Module 3: Institutions and Organisations

Chapter 3.3: Introduction to Institutional and Organisational Development

A. General

Well functioning institutions are key elements of watershed management. The institutional environment is continuously changing, with both the problems and opportunities to address them evolving over time. Thus, institutional development is not a simple linear process, but rather it is complex and one that may span over a decade or more. This presents a challenge to the traditional concept of the project cycle with its essentially linear approach of identification, design, appraisal, implementation, monitoring and evaluation. Institutional development lends itself rather to a process approach where – within agreed overall objectives – outputs, activities and inputs are defined more clearly as development proceeds.

This chapter provides an introduction to institutional and organisational development. It examines the terms institution and organisation, and introduces a five stage institutional development process comprising of: (1.) an analysis of the overall institutional framework; (2.) an analysis of the organisation in its institutional context; (3.) the design of interventions; (4.) their implementation; and finally (5.) monitoring and evaluation.

This chapter is meant to help the reader gain a basic understanding of these issues. It draws from the excellent publications on Promoting Institutional and Organisational Development (Handbook with process description and Source book of tools and techniques) by DFID ([1], [2]), which the reader is referred to for further details on the process, its stages and practical tools.

B. Institutions and Organisations

There are distinct differences between the terms institution and organisation, but people have not always grasped this. They have used the terms institution and organisation interchangeably, for example by talking about institutional weaknesses when they mean organisational ones, namely weaknesses in the structure, people and / or processes of an organisation. Institutions can be understood as the rules of the game, while organisations are how we structure ourselves to play. The key distinction between institutions and organisations is that between rules and players [1], as is explained in more detail in the boxes below.¹

¹ Uses of the word institution include: (a) A custom, practice, relationship, or behavioural pattern of importance in the life of a community or society, e.g. the institutions of marriage and the family. (b) An established organisation or foundation, especially one dedicated to education, public service, or culture. (c) The building or buildings housing such an organisation. [http://www.answers.com/institution]
Box 1: Institutions govern individual and collective behaviour. They may be formal legal systems, property rights and enforcement mechanisms; or informal customs, and traditions. They may operate at different levels – international (e.g. UN conventions), national (e.g. laws, constitutions), social (e.g. norms of conduct, status of women) and family (e.g. inheritance rules). They may nest within larger institutions – e.g. village-based collective institutions nested within the institutions of national government. They are often also referred to as the rules of the game. The most widely used definition is: “Institutions consist of formal rules, informal constraints – norms of behaviour, conventions, and self imposed codes of conduct – and their enforcement characteristics”[1].

Box 2: Organisations on the other hand are groups of individuals who come together for a common purpose or to achieve specific objectives. They adapt their tactics and organisation according to externally defined rules and regulations – the rules of the game. They behave according to, but are not the same as, those rules. For example, it is a rule of the game that football teams comprise a goal-keeper and ten outfield players, but the configuration, position and tactics of the outfield players are decided by the team as an organisation. Organisations encompass political bodies, such as political parties or parliaments; economic bodies, such as firms or businesses; and social bodies, such as churches and schools. They usually have discrete boundaries, a budget and a structure[1].

Likewise, the distinction between institutional and organisational development is often blurred. Achieving desired outcomes may need institutional as well as organisational change. Understanding organisational reform is of course important, but even more so, is understanding the bigger institutional picture, which includes rules, incentives and enforcement mechanisms. Past interventions often focused on the organisation – restructuring an organisation, training its staff and providing new equipment. But the real point of reform – the change in an organisation’s behaviour – has often been missed. Reform of a sector or system is likely to need the kind of organisational improvements that have been described, but will almost certainly also need institutional reform to change the rules of the game governing the behaviour and actions of individuals – issues of pay, incentives and accountability to the community. Both types of development are of course concerned with the process and content of change.

C. Rationale for Institutional Development

Institutional development is a complex process which needs to draw from and build on local realities.

The institutional environment is a living, changing one: both the problems and the opportunities to address them can change over time. Institutional development is not a simple linear process. It is more like a game of chess – but with more players, not all of which are playing by the same rules. This presents a challenge to the traditional concept of the project cycle with its essentially linear approach of identification, design, appraisal, implementation, monitoring and evaluation. With institutional development, interventions have to be informed by experience and developed as they go along. In addition, institutional development is often long term, requiring a willingness to maintain involvement over a decade or more. It thus lends itself to a process approach where, within agreed overall objectives for institutional change, outputs and the activities and inputs required to achieve them are defined more clearly as development proceeds. This
requires particular attention to monitoring, to provide a framework for adapting interventions to take account of progress and of changing conditions.

**Whether to Assist or not**

Technical interventions that leave unsatisfactory institutions intact will probably achieve nothing. For example a more efficient tax-collecting organisation might be expected to enable the government to collect more revenue and to improve services, but it will not help poor people if the government’s public spending policies favour the rich, if taxes are regressive, or if extra revenue will be misappropriated.

Remember too that successful institutional development is very dependent on a real commitment from stakeholders, especially those at senior levels. It is usually not worth proceeding if this commitment is not there.

The achievement of broader development objectives may hinge on institutional development. If there is for the moment no prospect of bringing that development about, these objectives will have to be put on hold.

**Conditions that Support Institutional Change**

The following factors have been observed to be important for creating policy and institutional change:

- **Crisis**: Countries that face serious crises of legitimacy, stability or sustainability may be forced to adopt drastic measures to protect themselves: the cost of NOT changing policies and institutions may be greater than the cost of change. Windows of opportunity for change can present themselves at such times, as for example in the financial crisis that hit Southeast Asia in the 1990’s.

- **Leadership** consistently plays an important role in reform situations. It is generally leaders who put reform on national political agendas, who provide a vision, who are actively involved in shaping the content of proposals for change and who spearhead the process of generating support and managing opposition to change. The emergence of strong champions of change provides an opportunity for promoting policy reforms.

- **Ideas**: Particularly ideas about the appropriate design of institutions – are important in defining new rules of the game. Most commonly, ideas are understood as political resources, a form of capital that is used to promote particular positions or to influence the outcome of decisions. Drawing on foreign influences, ideas can have a considerable impact on the types of solutions offered to deal with institutional deficiencies. The content of institutional change may often be defined through exposure to new ideas from elsewhere or by piloting new concepts in country. International standards or norms may often provide an entry point.

  *The social organisation of the poor* (the demand side) is very important in a reform process. It can raise the significance of poverty issues for political elites. The beneficiaries of the altered rules of the game need to be supported to protect new institutional arrangements.

**D. Key Issues and Principles**

The institutional and organisational development process that is presented here has been designed to address the following key issues and questions [1]:

- **Outcome focus**: “What are we trying to do and why?” Transformation must be driven by a focus on desired outcomes. In many cases this will be improved service delivery, and / or more equitable access to services.
**Timeframe:** “How long should it take?” Changing the rules of the game – familial, communal, social, or collective – takes time. Unrealistic change processes and timeframes will fail. Getting real participation is vital and especially time consuming.

**Context:** “Where do we start?” Institutional development must start from and be constantly informed by current social, political and cultural realities. This involves understanding different groups’ incentives, whether for change or for retaining the status quo. Changing incentives of powerful groups may be the most effective mechanism of institutional change. The precise entry point will need to take into account the overlapping nature of institutions at different levels (local, national and international).

**Participation:** “Who do we work with?” Changing the rules of the game will meet opposition from vested interests and from those who do not understand the rationale. Widespread stakeholder participation should develop a shared understanding of what needs to be changed and why, how to bring about change and acceptance of new rules, which need to be widely disseminated and well understood. The process should be inclusive and enabling to ensure long-term sustainability.

**Accountability:** “When will we know we have accomplished the task?” There is a need to ensure that the reform process is meeting its objectives. Is institutional change facilitating achievement of the desired outcomes? Are poor people getting the intended benefits? Accountability will be heavily dependent on a regular flow of information.

**E. The Process**

An introduction to a five stage institutional and organisational development process ([1], [2]), is illustrated in figure 1 and briefly outlined below, so as to guide readers through the key areas. It should be noted that this process does not exclusively deal with either institutions or organisations, but instead it deals with both.

![Institutional Development Process Diagram]

**Figure 1: Overview of the Institutional Development Process [1]**

---

2 See also: Chapter 1.3.4: Incentives to Promote the Sustainable Management of Natural Resources in Watersheds
The process begins with the analysis and diagnosis of the overall institutional framework and of the organisation in its institutional context. The overall diagnosis needs to:

- Set the institutions and the organisation in context and summarise the key features
- Provide a framework that captures all the potential dimensions of institutional and organisational problems
- Facilitate discussion and engagement with stakeholders

The following sources of information will assist in building up a picture to inform both the institutional and organisational appraisal:

- Governance reviews
- Academic work especially on politics and the economy
- Previous reviews and reports by others
- Local knowledge
- Data collected by, while not relying solely on any single one of these sources:
  - Speaking to key stakeholders, e.g. government officials
  - Having as many conversations as possible with the "lightly connected" – members of the society and outsiders resident in the country who are sufficiently detached from the institution to be able to offer disinterested advice
  - Convoking subgroups of key stakeholders involved in implementation / delivery to obtain views on how to achieve the development outcomes
  - Triangulating among these multiple conversations to arrive at a judgment about: (a) the opportunities to take forward institutional change to underpin progress in achieving the development goals; and (b) the most serious threats to this

The five stages of the institutional development process are:

1. Analysis of the Overall Institutional Framework

The analysis of the overall institutional framework answers the questions "What are we trying to achieve and why?" and "What are the main institutional strengths / weaknesses?" and "Who are the stakeholders?" It will lead to a clear understanding of the expected developmental outcomes, and of the institutional framework, including the roles of involved stakeholders. It probes for the key underlying causes of institutional weaknesses before deciding which priorities need to be addressed.

It aims to understand the following institutional components:

- **Priorities**: Has the Government identified its priorities amongst its desired outcomes and allocated resources accordingly? Are allocations adhered to? What are the core policy and decision making structures? What levels of expenditure can be afforded in the short, medium and long term? What mechanisms are available to ensure that poor people’s views are taken into account? Who sets priorities and in response to what interests? Can priorities be translated into resource allocations?

- **Policies**: How effective are the core policy and decision-making structures and processes? Are they based on evidence and data? What is the availability and quality of data? What is the impact of policy changes on the poor?

- **Incentives**: What is the current formal / informal incentive structure? Who benefits? What are the incentives for state structures to deliver services; for the bureaucracy to attract and motivate staff; for the development of skilled human resources? What incentives, if any, are there to modify behaviours of key players in support of the desired outcomes? What incentives are there to review and improve performance?
Chapter 3.3: Introduction to Institutional and Organisational Development

- **Rules and law:** Are formal rules and laws respected? Are there informal rules leading to rent seeking behaviour, patronage, victimisation, or exclusion? Can rights be enforced through law? Are rules and law subject to political interference? Are there informal systems of dispute resolution?

- **Culture:** What are the attitudes to risk, hierarchy, incentive systems, participation, donor interventions, etc? How about the willingness to engage in consultation, the responsiveness to information and issues of community and individual identity?

- **Drivers for change:** What are the key drivers for change? Are they social, technological, economic or political? Are there sponsors or champions for reform? What is the extent of their power and influence and the level of commitment to reform? What benefits or incentives do they have to push a reform process? What is the level of their political stability? What are the implications of the current electoral cycle?

- **Voice and partnership:** What mechanisms and structures are in place to promote the concerns of poor people? What is the status of awareness raising, capacity building, joint management of for example forestry or water resources and participatory budgeting? How effective are they? What voice do poor people have to hold delivery organisations to account? Are there report cards, or public audits?

A comprehensive participatory **stakeholder analysis** is also carried out as part of the analysis of the overall institutional framework. It helps to make the interests of key stakeholders transparent, and to build a sense of ownership of the reform process. Please refer to a detailed coverage of stakeholder analysis in a separate chapter and technical annex.

*The tools and techniques* that can be practically applied for the analysis of the overall institutional framework include: Assessment of Institutional Capabilities, Impact Analysis, Sponsor Evaluation and Change Forecasting. They are described in detail in the *Source Book of Tools and Techniques* by DFID [2], which can be downloaded from the Internet.

### 2. Analysis of the Organisation in its Institutional Context

The analysis of the organisation in its institutional context answers the questions "**What are the main organisational strengths / weaknesses?**" and "**What is the overall institutional and organisational diagnosis?**" It looks at the diagnosis of organisational problems, in the context of the wider institutional environment.

It aims to understand the main **organisational components** which have been listed below, and also how they are linked to the analysis of the various aforementioned institutional components.

- **Inputs and Resources:** What is the financial position? What are the prospects? Expenditure – where does the money go? What links are there with clearly and publicly defined outputs and outcomes? Do staff costs crowd out other expenditure?

- **Strategy:** Is there a strategic plan? Is it appropriate? Is it effective? Is there a change management strategy?

- **Culture:** What is the management style and bureaucratic behaviour? What is the likely impact of external change agents? How much consultation and participation takes place?

- **People and Human Resource Management:** What are the basic statistics? Are staff well managed and well motivated? Are appointments and promotions made on merit?

---

3 See also: [Chapter 4.3.2: Problem Analysis and Scoping](#) | [TA: Stakeholder Analysis [4.3.2]](#)
Are pay scales adequate? What are skill levels and the skill gaps? Is there any training?

- **Systems and Processes** (including decision making, management information): What are they? Are they used? What are the problems? For example is there enough / too much / too little management information? How is it used? What about accountability? Is there any coordination? Do procurement procedures give value for money, and are they transparent and honest?

- **Structure**: What is the formal structure? How does it work out in practice? Is it appropriate? Does it support lines of accountability, decision making and coordination? How about the control of resources and levels of accountability? How far are matters decentralised?

- **Outputs and Performance**: What is the baseline? What is the impact in the real world – outcomes? What are the performance indicators? How about performance management and feedback?

The tools and techniques that can be practically applied to analyse the organisation in its institutional context include the **Open Systems Model**, the **7-S Model**, **SWOT Analysis**, the **Organisational Elements Model** and **Problem Tree Analysis**. They are described in detail in the **Source Book of Tools and Techniques** by DFID [2], which can be downloaded from the Internet.

### 3. Design of Interventions

The design of interventions addresses the question: "What is the best way to promote change?" It usually describes a number of possible interventions with some guidance on selection.

The **options for intervention** are illustrated in figure 2. Essentially they divide between institutional and organisational change. **Institutional reform** usually focuses on policy, or on incentives to improve service delivery. **Organisational reform** may be structural, or target systems or human resources. A given reform programme may embrace some or all of these elements. Institutional reforms can be slow and expensive and often call for the reform of organisations to implement the new measures.

![Figure 2: Options for Intervention](image)

---

4 See also: [TA: Problem Tree Analysis [4.3.2]]
It is best to start by looking at the options for institutional change. This involves a fundamental review of the rules of the game and of core purpose, including whether the function is necessary or not, and then looking at a range of alternatives. The options for institutional change include:

- **Policy reforms:** Interventions to reform policy are particularly difficult. Opportunities may however arise as a result of reviews or changes in the legislative framework, public pronouncements by politicians which may provide an opportunity to review existing policy or clear weaknesses in the application of existing policies which may be picked up by the media. All of these provide openings through which policy reform can be actively discussed.

- **Improving service delivery:** To improve service delivery, governments are experimenting with a range of institutional mechanisms, including: (a) Greater use of markets and contracting out. (b) Setting up performance-based agencies in the broader public sector and holding them accountable for the achievement of outputs or outcomes. (c) Voice and accountability mechanisms such as user participation and client surveys to ensure that there is a clear articulation of both demand for services and engagement in maintaining the quality of delivery. (d) Public sector reform programmes, notably public expenditure management reform to sharpen up priorities and improve budgeting and accountability processes.

**Organisational change** can take place through interventions in systems, human resources or structures.

- **Systems:** A lack of clear and consistently applied systems can de-motivate staff. Without clear objectives it is hard for individuals to direct their efforts and assess their contribution; lack of transparency about the criteria for decisions creates uncertainty and unease; and not knowing when you will next be paid – and how much – can be the most de-motivating of all. The introduction of revised systems can be an effective way to force behavioural change. It can lead to changes in procedures and practices which could not be introduced without radical systems reforms. Systems include: business planning processes, financial management systems, management information systems, human resource management systems and asset management systems.

- **Human resources:** Changes can target performance management, incentives, development and training, best practice and benchmarking. The question of incentives and their influence in shaping behaviour of individuals at work is particularly important. In some cases, non-financial incentives such as access to training and development, or greater control over the working environment, may be effective.

- **Structures:** Structural interventions change the architecture and hierarchy of an organisation as expressed in its organisational chart. They should never be offered on their own: the reason for structural change must always be to improve performance and / or change behaviour, and these objectives need other sorts of support under the systems and human resources headings. Structural interventions can be a powerful means of improving service delivery.

In order to select the type of intervention (if any) that will solve the problems, the following issues and questions should be taken into account:

- Major institutional strengths and weaknesses and their linkage to the overall development goals. What are the rules of the game? Which weaknesses could have the biggest impact on achieving the goals?

- What are the underlying causes of institutional weakness?

- To what extent are such causes susceptible to intervention? Consider the history of previous reform and achievements. Consider the motivations of key stakeholders.
If the underlying causes of weakness are not susceptible to intervention or the motivation of key stakeholders is low, reassess the scope and objectives of the intervention.

Which interventions might best start the process of change and which are likely to have most impact on achieving development goals?

Map out the linkages and interdependencies between possible interventions.

Assess: What actions have to be taken to secure specific outcomes? Who will have to take such actions? What is the likelihood of key players taking the appropriate action?

What critical targets or indicators will signal progress on chosen interventions?

What are the major risks to achieving outcomes and how can they be managed?

The tools and techniques that can be practically applied to design interventions include the Risk Management Matrix, Benchmarking and Business Process Reengineering. They are described in detail in the Source Book of Tools and Techniques by DFID [2], which can be downloaded from the Internet.

4. Implementation

Implementation addresses the question: "How do we implement the change programme?"

It recognises the importance of managing interventions as a change process, and the important factors which lead to success or failure.

Having agreed on the direction of change, the next step is to agree on how to take the changes forward. The complexity and difficulty of institutional change, and the time it takes, makes it especially liable to loss of direction and loss of key support. Important points to consider when implementing a change programme are:

- The roles of the main players.
- How to design a strategy and a programme for change?
- How to manage change with a special emphasis on the need to keep stakeholders on board?

There are three key roles in a change process as shown in the figure below: sponsor, change agent and change participants. The figure also shows that the roles can and often do overlap.

![Figure 3: Roles in Change Management](image-url)
The sponsor’s role is critical. This is a person at the top of the organisation who undertakes leadership of the change programme; secures public and political commitment; deals with critics; and decides how to solve problems. A sponsor’s lot is not always a happy one, having to contend with cynicism, negativity and criticism from opponents of reform, whilst continuously presenting a positive face. The role of change sponsor often resides in one individual. While the personal drive and commitment of an individual can make a tremendous difference during the implementation phase, it is important to build up links with a wider group to ensure that the loss of that individual does not derail the whole process. It may also be necessary to consider strategies for working with opponents of the change.

The change agent is the individual or group who manages the implementation of the change programme. Different change agents may need to take over at different stages; for example, a managing agent may fill the role to start with, handing over to an internal team later on. The agent or agents for the first phase should be identified before the design is finalised.

Change participants include all those affected by the change; the level of their participation and commitment is likely to vary widely.

Designing the change strategy and programme will need to take the following issues and steps into consideration:

- Planning for change – reflecting, developing a vision and building concepts.
- Identifying change sponsors - individuals or groups who will lead change.
- Recognising and managing barriers to change – predicting the reaction of individuals and groups to the proposed changes. Opposition can be expected from people who are either unable to accept new ways of doing business, or from groups of people who stand to lose from new policy measures.
- Building support for reform and managing key stakeholders – explaining the need for change and the ways in which people will benefit, securing the participation of poor people.
- Reforming organisational structures – to accommodate new ways of working.
- Mobilising resources – political, financial, managerial and technical resources are needed to sustain reform.
- Consolidating change – ensuring that the motivation for change is maintained and, later, mainstreaming the new way of working as part of normal procedure.

A change programme needs a clear project plan. The change agent should be responsible for producing it, and for identifying who will monitor implementation. The plan should include: (a) Objectives and performance indicators. (b) Milestones and opportunities for celebrating success. (c) Key dependencies (actions dependent on the successful completion of earlier stages of the plan). (d) Communication arrangements for keeping key stakeholders informed of developments. (e) Risk management including risk assessment at regular intervals to ensure that the chosen approach is still appropriate. (f) Final evaluation including a celebration of achievements to create a positive impetus for further action. (g) An exit strategy.

Balancing and managing stakeholder interests are a crucial element of the process, as conflicts between stakeholders may need to be resolved as implementation proceeds. Conflicts may arise when different stakeholder interests disagree about reform initiatives. It is especially important to involve powerful stakeholders and decision-makers from the beginning, to avoid the risk of their blocking negotiations and attempts at implementation. But at the same time consensus building is needed as a way of balancing the influence of powerful interest groups with that of less powerful groups. Consensus building, also
known as stakeholder engagement or negotiation, is a way of resolving issues through a process of discussion and / or decision-making among the different parties. It does not on its own address the fundamental imbalances in power that allow some groups to have more influence on the reform process than others, and separate initiatives may be needed to promote poor people's contributions and influence.

The tools and techniques that can be practically applied during implementation include Change Management, Force Field Analysis, the Burke Litwin Model and Stakeholder Management. They are described in detail in the Source Book of Tools and Techniques by DFID [2], which can be downloaded from the Internet.

5. Monitoring and Evaluation of Institutional Development

Monitoring and evaluation address the question: "How do we know we are achieving our goals?"

Monitoring and evaluation are especially important in the case of long-term programmes which need to be adjusted as they proceed. They need to be planned for and designed at the start, in conjunction with relevant stakeholders, to address questions such as: What are the issues of most importance to stakeholders? How much detail is needed? What type of information will stakeholders be most interested in? How should it be presented to have most impact?

When designing a monitoring and evaluation system, issues to consider include its purpose, process, and resources:

- **Purpose**: Monitoring and evaluation can have different purposes at different stages: e.g. to check progress towards desired outcomes; to learn lessons about the process; or to assess institutional readiness to move onto a new phase.

- **Process**: Before implementation begins it is important to establish a baseline from which to measure progress towards objectives. Baseline material needs to be available for all indicators. Much of the information for this will be available from the diagnosis but there may be some areas where more information will be needed. The tendency in institutional change programmes is to develop quantitative rather than qualitative success measures. This tends to lead to measures of inputs, which are easily quantified, rather than outcomes, which although harder to measure are what really matters. It is important to help the institution / organisation and individuals to focus on outcomes.

- **Resources**, both human and financial, are needed for monitoring and evaluation. Questions in the context of allocating resources include: What resources are available? Who will do it? How much time and resources do other stakeholders (senior managers, providers of management and performance information) have to contribute? How willing are other stakeholders likely to be to spend time on evaluation? Are people accustomed to completing questionnaires and / or being interviewed? If not, what will be their likely reaction? Are they already suffering from survey fatigue? Will the cost of collecting the information exceed the benefits from doing so?

The tools and techniques that can be practically applied for monitoring and evaluation include the EFQM Excellence Model. It is described in detail in the Source Book of Tools and Techniques by DFID [2], which can be downloaded from the Internet. Further details on monitoring are also provided in the respective chapters.

---

[^1]: See also: Chapter 6.1: Introduction | Chapter 6.4: Methods and Instruments
References and Sources for Further Reading
