

DECISION MAKING AND TECHNICAL ASSISTANCE IN PUBLIC INSTITUTIONS IN LDCs

Thomas M. Dickey  
Department of Economics  
Colorado State University  
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INTRODUCTION

Decision making in organizations may be characterized as occurring in situations of uncertainty. Each individual within the organization has a set of alternative courses of action that are open to him, but the outcomes that may result from any given action depends on the action taken by the other members of the organization. Uncertainty about the outcome of an individual's decision results from the chain of events (decisions by others) that will necessarily follow.

In this analysis, I will explore the decision making process in organizations, with hypothetical examples from an Agricultural Development Bank. In the context of economic development, the conflicts between individual versus group benefit and short versus long run benefit are of particular importance. An understanding of how the systems of incentives and disincentives for individual action affect the development and effectiveness of an organization will be extremely useful for anyone in the role of a technical adviser in public institutions in the less developed countries (LDCs).

DECISIONS UNDER SIMPLE UNCERTAINTY\*

Assume that John is a bright young M.S. graduate from an american university that has returned to his country to work in the Agricultural Bank. Being young and idealistic, he really wants to do something to improve the plight of the small farmers. He finds that the Bank has long functioned on the basis of tradition, politically motivated decisions and brush-fire decisions that tend to create more brush fires. As a first step, he considers whether or not to recommend that the Bank require the clients that have a problem with their crop to apply for an extension of the due date when the problem first occurs, rather than on or after the due date, so that the Bank can verify that the problem was beyond his control before such verification becomes impossible. He hopes that this action would improve the chronic repayment problem of the Bank. He considers his alternatives and the possible actions by Mike, the Bank's Manager, as follows:

Possible Actions by John  
J1: do not recommend change  
J2: do recommend the change

Possible Actions by Mike  
M1: reject the proposed change  
M2: institute proposed change

\* See: Mack, Ruth P., Planning on Uncertainty: Decision Making in Business and Government Administration, New York:Wiley Interscience, 1971.

Even though John is convinced that the change would be good for the Bank and for the majority of the Bank's honest clients, he must consider what the alternative outcomes can mean for his own position in the Bank. He therefore places arbitrary values on each of the possible outcomes, using a scale from -10 to +10. He places these values in a payoff matrix.

<u>Payoff Matrix</u>		
	<u>M1</u>	<u>M2</u>
J1:	+3	+3
J2:	-6	+8

His reasoning for each case is as follows:

J1-M1 and J1-M2 (do not recommend): Mike has plenty of problems and John thinks that Mike might be bothered by having to consider this.

J2-M1 (recommend-rejected): Mike considers the proposal as a new problem and he may learn to expect John to create more problems.

J2-M2 (recommend-accepted): Mike does not consider the proposal as a new problem and he learns to expect John to provide good ideas.

Since John is a relative newcomer to the Bank, he does not yet know whether Mike is motivated more by his political aspirations or by his expressed concern for the small farmer clients of the Bank. As a wild guess, John places a probability of 50% on each of Mike's alternative actions. This leads to John's computation of the expected value (EV) of each of the possible courses of action.

<u>Expected Values of the Outcomes</u>			
	<u>M1(.5)</u>	<u>M2(.5)</u>	<u>E(V)</u>
J1:	+1.5	+1.5	+3.0
J2:	-3.0	+4.0	+1.0

John decides to look around for something else to recommend.

After watching Mike for another month, John reassesses the values he had placed on the outcomes by lowering the J1 outcomes from +3 to +1 because he has observed Mike reject proposals by others without getting bothered by having to consider them. For the same reason, he changes the J2-M1 outcome from -6 to -3, but he leaves J2-M2 at +8. The following matrices now exist.

<u>Payoff Matrix</u>			<u>Expected Values of the Outcomes</u>		
	<u>M1</u>	<u>M2</u>	<u>M1(.5)</u>	<u>M2(.5)</u>	<u>E(V)</u>
J1:	+1	+1	+0.5	+0.5	+1.0
J2:	-3	+8	-1.5	+4.0	+2.5

John now decides to take the action to recommend the change in policy.

#### COMPLICATION #1: STRENGTH OF LEADERSHIP

Let us now assume that John must present the proposal to a meeting of the Executive Committee. This committee is composed of the Manager and all of the Department Heads. It is an advisory body because Mike still makes the final decision.

Case 1-A: Extremely Strong Leadership

When Mike exercises extremely strong leadership, the individual department heads may argue their views openly and directly, but once Mike makes his decision, they will not take any counteractions to sabotage either the decision or the work of any of their colleagues. Under this situation, the debate tends to be restricted to the analysis of the pros and cons of the proposal in terms of the commonly held objectives -- be they serving the Bank's clients or achieving political gain. Thus, John does not have to reevaluate his analysis in this case.

Case 1-B: Moderately Strong Leadership

If Mike exercises leadership that is only moderately strong, the department heads are capable of carrying out counteractions that can sabotage each other's positions or work. (It should be remembered that the strength of leadership is directly associated with the degree to which each person's objectives coincide with those of the others.)

As an example, let us assume that Allen, the Head of Credit Operations, will invent arguments against the change in policy because he anticipates complaints and problems from the credit agents, the Branch Office Managers and (especially) the clients that have always counted on being able to get an extension whenever they wanted one. On the other hand, Bob, the Head of Collections, is in favor of the change but he does not consider the change to be as good as his idea of hiring more lawyers to press the bad debts in court. Bob will express support for John because he does not now expect to get his new lawyers.

For the sake of simplicity, let us assume that the counteractions by Allen and Bob are entirely dependent upon the decision that Mike will make. John now prepares the following matrices.

Payoff Matrix		Expected Values of the Outcomes		
M1A1B1	M2A2B2	M1A1B1(.5)	M2A2B2(.5)	E(V)
J1: +1+0+0 = +1	+1+0+0 = +1	J1: +0.5	+0.5	+1.0
J2: -3-2+1 = -4	+8-4+3 = +7	J2: -2.0	+3.5	+1.5

John decides to present his proposal.

Case 1-C: Relatively Weak Leadership

When Mike's leadership is relatively weak, Mike is likely to be subject to counteractions that can sabotage the implementation of his decisions, or worse yet, his own position as Manager. This situation affects John's analysis in two ways. First, the values of the outcomes for John of Mike's decision are altered. Secondly, the probabilities associated with Mike's alternative decisions are altered. John adjusts the values of the J2-M2A2B2 outcome from +8 to +7 since Mike can expect Allen to take some counteraction if he institutes the change. For the same reason, he readjusts the probabilities associated with Mike's alternatives from 50% each to 60% for rejection and 40% for acceptance. He now has the following matrices.

Payoff Matrix		Expected Values of the Outcomes			
	M1A1B1	M2A2B2	M1A1B1(.6)	M2A2B2(.4)	E(V)
J1:	+1+0+0 = +1	+1+0+0 = +1	+0.6	+0.4	+1.0
J2:	-3-2+1 = -4	+7-4+3 = +6	-2.4	+2.4	0.0

John now starts to look for a proposal that is more likely to meet with the approval of all three.

#### A Methodological Note

When the counteractions by Allen and Bob are not entirely dependent upon Mike's decision, John would have to restructure the matrices in order to specify sets of alternative outcomes for each possible set of counteractions by Allen and Bob, depending partially on Mike's decision, and to incorporate the conditional probabilities associated with each of the alternative courses of action by each of the three.

#### COMPLICATION #2: THE PETER PRINCIPLE

The Peter Principle states that people tend to rise to one level above the level of which they are capable of performing well. This complicates John's analysis in several ways. First, the set of counteractions is no longer a closed set. Thus, the values of the outcomes in each cell of the payoff matrix cannot be predicted with as much reliability. Secondly, the assignment of the probabilities associated with each of Mike's decisions is more difficult.

In short, we have introduced the possibility of irrational actions by any of the department heads that have risen above their capability, or even by Mike.

#### COMPLICATION #3: EMPTY PROMISES OF SUPPORT OR ACTION

Our young, enthusiastic and idealistic John has not yet been hardened by working in a bureaucratic organization. Throughout his school years, his friends, relatives and teachers have always been honest and kept their promises. During his first months and years, John finds that he has been misjudging the older hands in the Bank. When he made his proposals for change on the basis of support expressed by the other department heads, he found that when the meetings were held and the proposals discussed, the others had not provided the promised support (or at least to the degree that he had expected to be forthcoming). On several occasions, John had taken his memoranda to Allen and Bob and explained what he was proposing. Nevertheless, it was obvious to him during the meetings that neither Allen nor Bob had really read or analyzed his memoranda. When questioned afterwards, they always admitted that they had not really analyzed them because they had been too busy dealing with the stream of daily crises (brush-fires) that always exist.

## LESSONS FOR THE TECHNICAL ADVISER

The hypothetical examples used to illustrate the decision making process in an organization like the agricultural development bank may also be categorized and evaluated for their implications for the organization and for a foreign technical adviser assigned to it.

### The Short Run Obstacles to Long Run Change

#### 1. Crisis Management

Beneficial and systematic changes in the operating systems of an organization require a long period of designing, planning, consultation approval, and finally a transition period for its implementation. One would hope that such tasks would be undertaken by capable and visionary analysts. Nevertheless, most governmental organization in the LDCs suffer from a shortage of people with these qualifications. Those that are available are normally in positions that require them to manage the daily crises that inevitable arise under an operating system that is in need of change. The operating systems can best be described as a series of patches upon patches upon a long ago obsolete system. The managers, not all of whom are capable at their positions, must resolve today's crisis with yet another patch that will usually be the cause of next month's crisis. The practice of crisis management becomes a vicious circle -- they can't find the time to redesign the system that causes the crises.

#### 2. Strength of Leadership

Individual strength of leadership is an amazing quality. It is the fertilizer that makes an organization prosper and bloom. Without it, the organization usually survives, but that survival is not a rewarding one. The more capable people are the ones that can move to greener pastures, leaving behind the less capable people. The ones that do remain tend to produce less than they are capable of producing. They will revert to doing routine tasks that involve no risk, even though they see no good in them. It is for this reason that a new Manager that is a strong leader can increase the productivity of the existing staff, just with the force of his leadership. If the new Manager also brings with him a few strong leaders to be his department heads, an even greater increase in productivity can be achieved.

The converse is also true. A new Manager with relatively weak leadership can bring about significant losses of productivity in the staff of an organization.

#### 3. The Influence of Party Politics

In most of the Latin American countries, governmental decision making and finances are highly centralized. If a small town wants a new street, for example, it must get the approval and funds from the President of the country. This centralization is used to great advantage by the party in power, be it civilian or military. Therefore, virtually all of the ministries and institutions make politically motivated decisions. The direct consequences are: (1) even less time is available for designing long run changes, and (2) the rules and regulations that could be simple and general are, instead,

more complex and full of specific exceptions, thereby exacerbating the management of crises.

A second effect is the appointment of supporters and relatives to government jobs. Although some of these appointments place people in positions for which they are qualified, more often than not, they place people in positions that are several levels beyond their capabilities.

The effects of party influences are by no means limited to these two.

#### The Individual Disincentives that Block Group Benefit.

By placing a high value for John of the J2-M2 (recommend-accepted) outcome, we were assuming that an effective employee would be rewarded with promotions of responsibility, importance and salary. Such positive incentives exist, but only for a small minority of the employees. Most of the employees perceive few rewards for recommending improvements, with the result that they stick to the routine tasks that have been proven to be low in risk.

On the other hand, the disincentives are many. John found that the crisis management system, the weak leadership, the Peter Principle and the empty promises of support frustrated his most inspired ideas. We have also noted the possibility that political appointments can have worse results than the Peter Principle by itself and that politically motivated decisions further complicate the operating rules and regulations and therefore the crisis management system. The examples also illustrate the direct relationship between strength of leadership and simple bureaucratic infighting of the non-political type. All of these factors lead to a hardening of our capable and enthusiastic John.

After his initial period of frustration, John has several options. He can seek a job in the private sector if he is not obligated to the government that paid his scholarship. He can seek a job in a different government institution, but he may need a "godfather" to get into a more dynamic one. Finally, he can resign himself to remaining where he is in hopes that the next Manager is better, but he will probably stop making waves and start doing the routine tasks. If in five or ten years a dynamic Manager does not appear on the scene, his enthusiasm may die, never to be revived.

#### TWO CONCLUDING NOTES

Most of these problems are interrelated and feed on each other. However, the one with the greatest possibility of turning a bad situation around is the strength of leadership. A strong leader may be able to revive dormant dynamism and resist some of the political pressures from above. However, it is a difficult task and there is usually a scarcity of strong leaders.

Foreign technical advisers that are designing projects that include an element of assistance in general institution management should assess the degree to which these problems exist in the target institution. Once the project is in progress, the adviser must determine the best approaches to be followed in gaining real acceptance of his proposals, in much the same way that any employee of the organization must do. To do this with a degree of success, the adviser needs to get to know the organization and the personalities involved, and this requires an understanding of the culture and language.