

Promoting High Performance in SOEs: Lessons from Africa

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Abstract: Infrastructure for developing nations raises concerns regarding citizen access, affordability, service quality, and network expansion. Historically, state-owned enterprises have tended to provide water service services, but performance has not been strong. However, public provision of water utility services can be efficient when management follows sound principles. Developing information systems and rewarding good performance requires that a culture of excellence be nurtured and sustained. The infrastructure reform stimulated by new leadership at Uganda's National Water and Sewerage Company is used to illustrate the links among fundamental elements of organizational transformation.

Key Words: Public Service Provision, Infrastructure Reform, Water Utility, Uganda

The case described here provides fresh perspectives on steps required to strengthen public organizations that have become fragmented, un-focused, and unproductive. In her work on organizational culture, Grindle found that, “. . . characteristics associated with positive organizational cultures, such as mission, performance-oriented managerial style, and autonomy in personnel matters differentiated those [public organizations] that performed relatively well from those that did not.” (Grindle, 1997, p. 482). Although no single prescription exists for transforming a corporation, analysts are familiar with the basic ingredients: thoughtful leadership, careful measurement, open communication channels, and well-designed implementation strategies. An African Proverb from Kiganda states, “*A person who never*

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travels, believes his mother's cooking is the best in the world." We need to travel further from home more often to appreciate how a "shared set of norms and behavioral expectations characterizing a corporate identity" have a profound impact on organizational performance (Grindle, 1997, p. 482).

This article describes an economic transformation within a state-owned enterprise in Africa—highlighted by proverbs that capture insights from the region's oral cultures. In an era when globalization is driving changes in every society, it is useful to focus on reform lessons that stand the test of time. First, we all know that many organizations do not fulfill their potential. If a consultant had a recipe for creating high performing organizations, that list of ingredients and steps to be taken would be worth its weight in gold. Yet anyone who hears advice from organizational gurus and reflects on personal experience knows that the way to change an organization is to engage its leaders in a set of tasks. These tasks involve at least eight elements.²

Identify Trends so that past performance is understood;

Establish Baselines documenting current performance;

Select Measurable Goals as challenging (but achievable) targets;

Design Internal Incentives to reward teams for meeting those objectives;

Establish Lines of Communication to promote information-sharing internally;

Develop and Implement Strategies for dealing with external threats;

Ensure Accountability by assigning responsibilities to leaders and teams; and

² There are many comparable "lists" of steps for organizational transformation: these happen to fit the NWSC experience. For example Baliga and Santalainen (2006, 140) focus on "strategic reorientation, shifts in resource acquisition logic, workforce rationalization and renewal, and changing organizational configuration." So the eight elements used here provide a framework for surveying strategies for change, but other systems can be useful as well.

Review Results within a reasonable timeframe to evaluate process implementation—which takes us back to identifying trends again.

Although we draw upon the experiences of a Ugandan infrastructure firm to illustrate the links among these fundamental elements of organizational transformation, the principles apply in any developmental setting.³ For example, they are consistent with a recent survey of water sector reform from the World Bank (Ehrhardt, et. al., 2007) which identified regulatory and governance issues as being central to the success of public and private water utilities. The study identified the following features as contributing to sustainable systems: coherence (consistency of objectives—pricing, service quality, and network expansion), predictability and credibility (facilitating long term planning) and legitimacy and accountability (promoting customer acceptance of performance outcomes). NWSC also illustrates the potential for high performance in publically-owned infrastructure (Prasad, 2006). The process of moving from a low to a high performing entity is disruptive for the organization and potentially dangerous to those who are committed to changing the status quo: although leaders are catalysts for creating a new organizational culture that promotes improved performance, many other factors contribute to success as well. Eight elements that characterize regime changes are developed below.

1. Identify Trends

A visible stone does not harm a hoe.

(Rundi, Burundi)

³ Mugabi et. al. discuss the cycle of poor corporate performance, offering a strategic planning framework for water utilities. Some activities of the NWSC's Kampala division were surveyed in the study.

The first task of any new CEO is to bring to light the elements that have led the organization to its current state. Awareness of trends provides a context for addressing emerging threats, allowing decision-makers to exercise both prudence and confidence in attacking the problems revealed in the data-gathering process. Such information should reveal how the organization has dealt with past financial and market conditions. In addition, the process should identify the outcomes associated with past policies; some of those policies may not have been explicit but reflected the corporate culture of the time. The key is to distill the data into a framework that facilitates pattern analysis, which later can be used to develop effective strategies for moving forward. Threats that remain hidden can lead to either extreme caution or “business as usual,” neither of which is a good way to start a transformation process. Add to the internal complexity of a failing organization, the social importance of water (Wilder and Lankao, 2006), and the National Water and Sewerage Company of Uganda (NWSC) faced major challenges.

Do a thing in its time and peace follows it.

(Mandinka)

Portents: In a 1998 report⁴, the World Bank noted that “Over the last 10 years, the [Government of Uganda] in partnership with the World Bank and other donors [has] made significant investments (over US\$100 million) in the urban water and sewerage sector. These investments have contributed immensely in rehabilitating the existing infrastructure under the NWSC management. Unfortunately, these investments have not been matched with the necessary efficient commercial and financial management capacity that can ensure the delivery of sustainable services in the medium to long-term.” NWSC had several factors in its favor: a relatively sound infrastructure, abundant water resources, and a legal framework that provided

⁴ World Bank Aid Memoiré Document (1998), Project Evaluation Report to NWSC Management.

a clear division of responsibility for different government agencies. The government was willing to support pro-active managers. In addition, the government was willing to freeze the debt (~US\$100 million) to give the new managing director time to implement proposed initiatives. Improving operational and financial performance was essential to prevent further deterioration.⁵

Capital, hydrology, and the government's commitment to enhancing performance were necessary, but not sufficient, conditions for transformation. Specifically, NWSC had a number of negatives:

- A large and inefficient labor force with conflicting and overlapping roles,
- High unaccounted-for water (more than 50%),
- Poor customer service,
- Low collection efficiency (only about 71% of bills were paid),
- Substantial accounts receivables (days receivable ratio of about 420 days), and
- Corruption within the work force, especially field staff.

Despite having a relatively high average price of US\$1.00/m³, the monthly deficit was about US\$300,000, putting severe cash flow pressures on the organization. In addition to the threat of bankruptcy, the corporation had to contend with other threats, including debt servicing obligations coming due and a Value Added Tax Law that compelled NWSC to pay taxes on any increases in bills.

If your house is burning, there is no time to go hunting.

(West Africa)

⁵ The specific tactics associated with the programs are developed more fully in a paper by Mugisha and Berg (2006).

Performance: In the case of NWSC, poor performance meant that the first priority was to gain financial sustainability. Longer-term objectives took the back seat, given the attitudes of those with political power. Short-term progress, measured in terms of changes in key performance ratios, was emphasized to give credibility to the reform initiatives and create legitimacy in the eyes of stakeholders (consumers, workers, government officials, and donor organizations). In general, performance was similar to other African water utilities (excess staffing, high water losses, indifference to customer needs, high unpaid bills, high accounts receivable and petty corruption). NWSC operated at a low level of performance: in 1998, 52% of urban citizens in Uganda lacked access to piped water systems, operating costs exceeded revenues, and donor organizations were putting pressure on the government to privatize and reform the water system. Political promises had not been met, and many customers (including the government) were not paying their bills, often due to poor service quality: if the utility was pretending to deliver water, customers felt entitled to “pretend” to pay their bills. Furthermore, managers were not focusing on cost containment or service quality—let alone network expansion.

Promises: When Muhairwe was appointed to be NWSC’s managing director (MD) in 1998, he was aware of the extensive problems but had no experience in the industry.⁶ At an initial meeting with the board of directors and senior managers, he said that he would resign if he did not turn around the corporation in 100 days. The statement was meant to be a private observation regarding his commitment to the dramatic changes required to address serious issues facing the organization. However, the statement was reported in the press the next day; now the declaration had to be backed up with actions.

⁶ He brought business experience to the job, but water was a new industry for him. The initial steps in the reform process are described by Matta and Murphy (2001).

The advantage of making his intentions known early was that stakeholders were forewarned that business as usual was not an option. The disadvantage of making such a rash statement was that it precipitated a number of potentially obstructionist reactions. Some viewed the vision as a threat to jobs and current arrangements: they were right. Others took the announcement as a signal that Muhairwe was not going to last long on the job: although this was not an unreasonable conclusion, they were wrong.

“Turning an organization around” can be defined in a number of ways, as could the “start” of the 100 days. Although the MD was in a position to set the parameters defining success, he knew that public perceptions would ultimately determine whether NWSC had met the terms of his brash announcement. The audience for such a statement by a new CEO of a private firm would be those directly affected by potential changes in organizational structure, strategy, and performance: investors and staff. Residual rewards would accrue to a very narrow set of stakeholders. Of course, customers and suppliers have an interest in the expansion or contraction of the firm, prices, and service quality, but (in competitive markets) they have options.

As a publicly owned monopoly charged with providing an essential service in one of Africa’s least developed countries, the NWSC was in the public eye. Stakeholders included government ministries, political leaders of urban towns, national and multilateral organizations, current customers, and those not receiving service because of limited investments. The first person the new MD met with to market the 100-day idea was the board chairman who expressed surprise at the promise, but who backed him. After obtaining approval from the entire board for a “100-day program,” the MD had to bring senior managers and area managers into the loop. So the announcement was followed by a series of meetings. The new MD

worked hard to convince the organization's management and staff that it was possible to avoid the looming financial and managerial crisis. From the start, obtaining buy-in from employees was absolutely critical and involved hours of formal and informal meetings with different groups.

A family is like the forest. If you are outside, it is dense;

If you are inside, you see that each tree has its own place.

(Akan, Ghana)

Partners: Early on, the new MD needed to acquire allies, including his main competitor for the job—Dr. Wana Etyem⁷. Fortunately, Dr. Etyem was able and willing to share his views on which problems required immediate attention. Similar meetings with top managers helped sort out issues. The MD did not pretend to know the details of the business; rather, he engaged staff in conversations, partly to learn and partly to convey a sense of urgency regarding the need for organizational change. Had these early discussions failed to be catalysts for creating new corporate culture, the reform would have failed. Encouraging the sharing of ideas and establishing teams to develop initiatives became the basis for a sequence of programs designed to improve performance.

2. Establish Baselines

Lack of knowledge is darker than night.

(Hausa, Nigeria)

Processing Information: Poorly performing organizations are likely to have poor information systems. There may, or may not, be ample historical data, but systematic collection and analysis is required if managers are to get a handle on the firm's financial drivers. Assembling

⁷ Dr. Wana Etyem had been with NWSC for over 10 years as a senior manager (number two to the predecessor MD). By the time the interviews for a permanent MD were completed, he had been acting in that capacity for about six months.

basic financial ratios provides a starting point, but numbers for similar firms must also be identified for benchmarking purposes. Of course, managers of poorly performing firms often will seek comparables that are even weaker—assuming that the fundamental data have been collected, corrected, audited, and evaluated. Sometimes an external consultant can be the catalyst for establishing baselines, but that assumes that those managers responsible for current performance are willing to see that performance documented. In this case, the MD engaged managers and staff, including those who were marginalized by the previous management. Groups performed detailed SWOT analyses for their areas of responsibility, yielding insights into the organizational processes and production technologies. This step was among those that enhanced informational flows in NWSC during the initial stages designing the 100-day program.

Make a new arrow by comparing it to the old one.

(Akan)

Peer Expertise: Initial conditions provide a starting point, but a leader's job is to create an organization that is open to new approaches. Parallel to collecting “hard” data regarding past performance, the MD tried to develop a consensus among top managers regarding the consequences of a status quo scenario. The situation was basically unsustainable. Those closest to the problems understood some of the sources of weak performance and had ideas for changing procedures and organizational structures. These professionals knew that they had a stake in turning around performance and were able to suggest strategies for improving performance. When their strategies were accepted and became company policy, they were willing to implement “their” suggestions—even when the changes required greater effort and changes in responsibilities. By including them in task forces, they became resources for

managing change: they documented past performance and were in a position to compare it to new performance.

He who begins a conversation, does not foresee the end.

(Mauritania)

Pride: Managers are both participants in a search process, as well as spokespersons for the organization. Before announcing the specifics of the 100-day process, the MD had brought key professional staff in his camp. These professionals had been delegated new responsibilities and they took pride in their contributions. The resulting sense of satisfaction reinforced the growing confidence staff had in the process. The MD could not have foreseen the specifics of the resulting programs, but he knew that the process had to begin with a re-commitment to excellence. Most importantly, the process had to include those who would be implementing the strategies—those closest to the problems.

3. Select Measurable Goals

You cannot throw one thing while you are holding many things.

(Rundi, Burundi)

Prospects: Resource limitations have a way of constraining organizations. Top managers have limited attention spans and information-processing capabilities. So it is important to decide early on what the targets will be and how success will be measured. To some extent, those closest to the problems may not be aware of possible solutions: they may be wearing blinders that limit their sense of what is possible. We know that people cannot manage what they cannot measure. However, everything is not of equal importance, and the costs of data collection become a drain on time that should be spent on analysis. NWSC leaders knew that when organizations attempt to measure everything, the managers end up understanding very

little. Consequently, NWSC formulated only a few priority indicators relating to financial improvement, operational efficiency, and staff productivity. The selection of indices reflected the performance situation at that time. Of course, measuring what matters requires consensus on priorities.

An astute undertaking requires two persons.

(Rundi, Burundi)

Priorities: Organizations are complex systems whose components must mesh well if the organization is to be successful.⁸ Agreement on short-term objectives involved many discussions within NWSC. If one person had dominated the planning and decision-making process, the resulting priorities would have reflected that person's desires. However, successful organizational transformation requires agreement on metrics, targets, schedules, and responsibilities—affected parties needed to be part of the process. Furthermore, team processes not only stimulate creative thinking, they also facilitate more comprehensive critiques of ideas, so alternatives can be winnowed down to the those most likely to be cost-effective and to have high impact. The new MD knew that no significant progress could be achieved without the participation and inclusion of ideas from various managers: all ideas were put on the table without prejudice. During the first month of the 100-day program, most managerial attention was devoted to establishing priorities and devising action plans.

The one who visits you is better than the one who sends you greetings.

(Swahili proverb from East Africa)

⁸ State-owned enterprises (SOEs) can have complex objective functions: the “bottom line” is just one performance indicator; see Moore (1995). For a survey of SOEs and privatization, see Megginson and Nutter (2001).

Public Relations: Contact matters. The NWSC adopted the phrase, “The customer is king and is the reason we exist” to symbolize the importance of good relations with customers. Early on, the teams identified poor public perceptions as a substantial hurdle that affected payments, water theft, and relationships with local governmental officials. Improving public relations became the responsibility of all managers and staff that came in contact with customers. The 100-day program included a PR component—not as a campaign to convince customers that service was good (for it was not) — but as a commitment to improving performance. Subsequently, the NWSC remodeled front offices for customer convenience, began staff training, and monitored staff interactions with the public. In addition, NWSC introduced easy payment systems and rebates on high bills and began issuing press releases that kept performance improvements in the public eye.

4. Design Internal Incentives

Better a single decision-maker than a thousand advisors.

(Ethiopia)

Paradigms--Autonomy: Designing incentives involves making employees responsible for outcomes, delegating authority, providing information and resources, and ensuring accountability. Although the MD had ultimate responsibility for ensuring that performance improved, he could not do it alone. The trick was to empower decision-makers throughout the organization: managers responsible for delivering high performance. Identifying an individual’s responsibilities and holding him or her accountable is the central problem facing top managers. Thus, NWSC focused on delegating authority to those with information and

designing incentives that induced managers to meet reasonable goals. However, caution was needed, since autonomy can also be used for personal gain. Without creating a climate of suspicion, managers shared information (in formal and informal settings) to determine whether managerial autonomy was being used appropriately. Historically, abuse of office was accepted since salaries of state-owned enterprises were low relative to corresponding responsibilities. NWSC adopted the following: “strategic oversight means keeping your eyes on but your hands off.” Clearly, a case by case approach to intervention was necessary.

A person who is used to bad behavior, push him away: he will contaminate you.

(Sumbwa Proverb, Western Tanzania)

Performance Evaluations: In groups, individual performance can be difficult to identify. There is a strong potential for social loafing by persons who have the tendency to exert less effort in a group. Social loafing can impact work-group effectiveness. This occurs because all individual performances are sometimes given equal recognition in a group; in particular, the low performing individuals are also rewarded, thus de-motivating the high-performing individuals. Some staff asked questions during the Stretch-out Program⁹: Did all staff deserve to be part of the group success and to share the bonuses and rewards equally? For example, the MD spoke with one member of the staff who complained bitterly that despite his hard work, he was treated at par with his more sluggish colleagues. Managers can reduce or eliminate social loafing in an organization by making individual contributions to a group identifiable so that individual performance can be evaluated and appropriate outcomes delivered and rewarded.

⁹NWSC introduced a “Stretch-Out” program as a management initiative in 2002—setting high targets. The initiative emphasized reduction of bureaucracy; increase in speed of work, simplicity, and confidence; reduction of the “boss” element; worker participation; and use of performance targets that required substantial effort to achieve. Under the Stretch-Out initiative, NWSC gave rewards for improved performance.

If you offend, ask for pardon; if offended, forgive.

(Ethiopia)

Pardons: One early theme was that there would be a general amnesty for workers who had not been doing their work diligently and for consumers who had illegal connections or were not paying their bills. Rather than starting with punishments, NWSC decided to create a clean slate. However, from that point onwards, the consequences of staff misbehavior would be severe. On the customer side, there was greater leniency. After all, the organization existed for the customers' sake; if, after years of poor service, bills were not paid, it was up to the local area managers to improve collections. It was better to talk to customers and find the source of problems, to work out payment arrangements, and to keep families on the system. The incremental cost of serving a customer already on the network was very low, so the challenge was to be helpful and not to punish people who might have found themselves in difficult financial circumstances. Forgiveness (and diligence) did improve collections.

We will water the thorn for the sake of the rose.

(Kanem Proverb)

Payables: Disconnection for non-payment was seen as a double punishment for NWSC: the corporation would lose revenue (the account is not billed because it is disconnected), and errant customers would simply reconnect themselves illegally since they knew that some local managers and staff were disorganized and would not bother to check. After the initial reforms, avoiding disconnections became company policy. Local managers knew that they had to apply

effort towards bill collections. Company policy emphasized providing good service first, without resorting to cutting off consumers. Better to provide service (at low incremental cost), maintain good customer relations, and introduce flexibility in the terms and conditions of payments.

A little subtleness is better than a lot of force.

(Democratic Republic of the Congo)

Prizes: It is amazing what people will do for recognition. NWSC established awards for meeting targets. The concept of prizes is hardly new, but it tapped into the competitive mindsets of many managers: high performance became equated to “victory” over rival managers—those responsible for other towns. In NWSC, trophies introduced a form of yardstick (comparative) competition among managerial teams of local water monopolies. Top management organized regular performance evaluation workshops; using certain sets of agreed-upon criteria, winners and laggards were determined and announced at awards ceremonies. NWSC invited important public figures to participate and publicized the achievements of winning towns. Those who did not win in a particular month were challenged to do better. Visible public recognition has been a performance driver in NWSC since the early days of the reform initiative in 1998.

No one can perform a celebration by himself.

(Kuria Proverb, Northwest Tanzania and Southwestern Kenya)

Parties: Early on, when areas competed with one another for prizes, part of the reward involved parties where everyone celebrated improved performance. Local area managers

publicly acknowledged the contributions of all the team members—managers and staff. The celebration was not for an individual's accomplishment, but for team performance. These occasions served as reunions, promoting a sense of belonging to the same family—where siblings may compete, but everyone celebrates accomplishments. NWSC's top leadership used the occasions to underscore important strategic directions. Representatives of the media attended, helping to inform the public about initiatives undertaken to improve service delivery. Invited politicians also used the same events to associate themselves with improvements in the delivery of basic infrastructure services. The MD understood that goodwill created at these gatherings could be useful in the future.

He who cannot dance will say: "The drum is bad."

(Ashanti)

Persuasion: When teams from different towns did not meet targets, The MD did not accept excuses. Rather, (in private) the issue became—What tools do you need to strengthen your team? Are you really the one capable of leading your group? Managers continued to be constantly reminded, through periodic score cards printed in monthly/quarterly magazines and other feedback mechanisms, that their leadership efforts had impacts on financial rewards received by staff. More recently, NWSC introduced periodic competitions for managerial responsibility. The competitions are based on business plans (both strategic and targets) submitted to review committees. Incumbent managers understand that if they do not perform well, they will be replaced in a transparent process. Performance laggards are also encouraged to exchange information and learn from their colleagues who are doing well in certain aspects of operations. The oversight arm of NWSC encourages this process benchmarking among local

managers; advice need not be followed, but performance targets must be met. The process promotes the cross-pollenization of ideas and leads to innovations diffusing across the organization more rapidly than would otherwise be the case.

5. Establish Lines of Communication

*If you want someone more knowledgeable than yourself to identify a bird,
you do not first remove the feathers.*

(African Proverb)

Problem-solving: Internally, NWSC developed a program design outlining clear roles and responsibilities, including bottom-up approaches to strengthen program ownership and support. These SMART (Specific, Measurable, Achievable, Realistic, and Timely) targets were later strengthened through the use of “stretched” (tougher) targets (reflecting the Stretch Out Program). As has been noted already, NWSC then introduced competition for managerial responsibility through business plan preparation and expressions of interest. Although incumbent managers had information advantages, the process forced incumbents to review their current processes and personnel. Their “competitors” gained experience in preparing plans and budgets. Furthermore, some switches alerted all managers that NWSC expected its professionals to deliver innovative programs. In addition, NWSC instituted strong incentive systems and equitable gain-sharing plans to minimize employee shirking tendencies. As the organization’s leaders gained a handle on past trends and baselines across the eight to ten local distribution companies, they were able to develop tailor-made monitoring and evaluation (M&E) arrangements and benchmarking activities. The challenges associated with Kampala,

the national capital, resulted in dividing the larger territory into sub-regions, facilitating benchmark comparisons within the largest utility.

Having a good discussion is like having riches.

(Kenya)

Political Insulation: One-sided discussions are not productive. Potential political interference had hampered NWSC prior to 1998. Now, the corporation enjoyed significant government support, which resulted in a debt freeze and non-interference with the corporation's management. Being somewhat insulated¹⁰ from political pressures meant that managers could focus on commercial issues in the early years of reform. Instead of fending off powerful political leaders who sought jobs for relatives or network expansion for their narrow constituencies, managers could devote their scarce resources to more productive activities. At the same time, donor support in the form of financial and technical assistance added to the capabilities of the organization. The donors also desired clarity in governance and improved accountability; they urged the government to let NWSC operate autonomously. Once the NWSC started showing positive performance results, key government officials (including the president) gave the corporation scope for further innovation since improved performance was seen as a way to reduce what would otherwise be a significant burden on the central treasury. Discussions were not necessarily easy, but they were balanced. Ultimately, growing customer and public confidence in NWSC performance initiatives turned out to be another external

¹⁰ Through a series of performance contracts with the government of Uganda, roles and obligations were clearly defined, leading to significant non-interference from government. Ehrhardt et. al. (2007) describe the situation as one of regulation by contract, which has been successful in Cote d' Ivoire, the Czech Republic, Senegal, and Vanuatu. These cases represented improvements over an earlier generation of infrastructure contracts that had less success (Shirley and Xu, 1998).

factor that motivated staff to innovate further. Pride based on genuine accomplishments gave confidence to mid-level managers that they were on the right track.

Being an eyewitness is better than listening to tattle-tales.

(Sumbwa Proverb, Western Tanzania)

Presentations—Demonstrations: There is nothing like direct observation for identifying what is happening within an organization. The MD and top managers brought outsiders to meet with staff, to see how people were addressing issues. Such events were powerful confidence building activities. Many respected professionals from donor organizations, government agencies, NGOs, and other important stakeholders attended meetings to learn about NWSC initiatives and give strategic advice and guidance where necessary.¹¹ These dialogues helped to build confidence with key stakeholders and subsequently secure support for further managerial and development efforts. In tandem, the managers and staff gained confidence in what they were doing, strengthening their commitment to programs.

There is more wisdom in listening than in speaking.

(Nilotic proverb)

Production Processes—Listening: The first step in teaching another is to listen to that person. Managers from headquarters did not “ride in” to provide solutions to managers of poorly performing operations. Rather, they listened to what the local managers had to say: what was working and what was not working. “Believing is seeing.” So it was important to understand what area managers believed about the local conditions, the constraints they faced, and the quality of their staff. Then what the local managers were “seeing” could be compared

¹¹ In Uganda, about 10% of the NGOs are involved in water and sanitation (Barr, Fafchamps, and Owens 2005, p. 663). So targeting these groups was an important step in the NWSC reform process.

to what was visible elsewhere in NWSC. Benchmarking permeated the new organizational culture, but the process started with listening.

Seeing is different from being told.

(Kenya)

Production Processes—Best Practice: Local area managers shared information with one another. The monthly company magazine included “stories” of how particular water systems met their targets. Professionals from the head office met with local managers and mentored them in management techniques, purchasing, quality control, and customer relations. The monthly/quarterly company magazine also published write-ups by managers describing best-practice and techniques for solving emerging operational problems. Professionals also scanned the international benchmarking literature, identifying new processes and challenging local managers to adopt them where appropriate. This approach helped local managers move their organizations towards the efficiency frontier (improving operational effectiveness) and enabled them to engage professionals at headquarters in discussions over the strategic position of the company.

Wisdom is not like gold that it should be tied up and kept in a safe place.

(Akan)

Procedures: There was much experimentation in the early years of the reform (1998-2000). To meet targets, managers devised tactics for improving performance. Premature codification of procedures would have meant lost opportunities—as managers innovated and discovered new ways to improve performance. When NWSC’s top managers viewed the internal

procedures as “stabilizing,” the steps were then set in documents (but not deposited in a vault). Now, those procedures are being shared with other water utilities in Africa—in NWSC external consulting projects.

6. Develop and Implement Strategies

Between imitation and envy, imitation is better.

(Ekonda, Democratic Republic of Congo)

Participatory Strategies: Developing strategies involved borrowing ideas from many organizations and people. NWSC wanted to avoid the NIH (Not Invented Here) syndrome where ideas from outside the organization would face particularly steep hurdles. The staff brought numerous excellent ideas to the table—many based on their graduate training, suggestions from customers, or contacts within other organizations. NWSC evaluated every idea that came in terms of its impact on short-term objectives and long-term goals. Giving attention to all ideas gave confidence to those who generated them. It gave a sense of ownership to strategies that were eventually considered, adopted, and implemented. This participatory approach had reinforced the new corporate culture that was emerging from the organizational reforms.

If the rhythm of the drum beat changes, the dance step must adapt.

(Kossi, Burkina Fasso)

Programs: Change was inevitable. The key issue was whether staff would formally accept the new procedures (but actively fight them), passively accommodate new initiatives (without really changing attitudes), or actively affirm and support the changes. As noted earlier, the

communication process meant that staff felt a high degree of ownership of the initiatives. At the tactical level, and management teams came up with the following series of programs (ratified by the new board)¹²:

- **100-Day Program** (February-May, 1999) was a high-impact program that focused on reversing operational and financial inefficiencies.
- **Service and Revenue Enhancement Program** (August 1999-August 2000) aimed at restoring customer confidence: establishing customer service centers, conducting customer surveys to capture customer preferences, and introducing an amnesty for illegal water use.¹³
- **Area and Service Performance Contracts** (2000-2003) focused on making local service providers achieve commercial sustainability: managers had the authority to make important decisions and were accountable for outcomes.

NWSC had to improve operating margins by reducing bureaucracy, increasing staff productivity, and encouraging worker involvement. The corporation management also collaborated with the union to reduce staff by half from 1,800 in 1999 to 900 in 2001, without any industrial unrest. These programs were designed to improve morale, and to instill confidence in managers who were able to alter the expectations of operating staff. Four recent initiatives built on the initial programs:

- **Stretch-Out Program** (2002-2003) emphasized teamwork through work involvement and a reduction of the “boss-element” typical of bureaucratic organizations (especially those in Africa).

¹² This listing of programs is based on Mugisha and Berg (2008), *op. cit.* Berg (2007) provides more extensive discussion of the role of benchmark comparisons for setting targets for managers and informing other stakeholders regarding water utility performance.

¹³ The importance of citizen feedback on service quality for urban water services is discussed by Deichmann and Lall (2007).

- ***One-Minute Management Program*** (2003) created procedures for promoting individual performance accountability, a problem identified when teams were the focus of organizational development. The achievement of goals was a subject of periodic appraisals and incentive awards.
- ***Internally-Delegated Area Management Contracts*** (2006) or IDAMCs are designed to give more autonomy to area managers (partners¹⁴), define roles and responsibilities more clearly, and create better incentive plans that allocate more operating risks to partners. By passing more risks to partners, the head office is able to encourage more innovation and work commitment.
- ***Checkers System*** (2006) was introduced to rationalize monitoring and evaluation activity; the system strengthens the IDAMC implementation process, emphasizing both processes and outputs.

These programs were responses to perceived problems with organizational performance. The sequence reflected a triage approach: set aside what cannot be changed and attack the problems threatening NWSC's financial viability. The opening up of lines of communication meant that employees were expected to contribute to the design and implementation of these programs. To some extent, the programs represented campaigns that drew attention to a sequence of issues.

¹⁴ Under the IDAMCs, the head office enters into an internal non-legalistic contractual arrangement with area partners. The partners are a team of senior managers at the local water utilities, who are bound together by a Partnership Deed detailing how business shall be conducted during the period of the internal contract. The partners are headed by a lead partner, who is the accounting officer of the water utility/area. A more detailed discussion of the incentive contracts is available in Mugisha, Berg, and Muhairwe (2007). Mugabi, et. al. (2007) summarizes the performance targets for NWSC.

You learn how to cut down trees by cutting them down.

(Bateke Proverb)

Professionalism: We learn from our own experience, but it is also said that the truly intelligent learn from the experience of others as well. The MD was fortunate to have inherited a number of solid staff, some with advanced degrees. He sought ways to give people opportunities to grow in their jobs. If a person was not making a difference, then he or she was not needed, so individual assignments included an element of learning. One key task was the encouragement of continuing education. NWSC saw professional development as a key input for the turnaround process. If engineers and managers were taking university classes in related fields, the new skills and professional attitudes would permeate the organization. People with career aspirations were more likely to direct their energy toward solving problems creatively, using best-practice techniques. Team discussions made it clear that bureaucratic back-biting was not the way to get ahead in the reformed organization.

An antelope wouldn't be strong enough to carry the tusks an elephant bears.

(Nkundo-Mongo, Zaire)

Personnel Development: Each staff member had a set of skills and attitudes in 1998. Managers had to understand the strengths and limitations of each team member and develop programs to promote improved operations. NWSC gave weak staff and managers opportunities to develop their potential and asked stronger staff and managers to mentor others to enhance NWSC's performance. Insights from books and executive programs led to a wide range of approaches, including directing those who needed explicit guidance, coaching those who

responded to advice, supporting those who were highly motivated and delegating tasks to those whose capabilities matched the tasks at hand.

7. Ensure Accountability

When a needle falls into a deep well, many people will look into the well, but few will be ready to go down after it.

(Guinea)

Prospective Thinking: Accountability requires that tasks be well-defined and appropriately assigned. The outcomes are anticipated, reviewed, and evaluated.¹⁵ Today, managers are rewarded for taking risks and creating efficient ways to deliver quality service. NWSC executives attempt to practice active-listening so that circumstances behind failure are heard and evaluated in a meaningful manner. If this is not done, local managers may not take risks for fear of reprimands. Such an outcome would be counterproductive to performance improvement initiatives. NWSC incentives are such that more than a few managers will be willing (and able) to go after the “needle in the well”—high performance.

It is not possible to dodge the arrow before it has been thrown.

(Maasi)

Planning via Scenarios: Changes in circumstances cannot be predicted with precision.

Nevertheless, the potential impacts of external events need to be incorporated into the planning process. NWSC adopted an approach to planning that included short-run initiatives and

¹⁵ Nunan (2006) documented the importance of accountability in another Ugandan sector: fisheries. She found that capacity building was a crucial element in strengthening institutional performance in this sector.

flexibility that allowed the organization to adapt to changes. Short-term planning allows organizations to cope with customers' changing needs. It also enables local managers to evaluate what has been achieved and intervene in a timely manner. Once the short-term planning strategy has been embraced by top leadership, it allows for flexible budgets which can tap opportunities for growth that may not have been foreseen initially. Long-term plans are potential recipes for bureaucracy and rigidities in an organization. Emerging opportunities associated with better returns are unlikely to be identified if a long-term plan is etched in stone. However, well thought-out long-term plans complement short-term tactics by facilitating the consolidation of managerial ideas and strategies.

One falsehood spoils a thousand truths.

(Ashanti)

Promoting Integrity: NWSC made all staff members aware that if the company was to be an open system, honesty would be essential. The managers at headquarters had to be on the lookout for potential shirking (laziness) and unethical behavior throughout the organization, within the head office and at local areas. NWSC dealt harshly with staff and managers who violated principles of honesty and trust. The MD was particularly in the spotlight in this regard—both as a cheerleader for the organization and as a person who set the tone for others. However, the capacity to detect malpractice depended on effective use of both formal and informal monitoring techniques. Managers had to document reported data on inputs and performance (for example, on connections, leaks repaired, etc.). In addition, the local managers regularly met with coordinators from headquarters, providing opportunities for informal reviews. The evidence of the positive impact of the program is documented in a study

by Deininger and Mpuga (2004). Based on the Second National Integrity Survey of 2002, only 7.11 percent of the citizens found NWSC “not honest” or “highly corrupt,” placing it (along with the Central Bank at 3.46 percent) in the low level corruption group. The courts fell into the medium group (39.02 percent), while Traffic Police were perceived as the most corrupt (with 69.93 percent of the sample finding that institution highly corrupt). The Survey provides evidence that NWSC’s organizational culture successfully promoted integrity.

Even the mightiest eagle comes down to the tree tops to rest.

(Uganda)

Promoting Renewal: No one can give 100% without taking the time for restoring his or her energy. High performing organizations can wear people down. Thus, the high level of enthusiasm within NWSC meant that burn-out was a potential danger. So the organization has encouraged managers and staff to participate in extra-curricular activities that fend off fatigue and stress. The MD has even introduced subsidized subscriptions for activities like swimming for interested managers. On a regular basis, management hosts “barazzas” (group discussions on a variety of topics), renewal evaluation workshops, and “one minute praise” activities to re-energize staff. All staff and managers are also encouraged to take their annual leave periods (while avoiding operational disruptions).

8. Review Results

That which is good is never finished.

(Sukuma, Tanzania)

Perspectives: A continuing theme of the turnaround initiative has been that reform is a process, not an end in itself. The objective was to improve sector performance. As the data indicate, the transformation has been successful, but every manager knows that much more needs to be done. Satisfaction with accomplishments does not imply that new goals are unnecessary. In fact, past achievements signal that the organization has great potential for expanding the efficiency frontier. For example, the newly formed external services group serves as a consulting arm of NWSC—teaching best practice as the NWSC understands it to managers of water utilities in other nations (Tanzania, Kenya, Zambia, Ghana, and India). But a good teacher is also a good student, learning from well-performing elements in other operations. Furthermore, creative solutions to problems in other countries lead to better decisions in the home organization: win-win.

Concluding Observations

The healer does not drink medicine for the patient.

(Akan)

In the case of NWSC, the introduction of change management programs from 1998-2006 had a significant impact on performance indicators as shown below:

	<u>1998</u>	<u>2006</u>
Service Coverage	48%	70%
Unaccounted for water	51%	29%
Percent Metered	65%	99.6%
Percent Connections Active	63%	94%
New Connections/year	3,317	23,312
Total Connections	50,826	148,312

Turnover (Revenue) US\$ 11 million US\$ 34 million

In addition, water network coverage increased by 52% (1,300 Km of water main extensions; primarily from internally generated funds). Total connections are up so that 70% of the target population is now served, for a population base of 1.7 million people (2006). Unaccounted for water is 34% for Kampala while other areas are now at 15%. Because of this performance, operating profit after depreciation has improved from losses of US\$ 0.4 million to a surplus of US\$ 3 million. Positive cash flows have financed network expansion and enabled maintenance programs to be scheduled and implemented.

Despite the accomplishments, NWSC still faces challenges in the area of sewerage where the coverage is only about 10%. The sewerage investment costs are inherently very high and the company is currently finding it hard to devote resources to such investments, given the payoffs to other uses of those funds. Therefore, achieving the Millennium Development Goals in the area of sanitation remains a distant goal. NWSC has problems serving poor communities where cost recovery is questionable. The infrastructure in such communities is very poorly planned and extending services to such areas involves significant difficulties (Sansome, 2006). Nevertheless, the organization continues to explore cost-effective ways to carry out this task, given public policy objectives.

Top management at NWSC is now considering how to ensure that past programs can become fully embedded in the new corporate culture. They are diagnosing the company's current financial performance and team development to determine what action programs will support and extend past gains. If the financial performance and teamwork among managers and staff are high, the company can move into more complex internal contracting arrangements incorporating individual and group commitment plans. While implementing these performance

improvement plans, managers ought to know how to deal with (previously undetected) internal managerial rigidities and inflexibilities that might hamper performance. Finally, realities about moving towards the cost recovery frontier need to be addressed. Few water and sewerage companies have achieved this performance level in developing countries. The movement towards full cost-recovery needs to be sequenced to minimize adverse effects on the citizens. Targeted subsidies/grants can be used to help those whose ability to pay is low. However, for infrastructure firms imbued with the public interest, discussions within civil society need to occur, so citizens become educated about the issues, feasible objectives are established, and political leaders are held accountable for the promises made at election time.

Institutional endowments constrain organizations. But these endowments can change over time, under the right conditions. Good stewardship requires leaders to recognize and apply the eight steps supporting high performance organizations. As Grindle noted a decade ago, reform initiatives should focus on what have been labeled the “. . . social reward systems that make it possible for government agencies to tap the creativity, sense of duty, and public-spiritedness of their workers.” ((DiIulio, 1994, p. 315). The examples and illustrative Proverbs used here come from Africa: however, the lessons for improving the performance of SOEs are universal.

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