonal.

Such management is not a free input; it is costly! It should perhaps be thought of as a complementary input that (ideally) brings the best out of the rest. On the other hand, as you may know from bitter personal experience, at its worst, poor management can undermine the productivity of an entire organisation.
The external environment

- Read Peters’ definition in 1.1.1 carefully again. Apart from the fact that it is more prescriptive, how does his definition differ from the others given by Cole and Kelly?

Answer.

Peters places emphasis on the environment in which the organisation is operating (which he describes as ‘chaotic’), and the need to innovate and change in response to a changing environment. This suggests a need for managers to be outward looking, rather than being solely concerned with the efficient planning, organising and controlling of internal resources. This represents a major change in the way in which management has been viewed over time. It could be argued that Peters’ definition is also less ‘top down’, in that he talks of partnership and participation of staff rather than of how managers should motivate staff. Nevertheless, an organisation still needs some form of plan in order to deliver its response to customers’ (or clients’) changing demands, once these have been identified. Meanwhile, ‘innovation in all areas of the firm’ is still about organising – even if the way in which it is organised has to evolve constantly.

Peters’ definition of management recognises the increasingly globalised and competitive world in which many organisations operate. Hence, senior managers have to be as concerned with the environment in which their organisation operates, and with the organisation’s relationships with that environment, as they are with what happens within the organisation.

1.2 Management roles

Henry Mintzberg proposed an alternative approach to defining what management is about. Instead of describing in theory what managers should do, he studied what managers actually spend their time doing. This led him to describe management in terms of the different roles that managers undertake. The ten major roles that he identified are discussed in 1.2.1 below.

1.2.1 The roles of managers

‘Mintzberg shows a substantial difference between what managers do and what they are said to do. On the basis of work activity studies, he demonstrates that a manager’s job is characterised by pace, interruptions, brevity, variety, and fragmentation of activities, and a preference for verbal contacts. Managers spend a considerable amount of time in scheduled meetings and in networks of contacts outside meetings.

The fragmentary nature of what managers do leads to the suggestion that they have to perform a wide variety of roles. Mintzberg suggests that there are ten managerial roles which can be grouped into three areas: interpersonal, informational and decisional.

Interpersonal roles cover the relationships that a manager has to have with others. The three roles within this category are figurehead, leader and liaison. Managers have to act as figureheads because of their formal authority and symbolic position, representing their organisations. As leader, managers have to bring together the needs of an organisation and those of the individuals under their command. The third interpersonal role, that of liaison, deals with the horizontal relationships which work-activity studies have shown to be important for a manager. A manager has to maintain a network of relationships outside the organisation.
Managers have to collect, disseminate and transmit information and have three corresponding informational roles, namely monitor, disseminator and spokesperson. A manager is an important figure in monitoring what goes on in the organisation, receiving information about both internal and external events and transmitting it to others. This process of transmission is the dissemination role, passing on information of both a factual and value kind. A manager often has to give information concerning the organisation to outsiders, taking on the role of spokesperson to both the general public and those in positions of influence.

As with so many writers about management, Mintzberg regards the most crucial part of managerial activity as that concerned with making decisions. The four roles that he places in this category are based on different classes of decision, namely, entrepreneurs, disturbance handler, resource allocator, and negotiator. As entrepreneurs, managers make decisions about changing what is happening in an organisation. They may have to both initiate change and take an active part in deciding exactly what is to be done. In principle, they are acting voluntarily. This is very different from their role as a disturbance handler, where managers have to make decisions which arise from events beyond their control and unpredicted. The ability to react to events as well as to plan activities is an important managerial skill in Mintzberg’s eyes.

The resource allocation role of a manager is central to much organisational analysis. Clearly a manager has to make decisions about the allocation of money, people, equipment, time and so on. Mintzberg points out that in doing so a manager is actually scheduling time, programming work and authorising actions. The negotiation role is put in the decisional category by Mintzberg because it is ‘resource trading in real time’. A manager has to negotiate with others and in the process be able to make decisions about the commitment of organisational resources.

For Mintzberg these ten roles provide a more adequate description of what managers do than any of the various schools of management thought. In these roles it is information that is crucial: the manager is determining the priority of information. Through the interpersonal roles a manager acquires information, and through the decisional roles it is put into use.

The scope for each manager to choose a different blend of roles means that management is not reducible to a set of scientific statements and programmes. Management is essentially an art and it is necessary for managers to try and learn continuously about their own situations. Self-study is vital. At the moment there is no solid basis for teaching a theory of managing. According to Mintzberg, “the management school has been more effective at training technocrats to deal with structured problems than managers to deal with unstructured ones.”


If you are a manager, how many of Mintzberg’s roles do you perform? Which ones are you good at and which ones do you struggle with? (If you are not a manager, try to think about this in relation to a manager whose work you know well.)

Which of the two descriptions of management (functions or roles) do you find more helpful? If you have experience of rural development, try to identify how this has influenced your answer.

Mintzberg’s roles were intended to provide a better description of management in practice than the classical list of management functions. Rather than spending their days planning and organising in an orderly fashion, many managers live hectic lives in constantly changing contexts. Hence, they have to be adaptable and responsive, not just pro-active and controlling.

Moreover, managers are not just involved in managing the internal resources of their
organisation, but also spend a great deal of time in maintaining contacts with other
people, both within and outside the organisation. This is partly because they need to
be aware of any changes in the environment which may affect their (part of the)
organisation, an activity known as ‘boundary scanning’. Managers in business need
to be aware of what their competitors are doing, of trends in consumer demand, and
of changes in the economic environment. Managers in public sector organisations or
NGOs in rural development may need to monitor prices and activity in certain (local
or wider) markets, progress with a cropping season, political developments relevant
to their organisation, what other organisations are doing and so on.

Mintzberg’s analysis is also valuable in highlighting the importance of various forms
of information to an organisation. Information may be seen as a resource to be set
alongside personnel and capital.

However, what managers actually do is not necessarily what they want to be doing
or should be doing. Even if Mintzberg’s respondents were all pursuing good
management practice, recognition of his ten roles does not invalidate the importance
of planning, organising, leading and controlling. Some of Mintzberg’s roles express
‘how’ managers inform their plans, lead and motivate their staff etc. Others (e.g
disturbance handler, negotiator) could even be seen as skills that managers need to
develop, so as not to get sidetracked from the strategic priorities of their position
and of their organisation.

Important – urgent!

1.3 Different types of manager

So far, we have largely talked of managers as if they were a homogeneous group of
people. However, at least in a medium-large organisation, one can distinguish
different types of manager. Stewart (1994) distinguishes three types:

- (lower-level) managers with responsibility for other people
- (medium-level) managers with responsibility for other managers, but still
largely focused on one area of activity (e.g. finance, procurement, running retail
outlets) within the organisation
- senior level) general managers, who are in charge of an entire organisation or
division, such that they have to manage managers with responsibility for a
number of areas of activity and to maintain a strategic overview of all of these.

Are there any other types of managers that you would like to add to this
list?

Answer.

One additional category is project manager. Such people have responsibility
for a time-bound piece of work for the organisation, for which a team is
assembled specially. Once the work is delivered, the team disbands. At that
point the project manager role also comes to an end. However, the project
manager (person) does not necessarily lose their job at this point; they may
then be moved to a new project or may take up a different responsibility
within the organisation. Depending on the size of the project, a person may
act as project manager whilst also simultaneously managing an area of
activity within the organisation.
Look back through Mintzberg’s ten roles. Most can be applied to all levels of management. However, the relative importance of these roles changes at different levels.

Different managers also require different combinations of generic (transferable) management expertise, generic professional expertise and industry- or even organisation-specific knowledge. Human resource (HR), finance and information technology (IT) managers need a high level of knowledge about their particular area of activity. However, this knowledge is broadly transferable from one industry, sector or organisation to another. By contrast, managers of units within an organisation that supply products or services to clients may require more industry-specific knowledge. This is also true for general managers, who have to take strategic decisions affecting the future direction and standing of the organisation. In many industries, therefore, general managers are appointed from within the organisation concerned or from a similar organisation. Senior managers of very large companies are commonly appointed from within the company. During their years working their way up through the ranks, they learn both about the industry and how firms succeed within it and about their own company and how things work and get done within it. Even senior managers of competitor firms lack this latter knowledge, which is considered vital if someone is to manage a large and complex organisation successfully.

In the case of (rural) development organisations, Thomas (1996) argues that successful managers need a combination of generic management expertise and understanding of development theory and process. As you can see above, this depends, in part, on the management role that they perform. For example, understanding of development theory and process is arguably not critical for an IT manager in a (rural) development organisation. On the other hand, many of the managers studying this module will be in charge of relatively small offices, whether in NGOs or public sector organisations. They may thus be playing a general manager role, albeit with only 1–2 staff members in particular areas of activity (eg finance, IT) who therefore report directly to them. To manage these people effectively and provide strategic leadership, they might also need their own basic skills in some of these technical areas, as well as generic management expertise and understanding of development theory and process.

As you read and reflect on the material and readings in this module, try and think which type(s) of manager the authors had in mind when they were writing.
Section 1 Self Assessment Questions

Question 1

True or false?
Descriptions of management in terms of core functions tend to under-emphasise the interactions of organisations with their external environment and the responsibility of managers to manage these.

Question 2

Which of the following are not management roles as identified by Mintzberg?
(a) monitor
(b) entrepreneur
(c) evaluator
(d) leader
(e) advocate

Question 3

Fill in the missing words/phrases.
General managers manage other _______ with responsibility for specific areas of activity, so have to maintain a strategic _______ of all of these areas.
2.0 ORGANISATIONS AND THEIR OBJECTIVES

Section Overview
Almost by definition, management takes place within the framework of an organisation. In this section, we define organisations and set out their main features. We contrast public sector, private sector and non-governmental organisations, thinking in particular about how they relate to those whom they serve and how their objectives are set. The section emphasises the complexity of objectives of both NGOs and public sector organisations, due to the multiple stakeholders who are able to influence the objective-setting process. A particular challenge for state organisations is to match objectives with resources.

Section Learning Outcomes
By the end of this section, students should be able to:

- list the key elements of an organisation and explain why each is important
- contrast how objectives are set in public sector, private sector and non-governmental organisations

2.1 What are organisations?
As noted above, almost by definition, management takes place within the framework of an organisation. This could be a private firm, a government department or an NGO. Some organisations endure over time, whilst others are set up in order to perform a specific task and are dissolved once the task has been carried out.

There is no agreed definition of an organisation – different writers emphasise different aspects. Most definitions embrace the idea that organisations are:

- groups of people
- acting together
- in pursuit of common goals or objectives

The notion of groups of people acting together encompasses various forms of self-help and collective action. However, it is not restricted to this; rather, the emphasis is on achieving things that one individual could not achieve alone. The ‘group’ could be organised hierarchically if this is the most effective way to achieve the set goal.

Furthermore, there is no assumption that all members of the ‘group’ have an equal say in setting the common objectives. Rather, some (employees) may be tasked with achieving these objectives as a consequence of their employment within the organisation.

In practice, of course, people in organisations do not always agree about the goals which should be pursued. Moreover, some may be more interested in pursuing their own goals rather than those of the organisation. Not surprisingly, then, organisations tend to be more complex than is suggested by the definition above.
A simple organisational model

Over time, management writers have focused on different aspects of organisations, including

- **structure** of organisations and the way in which work is organised
- **people**, and their needs and relationships with others in the organisation
- the ways in which organisations interact with their **external environments**
- **organisational culture**, or the values and beliefs propounded within an organisation

Incorporating all of these elements into a simple model of an organisation gives us the model shown in the figure in 2.1.1.

We now discuss briefly each of the elements of organisations identified in the figure above, considering the sorts of questions which each of them raises, and introducing some terms.

**The people**

Some of the questions concerning people in organisations are:

- What motivates people to work?
- How is commitment to work generated?
- What makes a good leader? Can leadership be taught or are good leaders born that way?
• How do people within groups at work interact with each other? What factors make for a strong team?
• What style of management is most appropriate?

The organisational structure
Organisational structure is essentially concerned with the way in which work is divided between different individuals and different levels of the organisation, and with mechanisms which allow the work of individuals and groups to be co-ordinated, for example, by giving authority to one individual to supervise the work of others.

The organisational culture
Cole (2004 p. 105) defined the culture of an organisation as ‘its dominant pattern of shared beliefs and values’. These values may relate to the way that the organisation deals with its clients or customers, the way that staff interact with each other, and the nature of relationships between managers and their staff. An organisation’s culture may be reflected in the way that the staff dress, the working hours and attitudes to leave, who mixes with whom over coffee or lunch (if these are not taken at people’s desks!), what types of people get promoted and why. The style of leadership within an organisation is a major contributor to its culture. Often, the core values of the organisation’s founder become embedded within the organisational culture and are then passed on by successive leaderships. Organisational culture gives each organisation its own distinctive ‘feel’ – experienced first and foremost by staff, but also by clients. It can be a major reason why many staff want to keep working for an organisation – or why lots tend to leave!

Systems and procedures
Organisations have a number of sub-systems, and sets of associated procedures, through which they operate. The systems vary depending on the type of organisation. The types of systems which may be operating within a typical development NGO are suggested in 2.1.2. If you have experience of other types of organisation, say public sector or commercial, compare the systems that you have observed in such organisations with those outlined in 2.1.2.

2.1.2 Organisational systems
‘As with other organisations, NGOs are built up of a number of systems … At least ten systems can be identified …

(i) A key system is the intervention or operation system, ie the way that an NGO actually does what it sets out to do developmentally, including its gender recognition, technology choices, participatory methods, and so on. For an operational service NGO, like Save the Children Fund, ActionAid or PLAN, this is the system of change agents and types of activities through which the organisation directly engages with community-based organisations in institutional development. For donors, such as Bread for the World, OXFAM, NOVIB etc, this is the primary process of prioritising resource allocations, assessing proposals, disbursing funds, and ensuring accountability.

(ii) The administrative system, ie the ‘paper work’ supporting the intervention system.

(iii) The financial system, including the budgeting of the intervention system.
(iv) The learning-planning system, ie the system used to monitor, report, evaluate and learn from interventions.

(v) The information-communication system that ensures that all staff and other organisations have the information they need to function properly.

(vi) The fund-raising or resource securing system, ie the way that resources are raised, and the negotiation of conditions or expectations associated with these resources.

(vii) The decision-making system, ie the structured involvement of designated people in making choices.

(viii) The personnel system, involving recruitment, employment, induction, motivation, development of necessary skills, knowledge, attitudes, and values.

(ix) The environmental sensing or scanning system, ie the mechanisms ensuring that the organisation stays in tune with its environment, responding where it has to, modifying the environment when it has the opportunity to do so.

(x) The accountability system, ie the way that staff are held accountable for what they do, and what the organisation achieves with its resources.’


The external environment
The external environment is a term that we have already encountered. It refers to the physical, social, political, cultural, economic and institutional environment in which organisations operate. The rural development environment is risk-prone, diverse and complex and greatly influences the tasks of managers and the outcomes of development interventions.
2.2 Comparing public sector, commercial and non-governmental organisations

The figure in 2.2.1 suggests an array of organisations that could be seen as being involved in development. The figure is presented as a matrix, with the nature of the organisation (commercial, public sector and non-governmental) on one axis and the scale or scope of the organisation (local, national, international) on the other.

2.2.1 Matrix of organisations potentially contributing to development

It should be noted that the distinctions between commercial, public sector and non-governmental organisations are not always hard and fast. Thus, some public sector enterprises aim to make profit (but, in practice, have often made losses!), whilst some ‘social enterprises’ are established as commercial entities, but have developmental goals that take precedence over profit maximisation. Nevertheless, it is helpful to think in general terms about the characteristics of these different categories of organisation, some of which are outlined in the table in 2.2.2. This can help us think about the particular challenges of managing these different types of organisation.
2.2.2. Key characteristics of different types of organisation

<table>
<thead>
<tr>
<th>Sector comparisons</th>
<th>Government</th>
<th>Business</th>
<th>Voluntary*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relationship to those served based on:</td>
<td>mutual obligation</td>
<td>financial transaction</td>
<td>personal commitment</td>
</tr>
<tr>
<td>Duration:</td>
<td>permanent</td>
<td>momentary</td>
<td>temporary</td>
</tr>
<tr>
<td>Approach to external environment:</td>
<td>control and authority</td>
<td>conditioning and isolation</td>
<td>negotiation and integration</td>
</tr>
<tr>
<td>Resources from:</td>
<td>citizens</td>
<td>customers</td>
<td>donors</td>
</tr>
<tr>
<td>Feedback on performance:</td>
<td>(in)direct politics</td>
<td>direct from market indicators</td>
<td>‘constructed’ from multiple users</td>
</tr>
</tbody>
</table>

*service providers, not mutual benefit

Source: Fowler (1997) p. 27.

**Government agencies** are in theory accountable to citizens through politicians. State agencies are expected by citizens to deliver certain services, even if this proves difficult in practice. In exchange for this accountability, the state is given the authority to regulate and control aspects of the environment within which its agencies operate.

The role and performance of state agencies in (*inter alia*) delivering services to citizens have been hotly debated topics in countries at all stages of economic development at least since the 1980s. Poor management and staff incentives are often amongst the causes of so-called state failure, although arguably not the root cause, as will be discussed below.

**Commercial organisations** relate to customers through the market. Transactions are generally voluntary in the sense that they only take place when both parties perceive it as being in their interest to transact. Commercial organisations have to get used to the environment in which they operate and adjust their operations so that they can deliver their goods or services as efficiently and competitively as possible within a given environment. They also take measures to protect themselves against major risks emanating from the external environment, which may mean deciding not to operate in certain areas perceived as high cost or inherently risky (due, for example, to major fluctuations across seasons in demand for their products as a result of fluctuations in weather or in customers’ ability to pay). If a commercial organisation fails to offer a competitive product, it can soon learn about this through declining sales and hence knows that it has to improve its performance.

Whilst the state is expected to deliver certain services and commercial organisations do so in pursuit of profit, **NGOs** have traditionally entered the realm of service provision in response to perceived need and motivated by compassion or a desire to fight injustice. Moreover, they have traditionally drawn heavily on the personal commitment of their staff to the organisation’s values and goals to achieve good performance. Some commentators observed that this picture changed when large
volumes of donor funds began to be pumped through NGOs in the 1990s. Nevertheless, the value base of many NGOs remains a strength that managers need to nurture and build on.

For the purposes of legitimacy, NGOs may seek to establish strong links into the communities with whom they work, whilst also seeking (through education and advocacy) to change elements of the external environment that they encounter when they first begin working in an area. NGOs have multiple stakeholders, including their ‘beneficiaries’, funders, staff and local government. This is not unique to NGOs. However, because they lack the ‘inherent’ legitimacy (and funding) that state agencies enjoy, they often have to work hard to keep their key stakeholder groups – who may have quite disparate objectives and priorities – satisfied with what they are doing.

The private sector and rural development

As the figure in 2.2.1 illustrates, there is considerable diversity with regards to the type of organisations involved in development. As economic liberalisation diminished the role of the state towards the end of the 20th century, the role of NGOs and commercial organisations in service provision increased. Many would now argue that development goals – whether these relate to economic growth and income poverty or to provision of key social services – are best achieved when governments, NGOs and commercial organisations work in partnership with each other. However, the shape of the relationship between these different types of organisation and the distribution of roles and power between them continues to be debated. There is, for example, a key role for civil society (voluntary, non-government) organisations in holding both public sector and commercial organisations to account for their performance.

If there is any controversy surrounding the contents of the figure in 2.2.1, it concerns the inclusion of commercial organisations and especially large ones such as multi-national corporations. Thomas (1996) argues that a defining characteristic of ‘development’ work is that the goals that are pursued (for example, halving the proportion of people suffering from hunger or reducing maternal mortality) are ‘external’ to any particular organisation. By contrast, the pursuit of profit is a much narrower, ‘internal’ goal. Thomas (1996) accepts that commercial organisations can and must operate in low-income contexts where long-run processes of development are in motion, but is sceptical that they could be seen as ‘development’ organisations.

How might you answer this critique?

Answer.

Ultimately, you may or may not agree with Thomas. However, counter-arguments include:

A pre-requisite for the achievement of poverty reduction is the creation of many more remunerative employment opportunities. These can only be provided on a sustainable basis if many of them are supported by the proceeds of profitable trading activity. In other words, they have to be created within commercial organisations; no state can provide employment for all its citizens. If commercial organisations are fundamental to development, it is tough to exclude them from your definition of ‘development’ organisations.
Thomas argues that pursuit of profit will (at some point) inevitably clash with wider societal goals, such as human capacity building, promotion of community cohesion or environmental conservation. However, the pursuit of profit can also lead to positive outcomes. Specifically, it can provide a powerful incentive to bring benefits to others (because they will pay you for it), including the poor. The rapid global spread of the mobile phone in recent years is a striking example. This has also led to other pro-poor innovations, including mobile phone-based systems for money transfer (benefiting those without ready access to bank accounts). In countries where public sector pay is miserable, the pursuit of profit can act as a much more powerful incentive to service delivery than public obligation and it does not rely on altruism on the part of the service deliverers, which is an unevenly distributed commodity. In almost any context, the pursuit of profit seems to provide one of the most powerful incentives for innovation.

Thirdly, you could argue that 'exploitation' – another accusation often levelled at commercial organisations – is generally associated with limited competition. In other words, it could be the result of there being too few commercial organisations (not too many!) and/or of defective regulation (ie the public sector is as much to blame). If you think that this lets commercial organisations off the hook too easily and that they should be at least partially responsible for their own values and behaviour, then you could cite the example of social enterprises, which attempt to harness the positive power of commercial incentives and disciplines whilst consciously seeking to perform well against multiple 'bottom lines', including serving poor groups. This line of argument, however, brings you into at least partial alignment with Thomas.

2.3 Organisational objectives

Successful organisations need objectives that are ambitious, achievable and clear. If objectives are ambitious and clear, but unachievable, the organisation is set up to fail. If they are achievable and clear, but unambitious, the organisation is likely to be an average performer.

What will happen if objectives are ambitious and achievable, but unclear?

Answer.

Actually, it is hard to know whether or not objectives are achievable if they are unclear, so let’s focus on ‘ambitious, but unclear’! Under these circumstances it will be hard to know whether or not the organisation is achieving its objectives. It will thus also be hard to tell whether or not the organisation’s management is doing its job properly. If stakeholders cannot readily tell when the management is slacking or otherwise performing poorly, then the incentives for the management to perform well are reduced.

When key management roles are summarised as planning, organising, leading and controlling, the ultimate purpose of all these roles is to ensure that the organisation achieves its objectives. Sometimes, objective setting is included within the role of planning. However, a case can also be made that objectives are often effectively given or exogenous for managers.

In large organisations, a cascade of strategies and plans is often in place at any given time. In large commercial organisations, the ultimate objectives at a given point in time are set out in the corporate strategy. How these objectives are to be
achieved is then defined in a series of strategic plans (whole organisation, medium-term), operational plans (individual units, medium-term) and annual plans. The objectives that a planning process seeks to fulfil are, in each case, given by the next strategy or plan up the hierarchy.

You could argue that the corporate strategy is an exception to this rule. However, a corporate strategy is not just plucked out of the air. Rather, it sets out in big picture terms how the organisation intends to fulfil the primary objectives of its key stakeholders. For large commercial organisations, the key stakeholders are generally thought to be the shareholders. Whether or not large commercial organisations really maximise the objectives of their shareholders is discussed in more detail in 2.3.1.

2.3.1 Shareholders and the objectives of commercial organisations

A simple assumption is that large commercial organisations seek to fulfil the objectives of their shareholders. This means maximising the returns that shareholders receive on their investment in the firm. This return comprises the dividend payments that they receive on their shareholdings and the growth in value of their shares over time. (Note that, where a firm is not publicly listed, the value of their shareholding may only become fully apparent when the firm is sold to new owners). Immediately, we can see that ‘maximisation’ of returns could in theory be achieved by various means, implying different balances of dividends payments and growth in share price. However, with the debatable exception of some new information technology companies, both of these ultimately depend on the profitability of the company (current and expected future profits). Thus, fulfilling the objectives of shareholders is often equated with maximising profits, at least in the long run.

A challenge to the assumption that large commercial organisations seek to fulfil the objectives of their shareholders comes from the observation that the interests of senior managers, who determine corporate strategy, may diverge from those of shareholders. This can be thought of in terms of a principal-agent game. The shareholders are the principal. They ‘contract’ the company Board and senior management to run the company on their behalf, wishing the company to maximise profits so as to maximise returns on their investment in shares. However, senior management (the agent) have their own interests, which may include high salaries and the status that comes with being the bosses of a big company. Because the managers work in the company and the associated industry on a daily basis, they are better informed about trends in the industry and also about their own behaviour and motives than the shareholders. This informational asymmetry may be compounded by the fact that shareholders are numerous, so there are free-rider problems when it comes to monitoring the performance of management. As a result, the managers may propose a corporate strategy or take decisions that they claim will maximise profits, but which are actually designed to achieve the managers’ own private objectives. For example, research on mergers and acquisitions has shown that many mergers between companies fail to create value for shareholders. Indeed, soon after the merger the combined company is worth less than the two companies were worth separately before it. However, because the remuneration packages of senior managers are often linked to the size of the firm that they are managing, the senior managers end up better off.

In a principal-agent game, the task of the principal is to devise an incentive scheme that effectively aligns the interests of the agent with those of the principal. Such thinking led to the introduction of share options as an important part of the remuneration package of senior executives. Nevertheless, as many students reading this will realise, the remuneration packages of senior executives remain a fiercely debated topic in many countries: are the incentives of senior executives really aligned with those of their shareholders?

Even though this debate continues to rage, one should not entirely dismiss the argument that the objectives of shareholders determine the objectives of large commercial organisations. There are at least two reasons for this. On the downside, if a company
performs poorly and as a result its share price falls (or only grows slowly), then the company can swiftly become the target of take-over bids by rival firms. Being taken over is bad for senior managers, who might lose their jobs. Indeed, in the US and UK, large firms are sometimes accused of being rather short-sighted in their behaviour, paying dividends that boost today’s share price at the expense of making investments that could increase the share price in future. Ultimately this is bad for shareholders (if true), but it may actually be evidence of the importance of the share price for managers. On the upside, when a senior executive seeks a job in a new firm, those appointing her can look at how the share price of her previous company performed whilst she was in charge. Thus, it is in her interest to have overseen strong growth in the share price.

These arguments are sometimes presented as illustrations of how problems of imperfect information in a particular situation (in this case, the relationship between shareholders and managers) can be overcome – or, at least, compensated for – by the existence and efficient performance of related markets (in this case, the markets for firms and for senior executives).

Source: unit author

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The complex objectives of NGOs and the public sector

Commercial organisations, especially large ones, do have multiple stakeholders and, as 2.3.1 explained, there can be tensions between them. Nevertheless, the objectives of commercial organisations are arguably more straightforward than those of either NGOs or public sector agencies.

We commented above on the multiplicity of stakeholders that a typical NGO has and how good NGOs have to work very hard to reconcile and satisfy the objectives of their multiple stakeholders, including beneficiary groups (beneficiaries are rarely homogeneous!), donors and local government agencies. These tensions are played out at multiple levels. It is the job of the NGO board, working with senior management, to set strategic objectives for the organisation as a whole. These have to take note of the current and likely future priorities of leading donors, but not be determined by them. Enabling beneficiary groups to have a say over strategic objectives is a challenge. At individual project or programme level, multiple stakeholders try to influence the content and direction of NGO activities, often in unpredictable ways. Programme staff may have to consult with their national or international managers (assuming a medium-sized or large organisation) to determine which local level demands they can accommodate whilst remaining faithful to the organisation’s broader objectives and staying within available budget.

Similarly, government agencies can face many stakeholders, each with their own interests in what the organisation should be doing. Writing primarily from a developed economy vantage point, Hannagan (2008 p. 108) argues that, ‘Politicians, pressure groups, taxpayers and voters all have an interest in the performance of public sector organisations – they are all stakeholders and feel that they have a right to question performance.’ One could also add the media to Hannagan’s list, if one sees it as doing more than simply reflecting public opinion. As with NGOs, there are no standard metrics for assessing performance that permit the conflicting demands of different stakeholders to be resolved. Hannagan argues that many bureaucratic procedures that slow down decision-making in the public sector – and which exemplify the difference in organisational culture between public and private sector – stem from the need to justify decisions ex ante in the absence of agreed performance measures ex post.
If you have experience of a public sector organisation in a low or middle income country, how applicable do you find Hannagan’s arguments to be to this organisation?

Answer.

There are important differences across countries according to how accountable the public sector is to societal interest groups. Van de Walle (2001) makes a distinction between ‘responsive’ and ‘autonomous’ states. Hannagan describes what van de Walle would call a ‘responsive’ state. These are found where civil society is strong and has, over time, forced government to account for its performance.

By contrast, some of Asia’s so-called ‘developmental’ states were more ‘autonomous’. National leaders, not all of whom were elected, were aware that they needed to keep major groups within the population more or less satisfied, but did not allow them any say over the day-to-day business of government. Instead, major decisions were taken by a small technocratic elite. Stiglitz (1996) describes how the South Korean and Taiwanese states of the 1960s and 1970s were clearly focused on economic growth. Of relevance to the current discussion, he also describes how performance in export markets was used by the state as a central performance indicator when dealing with private companies.

According to van de Walle (2001), many states in sub-Saharan Africa are also fairly ‘autonomous’ of societal pressure. However, this is more an indication of the weakness of civil society than of state strength! At the same time, many of these states are highly aid dependent, which means that donors seek to influence government policy and decision-making. The objectives of many state organisations thus reflect the tension between the demands of donors and the worldview of technocrats (often incorporated into official policy documents) on the one hand and the objective of the ruling political elite to retain power (often achieved through disbursement of patronage) on the other. Because politics are highly personalised, objectives in practice can be quite unstable as personnel change. At the same time, a combination of democratisation and donor pressure is leading to the introduction of a number of time-consuming consultative processes (for example, for the development of Poverty Reduction Strategy Papers) that could be seen as an attempt both to give new stakeholders a voice in the running of public sector organisations and to forge consensus across multiple stakeholders. Thus, whilst African states may not yet be subject to societal pressure in the way that Hannagan describes, (1) objectives may nevertheless still be contested and unclear, and (2) over time, there may be greater convergence with the picture painted by Hannagan.

Hannagan also emphasises the point made in the table in 2.2.2 that states are perceived by their citizens to be obliged to ensure that certain basic services are delivered. A commercial organisation can decide that the market for its product is over-supplied and thus choose to exit that market and move into another one instead. NGOs also retain some discretion – bounded by what donors are willing to fund and, to a lesser extent, by what their beneficiaries want supplying – in which interventions they undertake in any given context. However, whilst the state can, in theory, choose to privatise or contract out provision of certain services rather than deliver them directly, its citizens expect it to ensure that the services are available.

In many low-income countries, the state does not ensure that key services – for example, clean water and sanitation, basic education of reasonable quality, provision of medicines to combat major diseases, agricultural extension advice – are readily accessible to large proportions of the population, especially in rural areas. This is one
criterion for stating that certain states are failing states. However, proposals for state reform are designed to build the capacity of the state to ensure the delivery of such services in future. It is not acceptable for the state simply to abdicate this responsibility.

This leads to another unique feature of state organisations: the lack of an effective mechanism for matching objectives with resources. Note that all the definitions in 1.1.1 assume that managers have all the resources they need under their control – or, at least, are able to access them if the planning process shows that they are needed. Hence, emphasis is on managing available resources efficiently. Effective organisations set objectives that can be achieved through a combination of:

- deployment of available resources
- the acquisition of new resources, for example, through borrowing in financial markets
- the development of new resources, for example, through staff training programmes

Why might the matching of objectives and resources not occur in the public sector?

**Answer.**

The public sector may be constrained from both ends. On the one hand, objectives are set by popular and/or political demands. On the other hand, resources are limited by annual budget allocations. Unfortunately, there is no guarantee that either politicians or donors will make available the resources that are necessary for the achievement of objectives that they themselves have set!

Before proceeding, think about the matching of objectives and resources within NGOs and commercial organisations. Is the problem of mismatch particular to the public sector?

**Answer.**

The problem is not unique to the public sector, but it is most acute there.

Commercial organisations choose which markets and products to enter based on where they think they can make a profit. In high income societies, social pressure on large corporations is gradually increasing, such that they are expected to pay greater attention to the social and environmental impacts of their operations. Nevertheless, they still determine the scope of their operations. Meanwhile, such pressures are generally lower in developing countries. On the financing side, ease of access to new capital may vary over time – more so for medium-sized enterprises than large ones? – but firms adjust their plans accordingly.

Financing for NGOs can fluctuate quite dramatically over time. Many NGOs depend (too?) heavily on funding from donor (ie state) agencies and these flows are subject to the same politically-induced variability that afflicts the funding of other state organisations. Donor fashions can change, too, which can interfere with the strategic priority setting of donor-dependent organisations. It is now widely recognised that NGO independence is preserved in part by maintaining a strong base of private supporters who provide 'untied' funding for the organisation's core activities. However, at times of wider economic hardship or crisis, the flows of funds from private
The mismatch between objectives and resources can be a major source of stress for public sector managers. Under such circumstances, an efficient organisation will be one that achieves the maximum output from available inputs. However:

- This output may still fall well short of fulfilling the organisation’s stated objectives or of satisfying the demands of its major stakeholders (including clients).
- Management somehow has to decide which objectives to try and achieve, given that it cannot fulfil all of them. There is a danger of doing nothing well.
- Failure to fulfil stated objectives or to satisfy stakeholder demands may be equated with poor performance, when the problem was actually lack of resources. This can lead to periodic reorganisations, with all the attendant instability for staff, which may not remedy the problem, but instead has its own impact on performance.

How might a heavily resource-constrained public sector organisation

(a) satisfy those monitoring its performance that it **is** operating efficiently?

(b) manage expectations as to what it can realistically deliver?

**Answer.**

This might be where planning comes in. Despite officially stated objectives and statutory obligations, an operational plan could set out more credible priorities and immediate objectives, against which its performance could be judged, at least by more sympathetic observers. Some stakeholders could be involved in the preparation of the plan, thereby helping them to understand what realistic expectations for the organisation should be.

### 2.3.2 Service charters in the Kenyan Ministry of Agriculture

Farmers, politicians, technocrats, donors and private sector representatives in Kenya — as in many countries — hold a wide range of views as to what the Ministry of Agriculture and the other rural development ministries in the country should do. Some see the role of the Ministry of Agriculture as creating an enabling environment for private sector development (the main thrust of the largely ignored 2004 Strategy for Revitalising Agriculture) and would even like to see a market created for extension services. Others, including many farmers and politicians, still envisage a much more interventionist role. In recent years the Ministry has argued for a 10% share of the national budget for agriculture and rural development, in line with the declaration made by African Heads of State in Maputo in 2003. However, this has not so far been agreed.

Meanwhile, the Ministry has a National Service Charter that defines the scope of what it will try to do with the resources at its disposal. This document focuses on the provision of public goods for the agricultural sector. There is no mention, for example, of fertiliser subsidies, which became a high profile part of the Ministry’s activities in practice after the 2008 food price crisis.

At district level (prior to the administrative reorganisation necessitated by the 2010
(constitution) each Ministry office was required to produce its own charter setting out what it aimed to do within its district, guided by the National Service Charter. This was a way of framing expectations, both for internal management purposes and for external stakeholders. In practice, district level service charters looked very similar across districts, with a major focus on the delivery of extension advice. This was the case despite the considerable heterogeneity across Kenya in terms both of agro-ecological conditions and market development, which theory would suggest necessitates rather different activities in different parts of the country. There was little evidence of local stakeholder (farmer, trader, NGO) involvement in the development of these charters or of the annual plans that were designed to implement them.

Interviews with Ministry staff and various local stakeholders in four contrasting districts in 2007–2009 revealed that, in areas with lower levels of input and output market development, farmers, NGOs and even some traders wanted to see the Ministry play a more active role in stimulating market development, i.e., going beyond the local charter. This was not the case in more developed areas.

Meanwhile, in all districts there was some criticism that the Ministry did not fulfil even the roles set out in its own charter. Inefficient use of available extension resources, with staff stuck in offices rather than regularly out in the field, was a major complaint. This was amplified by the lack of co-ordination across the expanding number of rural development ministries.

Source: unit author, drawing on work conducted for Future Agricultures Consortium (see, for example, Sikei et al. 2009)
Section 2 Self Assessment Questions

Question 4

True or false?
An organisation brings together a group of people to achieve an objective(s) that could not be achieved by one person acting alone.

Question 5

The following are characteristics of state organisations. Which is not true of an NGO providing services to rural clients?

(a) non-profit making
(b) accountable to multiple stakeholders
(c) enduring obligation to ensure that service is provided
(d) can raise funds from those served to fund the provision of the service

Question 6

Fill in the missing word/phrase.
Successful organisations need objectives that are ambitious, achievable and ________.
3.0 ORGANISATIONAL PERFORMANCE

Section Overview

Let us postpone for a little longer a full discussion on the nature of rural development and assume that there exists a range of ‘rural development organisations’ (public, NGO, commercial) which, if effectively run, can all make some contribution towards the achievement of public policy objectives, such as the reduction of poverty or the sustainable management of natural resources. To do this, they need good managers who will work hard to deploy available resources in the best way so as to achieve the objectives of their organisation, plus competent and motivated staff who will carry out their duties diligently. Rarely does such performance come from pure altruism, however worthy the ultimate goals of poverty reduction or sustainable natural resources management. Instead, managers have to be motivated and in turn need to be able to motivate their staff. In this section, therefore, we consider different possible drivers of (good) organisational performance. For these to operate, organisational performance also needs to be measured – part of the ‘control’ function of management. We thus also consider the bases on which organisational performance can be assessed. In both parts we compare, in very broad terms, across commercial, public sector and non-governmental organisations.

Section Learning Outcomes

By the end of this section, students should be able to:

- explain the major drivers of performance for both organisations and individual employees
- compare the ways in which performance may be assessed across commercial, public sector and non-governmental organisations

3.1 Drivers of performance

The performance incentives facing organisations and their employees come from four main sources. These are

- competitive pressure, generated either by the market or by other means
- accountability mechanisms which allow clients (in our case, rural people) to put pressure on service providers to improve performance
- externally imposed performance benchmarks or targets
- internal pressure, generated from inside the organisation by its management systems or organisational culture

You may, or may not, find it helpful to think of these as pressure from beside, below, above and within the organisation. The first three (in reverse order) are sometimes also summarised as ‘targets, voice or choice’. They are not mutually exclusive, but do vary in importance across organisations.
Think of an organisation that you have worked for. What were the main drivers of performance (a) for you as an individual, (b) for the organisation as a whole?

Organisational performance

Competitive pressure to increase performance requires two things.

- That performance across organisations can be readily compared. (We consider this in the next section).
- The existence of a mechanism to generate competition through use of that comparative information.

Of course, competitive pressure is most closely associated with commercial organisations. Individual products compete in markets on the basis of quality and price. Performance on individual products is aggregated up to firm-level in terms of profitability and returns to investors. Firms that are seen to be under-performing relative to others in their sector may become vulnerable to take-over, if buyers are willing to offer existing owners a higher price for their shareholding than they are likely to achieve by continuing to remain in charge themselves. Alternatively, where a firm is seen to be under-performing, owners may decide to replace the senior management team with people whom they hope will do a better job.

How might competitive pressure be manifest within the NGO sector?

Answer.

It is more difficult to compare overall performance across NGOs. However, an NGO’s track record on a particular project or in a particular field of activity (say, community health education or capacity building for agricultural producer groups) may be observed, such that comparisons with other organisations doing similar things are possible. Competition can then be brought to bear through the offering of donor funding for future activities on a competitive basis, with past track record being taken into consideration along with the quality of the specific future proposal.

Historically, many state agencies have been de facto or de jure monopolies in their particular jurisdictions. Some critics see the resulting lack of competitive pressure as one of the root causes of poor state performance. Thus, whilst the notion of a single source of policy in any given area is rarely challenged (even if policy-making is often much messier than this in practice!), various ways may be considered to bring an element of competitive pressure to bear even on state agencies. As with NGOs, the competition often centres on funding. Thus, Moore (1992) describes with approval how a competitive fund to support innovative activity by local government in Sri Lanka contributed to performance incentives for these administrations. Similarly, competitive funds (either national or supra-national) have been used to stimulate productivity amongst staff in public sector agricultural research institutes.

As well as being largely insulated from competitive pressures, state organisations (in both developed and developing countries) are often considered to be fairly unaccountable to clients or other stakeholders. In some countries, efforts are now...
being made to change this. One of the justifications for the push towards administrative decentralisation in many African countries, for example, is to move decision-making closer to the people who are ultimately affected by it, so as to increase local **accountability** for decisions made. However, there is often still a gulf between rhetoric and reality.

Promoting ‘voice’ mechanisms for clients fits nicely with theories of participation and empowerment. In some circumstances it may also be the most efficient way of inducing improved performance.

Can you think of cases where this might be true? Why might ‘voice’ mechanisms be particularly appropriate in such cases?

**Answer.**

*Recall that the first requirement for raising performance is that performance is measured. As we shall discuss shortly, some aspects of performance are more easily measured than others. In addition, some people may be better placed to measure some performance than others. A good example is the performance of agricultural extension staff in the field, where the quality of advice and farmer interaction is as important as the quantity. Extension managers tend to be office-based, and so are not particularly well placed even to measure quantity of extension visits, but have little chance of keeping track of quality. By contrast, farmers experience both the quantity and quality of extension visits, and thus are best placed to report on performance.*

In contrast to state agencies, NGOs often (cl)aim to make themselves accountable to their beneficiaries. However, some organisations have proceeded much further along this route than others. A big challenge for many NGOs is to be truly accountable and responsive to beneficiaries when so much of what they are able to do depends on decisions made by their funders. In addition, the reporting requirements of funders mean that they may spend more time accounting to funders for their performance than to beneficiaries.

Fundamentally, unless beneficiary groups are extremely well organised and able to attract political support so as to force organisations to pay attention to their views and demands, the existence and sincerity of accountability mechanisms depends on the willingness of the organisation to create spaces for beneficiaries to register their views. The rhetoric of the organisation notwithstanding, as true accountability can make life uncomfortable for the staff of the organisation, the temptation is always there to restrict such space.

Imposition of performance benchmarks or **targets** from ‘above’ is usually resorted to as a substitute for competitive pressure. Examples include:

- Targets for particular aspects of the work of a public agency that are set by government policy.
- Targets for particular aspects of performance by private utility companies that are set by an official regulator (established because there are elements of natural monopoly in the provision of, say, water supplies).
- Targets for particular aspects of performance by private companies that receive contracts to deliver public services under so-called public-private partnership arrangements.
However, care is always required when setting targets, as targets almost inevitably induce distortions in performance as well as hopefully inducing enhanced performance in particular areas. Thus, for example, measuring the performance of a rural hospital by the average time taken for new arrivals to be seen by a nurse or doctor is likely to lead to less attention being paid to the needs of patients with chronic but not urgent conditions.

Moreover, targets will only have a performance-enhancing impact if:

- Observed outcomes can be readily related to the effort put in by the organisation.
- Outcomes are actively monitored. This cannot be taken for granted, especially in the case of state agencies. However, conversely, a state agency may be driven to perform by the persistent attention to its activities or achievements paid by a President or a motivated or ambitious Minister. This is most likely to occur when the performance of the agency (for example, an agency responsible for maintaining some stability in the price of the country’s main staple food crop) is considered critical to the survival of the regime as a whole.

We consider **internal pressure** for performance mainly in the next sub-section. Where none of the first three drivers are strong at organisational level, we would generally expect poor performance. However, there may be exceptions and these clearly demonstrate the difference that exceptional managers or highly dedicated staff can make. For example,

- The drive of senior management can act as an ‘exogenous’ source of performance for an entire organisation. An NGO or commercial organisation may be driven to perform by the vision and drive of a charismatic founder or leader.
- Organisational culture, whilst dependent in part on the steps that managers take to cultivate it, can also have a bottom-up element to it. Thus, previous comments about the limitations of altruism notwithstanding, many NGOs draw heavily on their employees’ personal commitment to ‘making the world a better place’ (see the earlier table in 2.2.2).

### Individual performance

Whilst incentives to perform at an organisation level may come from a number of sources, these are generally transmitted to individual staff members through management systems and organisational culture.

There may be a competitive element to internal incentive systems. Who gets promoted should depend, at least in part, on past performance. (Similarly, who gets hired should take performance within previous organisations into account). However, these links can be surprisingly weak in some state agencies due, *inter alia*, to politicisation, nepotism or centralised decision-making.

Often, internal incentive systems are based on targets, set more or less consultatively for individuals or groups of individuals. In some – mainly commercial – organisations, a component of the salary package depends on performance in relation to these targets.

In general, the objective of internal incentive systems is to align personal incentives of employees with those of the organisation as a whole.
However, a key issue for the effectiveness of such systems is how readily observed outcomes can be attributed to the performance of particular staff. This relates to what Israel (1987) termed task specificity, something that we shall look at in more detail in a later unit.

Where it is difficult both to monitor staff effort directly and to deduce the level of effort by observing outcomes, managers may have to rely more heavily on employees’ personal motivation to the vision of the organisation to deliver performance. This is where a positive organisational culture – always an asset to organisational performance – becomes critically important.

3.2 Assessing performance

If good performance is to be achieved, it has first to be defined. Organisations exist to achieve particular objectives. Thus, good performance can generally be equated with achieving (or exceeding!) the objectives of the organisation. As noted above, in some cases performance can also be compared across organisations. Hence, ‘good’ performance also acquires a relative dimension. However, this is not always the case.

Managers at each level of an organisation need performance indicators to show them whether they and their staff are achieving their objectives or not – and also to show others (their bosses, external stakeholders) whether they are doing this. Defining indicators is part of the manager’s planning function; monitoring them and making adjustments in response to observed outcomes is part of the control function.

One important caveat is required to the statement that good performance can generally be equated with achieving the objectives of the organisation. Can you think what this is?

Answer.

The statement assumes that achievement of those objectives is under the control of the organisation and its staff. In rural development, this is never entirely the case. For example, even a well-resourced and -run agribusiness may find all or part of its business undermined by an unanticipated change in state policy, for example a change in tariff policy or land tenure legislation, or may experience a bad harvest due to weather. For NGOs and some state agencies, that seek to work with and bring positive change for others, the degree of control is lower still. Here, observed outcomes depend on the response of the beneficiaries to the interventions that are tried. Performance indicators thus need to be interpreted with some care.

Moreover, as with targets, care is required when defining indicators, as indicators can induce distortions in performance. To avoid the worst distortions, a general lesson is to devise multiple indicators (albeit not too many, such that some are inevitably neglected) and to assess performance across the range of indicators.

Performance in commercial organisations

We noted above that the ultimate objective for most commercial organisations is the maximisation of shareholder value, which is closely linked to profitability. Hence, performance tends to be judged first and foremost in terms of share price and/or profitability. This can be compared across organisations, both within a particular industry or even across industries.
However, there are various reasons why a firm needs more performance indicators than just share price and profitability.

- Firstly, share price and profitability are ultimate outcomes. However, one of the major rationales for the control function is to help managers and stakeholders understand where and why an organisation is performing well or poorly. If ultimate objectives are not being met, why is this? Where is the problem? This calls for a range of intermediate indicators that shed light on this.

- The second reason is related to the different tiers within a medium-sized or large organisation. As already noted, a cascade of strategies and plans is often in place at any given time, with the strategies and plans at one level setting out how the objectives set by a higher level plan are to be accomplished in practice. Each strategy or plan should have its own performance indicators, tailored to the specific activities of that part of the organisation, that show its contribution to the achievement of wider objectives.

- Thirdly, many performance indicators, including financial ones, shed light on past performance, but past performance is not always a reliable guide to future performance. For example, past profitability may have been raised by cutting production costs, but at the expense of product quality. If customers have become dissatisfied with declining quality as a result, they may decide to buy from a competitor instead, leading to falls in profitability in future. Thus, customer satisfaction ratings are an important complement to financial indicators. Alternatively, past financial performance may have been good, but if competitors have subsequently introduced superior products, the company may struggle going forward. This suggests that performance indicators related to (ongoing) innovation within the firm are important.

Kaplan and Norton (1992) proposed the ‘balanced scorecard’ approach to measuring organisational performance that complements indicators of financial performance with indicators of customer satisfaction, performance on innovation and the functioning of critical operational systems within the company. This is illustrated in the figure in 3.2.1. Obviously, the particular indicators chosen within each category depend on the nature of the business and the part of the firm for which performance is being measured.

**Performance in public sector organisations and NGOs**

The basic story for commercial organisations is that there is an overall performance metric – returns to shareholder investment, which is, in turn, linked to profitability – but that a full assessment of performance requires multiple indicators. In the case of public sector organisations and NGOs, there is rarely an obvious overall performance metric, let alone one that can be compared across organisations. This is because there are:

- multiple stakeholders with divergent objectives
- multiple activities across and even within locations that may not lend themselves to common performance metrics.
- Performance is thus more readily assessed at programme or project level. Here, the planning process can seek agreement on reasonable objectives.
These are likely to fall within the following broad categories.

### 3.2.1 The balanced scorecard approach to performance measurement

#### Financial perspective
- Return on capital employed
- Cash flow

#### Customer perspective
- Customer satisfaction scores
- Service response time
- Market share
- % of repeat business

#### Internal perspective
- Internal systems development
  - Features
  - Project success
- New product introduction

#### Innovation and learning perspective
- % revenue from new services
- Revenue per employee
- % of staff multi-skilled


### 3.2.2 Assessing overall organisational performance for non-profit organisations

Christian development organisation Tearfund has a ten-year vision ‘to see 50 million people released from spiritual and material poverty through a worldwide network of churches’ (Tearfund undated). This figure aggregates across all the programmes they support with partner churches and indicates the scale of their ambition. Determining the impact on the lives of those concerned through their contact with the partner churches would, however, be a daunting task!

Similarly, Sightsavers International state that: ‘Working with our partners in 2010, we helped to: protect over 23 million people against river blindness; perform over 270 000 sight-restoring cataract operations; treat over a million people with antibiotics for trachoma’ (Sightsavers undated).

In addition to number of clients served, organisations could estimate cost per client served. However, this is only meaningful for a reasonably standardised service (for example, cost per cataract operation performed) – not for a diverse range of programmes and projects, plus perhaps advocacy work!

Recognising the importance of supporters and donors as stakeholders in their organisations, some NGOs publicise figures on the proportion of all funds received that are spent directly on development programmes, as opposed to organisational overheads.

Source: unit author
Effectiveness
In a (rural) development context, where most activities involve working collaboratively to improve the lives of others (beneficiaries), the first challenge is often to find an approach or intervention that works in a particular location. We consider the question of impact of development interventions in a later unit. Falling some way short of impact, but still important in assessing performance, are indicators that desired outcomes are being realised, for example:

- school attendance rates are increasing
- agricultural producer groups are selling products through new (higher value) marketing channels
- rates of undernutrition amongst children under 5 years old are falling
- an increasing proportion of the local cattle population is being taken for dipping or vaccination
- the proportion of (successful) women candidates in local government elections is rising
- soil or water conservation measures are being adopted (and maintained)

Efficiency
Once effective interventions have been developed, one can begin to consider the cost-effectiveness or efficiency of alternative interventions, to see whether the same outcomes could be achieved at lower cost using an alternative approach. Thus, different extension approaches (lead farmer, group mobilisation, individual farm visits) with and without subsidies, could be compared to see which led to the greatest area of land receiving effective soil or water conservation measures per US$1000 spent.

What is your initial (instinctive) reaction to the notion of efficiency measures for rural development projects or organisations? What are the benefits of such measures? What are the dangers?

Answer.
Hopefully you can see some benefits! Resources are generally scarce, so it is important to use them wisely. The more cheaply that an improved latrine can be built or a community midwife trained, the more beneficiaries can be reached with a given available budget. However, there are also dangers. Will the quality of the service or product be sacrificed to reduce per unit cost? Will short-term results be sustained if education or awareness raising efforts are cut back or if it turns out that the cheapest way to get results is to offer a subsidy (eg a grant to part-fund the construction of soil conservation bunds)? Will the hardest to reach be neglected because it is too costly to serve them? These concerns point to the need to (a) focus on effectiveness first and efficiency second; (b) balance efficiency indicators with other indicators.

Equity
Many rural development efforts have the ultimate objective of reducing poverty, ie improving the living standards of those who are currently poor. Thus, it is important not just to observe that positive changes are taking place, but also to observe who is
benefiting from these changes. This is a vital counterbalance to efficiency concerns, since the poorest are often the hardest to reach (living in remote locations, least likely to attend public meetings or to voice their opinions when present, least able to bear the cost or risk of adopting new technologies, having to defer to others on key livelihood decisions etc).

Look at the six examples of intervention effectiveness given above. Only one has an equity dimension. Which is this? Think of equity indicators that could (in a particular context) be applied to the other five.

**Answer.**

The one that has an equity dimension refers to the ‘proportion of (successful) women candidates in local government elections’. Examples of equity indicators that could be applied to the other five include:

- School attendance rates by caste/tribe or amongst girls versus boys
- Participation in agricultural producer groups by male versus female farmers or by farmers with different farm sizes (eg <1 ha, 1–3 ha …)
- Rates of undernutrition amongst children under 5 years old by caste/tribe or amongst girls versus boys. (In practice, all undernourished children under 5 years old can be considered extremely vulnerable, so disaggregation may not be a big issue here).
- Proportion of households taking their cattle for dipping/vaccination by herd size (eg 1–2, 3–10 …)
- Proportion of households adopting soil or water conservation measures by farm sizes, tenure status (own land versus tenants) or gender of household head.

**Accountability**

This applies to organisations as well as projects! It is desirable that organisations are accountable to the people whom they claim to serve – not just to funders – and this also contributes to the empowerment of those involved in projects or programmes. It can also be valuable for the organisations and/or projects themselves: positive impacts are more likely to be achieved and sustained and programmes more likely to be able to adapt to changing circumstances if clear mechanisms for gathering feedback from beneficiaries are in place. (In this way, there are some parallels with customer satisfaction information used by commercial enterprises).

Assessing accountability is perhaps more difficult. Indicators are likely to focus on process, eg meetings at which feedback could be received and grievance aired, attendance, was anything changed in response to the feedback received?

There should perhaps also be an equity dimension to the assessment of accountability, since the poorest are often less comfortable speaking out in public forums about their concerns than those who are better educated or perceived as having higher social standing.
Section 3 Self Assessment Questions

Question 7

True or false?

Failure of an organisation to achieve its stated objectives is evidence of poor performance.

Question 8

Complete the following table describing the three main external drivers of organisational performance:

<table>
<thead>
<tr>
<th>Driver</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>performance benchmarks imposed from ‘above’ either by public policy</td>
</tr>
<tr>
<td></td>
<td>or the terms of a contract</td>
</tr>
<tr>
<td>voice</td>
<td></td>
</tr>
<tr>
<td>choice</td>
<td></td>
</tr>
</tbody>
</table>

Question 9

Why is a ‘balanced scorecard’ approach to measuring (private sector) company performance preferable to a sole focus on profitability?
UNIT SUMMARY

In this unit we have conceived of organisations as groups of people acting together in pursuit of common goals or objectives and the role of managers as being to deploy available resources in the best way so as to achieve the objectives of their organisation. The core functions of managers are thus commonly summarised as planning, organising, leading and controlling, although the day-to-day experience of managers is likely to be much more chaotic than is conveyed by these four functions.

Much writing on management – including our conception of an organisation! – assumes that organisations have clear objectives. In a medium-large organisation, there is likely to be a cascade of strategies and plans, such that the activities of each part of the organisation are aligned to the overall objectives of the organisation. Senior management, including the Boards of large firms and NGOs, are responsible for setting overall organisational strategy. However, a range of other stakeholders play a role in determining ultimate objectives. In the case of large firms, shareholders’ interests – return on investment, linked to profitability – are critical. NGOs can have a challenging time seeking to reconcile the interests and priorities of a range of stakeholders, including beneficiaries, funders, staff and relevant government authorities, but at least retain some control over how much they seek to achieve. The objectives of state agencies are ultimately determined by political processes and are constantly contested. Furthermore, individual agencies and their managers often have little control over either the objectives that are set for them or the resources at their disposal with which to achieve these objectives.

In the final section we looked at drivers for good organisational performance. We considered pressure from competition, from accountability to clients, from targets imposed from ‘above’ and the internal impact of exceptional managers or dedicated staff. We noted that, if good performance is to be achieved, it has to be both defined and measured and considered some of the challenges involved in defining and measuring performance in a development context.
UNIT SELF ASSESSMENT QUESTIONS

Question 1

Why does much writing on management still emphasise core functions of managers when the actual daily experience of managers is far more diverse, responsive and even chaotic than these functions indicate?

Question 2

Contrast the ways in which customers provide feedback to commercial organisations and clients provide feedback to NGOs about the delivery of their services.

Question 3

Note two challenges with the use of targets to encourage enhanced organisational performance.
KEY TERMS AND CONCEPTS

organisational culture  the ‘dominant pattern of shared beliefs and values’ within an organisation (Cole 2004 p. 105), which gives each organisation its own distinctive ‘feel’ and can be a major reason why staff are motivated to work for some organisations

principal–agent models  ‘principal–agent’ models are a formalisation of the issues faced by a principal who wants to hire an agent to perform a task on his behalf. Due to incomplete and asymmetric information, the principal is faced with moral hazard and adverse selection problems that may prevent him from hiring an agent that would truly act in his best interest. The principal thus has to devise incentive packages for the agent that align the behaviour of the agent with the interests of the principal