

VIEWPOINT

Building Institutions: Lessons of Experience¹**Samuel Paul**

Why do some institutions thrive while others perish? Are there tested recipes that can help us build and sustain well performing institutions in our country? These are questions that occur to many a thoughtful manager and scholar. We may all have our own explanations of why institutions survive in some settings, and not in others. By and large, while we can narrate stories about good and bad institutions, there is as yet no well developed general theory about institution building and survival.

At the macro level, interest in the role of institutions in economic development has grown in recent years for several reasons. Governments and donor agencies have learnt that investment of capital alone does not result in positive economic and social outcomes. Nor can these outcomes be achieved by leaving everything to be decided by the market. The market system's strength is in coordinating activities through price signals. But there are many development problems that cannot be solved through the use of prices. The much adored market mechanism, for example, is not an option when public goods have to be created and externalities exist. Market failure may occur under many such conditions including when asymmetry of information prevails. Law and order, defence, public health, etc. are sectors where the desired outcomes will be achieved only through organizational interventions such as strategies, rules and enforcement mechanisms. Coordination through institutional devices rather than through the market mechanism is the right way to deal with many human and collective action problems. Even a business enterprise will function well only when a leader coordinates multiple activities. The functioning of the market itself calls for effective regulatory institutions. A market economy will function satisfactorily only when strong and well performing institutions are present.

In both the firm and the state, therefore, institutional arrangements and mechanisms play important roles. Both have participants who make certain contributions (e.g. workers who produce goods or sell them), and leaders who coordinate and monitor the processes and outcomes of the organizations. It is through a set of rules, norms of conduct, and organizational culture that leaders attempt to achieve their objectives. When direct monitoring is difficult or complex, trust and commitment often act as substitutes. Institutional arrangements refer to these rules, norms of conduct, culture and trust that hold an organisation together. The range and complexity of this package can vary widely.

The Post-1991 reforms experience can be used to illustrate these points. Reforms such as removal of licensing and exchange rate controls were relatively easy as they could be accomplished through executive orders and amendment of laws. Firms responded to these reforms without any other intensive institutional interventions. Other reforms such as infrastructure building and promotion of

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education and health have been more difficult as they involve multiple and complex institutions at different levels. Ensuring that organizations work together effectively and efficiently is not easy, especially when there is no private gain or incentive.

Let me now share with you a couple of recent cases of institutional failure that all of us have seen with our own eyes. The first is the shameful fiasco of the Commonwealth Games. It is a textbook example of how institutional failure can occur when no one is in charge. Here is a case where resources, clear objectives and urgency were not lacking. Yet the institutional system responsible for the given tasks was unable to deliver the desired outcome in time. The system components did not come together and the required oversight was simply missing. There was no leadership that claimed full responsibility to manage and orchestrate the complex organizations involved and get them to deliver on time.

Similarly, soon after the Ayodhya judicial verdict in Lucknow, there was a press conference at the Media Centre that showed what the absence of institutional arrangements can do. A press conference needs a moderator who ensures some order and gets the participants to do their part in sequence. The audience is then given a chance to ask questions of the speakers. But in Lucknow, we saw how a bunch of lawyers came out of the Court, grabbed the mikes and started speaking simultaneously. There was no moderator in sight nor could anyone hear what was being said. It was an example of the utter failure of planning, coordination and orderliness displayed for all the world to see that involved only a simple activity. Do we need more evidence to see why our public institutions function so poorly?

Many books have been written on what lies behind the success and growth of business organizations. Phenomena such as market competition, new technologies, and quality of leadership, are some of the factors some scholars have attributed to the differential performance of business enterprises. Others have highlighted the role of astute corporate strategies, and the ability to adapt organizational structures to changed contexts as the key determinants. Prescribing a "mantra" for institutional success, however, has not been easy.

In a comparative study of six successful development programmes from different countries, I have shown that their secret of success could be traced to the "good fit" of their strategy, structure and processes. The detailed arguments and evidence can be found in my book, *Managing Development Programs: The Lessons of Success* (Westview Press, 1983). One of the cases I studied was India's dairy development programme, widely noted for its success. I have argued in this book that much of leadership is about coordinating and orchestrating the convergence of these three key variables in the organization.

Education is a key sector of the economy that depends heavily on a variety of institutions. Governments guide and decide on policies, but the provision of education calls for numerous organizations that act as service providers on the ground. For these organizations to function well, regulatory institutions need to be put in place. This responsibility is usually performed by governments or bodies created by the service providers themselves. Although service providers such as schools or colleges compete among themselves, the quality of their performance depends a great deal on the health of their organizations and the accountability enforced by the regulatory system and civil society.

In the field of education, we have examples of institutions which have survived and performed well for centuries. Oxford, Cambridge, Harvard, etc. are universities that still maintain high standards and are in great demand. In India, many of our universities that are just a hundred years old have deteriorated and are not held in high esteem. It is not uncommon to see institutions declining soon after the departure of their founders or early leaders. External factors or unexpected crises may explain some of these failures. No institution, however, has control over such events. The question still remains, what are the factors behind the success of some institutions and the failure of others?

Though contextual differences matter a great deal in institutional survival and growth, the underlying factors can be best brought out by taking examples of successful institutions. One case in which I had the privilege of participating in the early development of IIM Ahmedabad (IIMA). Most observers would agree that IIMA continues to be regarded as a leader among its class of educational institutions. Its survival, growth and performance over the last 50 years make it a fit subject for a systematic study of the factors that contributed to its success. I have not made a thorough study of how IIMA has been sustained over the past 50 years. I suspect, however, that it has something to do with how its foundations were laid.

The pillars of institution building that created a solid foundation for the development of IIMA were fivefold:

- **Leadership:** The early leaders of IIMA crafted a strategy that created a shared vision among the stakeholders, and that paid attention to the design and implementation of the programmes to be launched. I consider Dr. Vikram Sarabhai and Shri Kasturbhai Lalbhai as the major contributors to the process of crafting the original strategy. Though the original government plan was to set up one of the two proposed IIMs in Mumbai, these two leaders managed to pull the new Institute to Ahmedabad. They mobilized the financial support of leading industrialists of Ahmedabad, and successfully negotiated with the Government of India (GOI) to locate the Institute in their city. That the business and government leaders of Mumbai were less organized and late in responding to the GOI plans for the IIMs helped their cause. Dr. Sarabhai also won the support of the Ford Foundation and Harvard Business School for the new project. It is an early example of a public-private partnership in India. During this initial period, Dr. Sarabhai acted as the honorary director of the new IIM, a role that enabled him to pay close attention to both strategic and operational decisions pertinent to institution building. Plans for the launch of the flagship programme, the two year PGP and the 3-Tier Management Development Programme were also designed under his watch. Professor Ravi Mathai, who succeeded him as the first full time director, ably built on this foundation and deepened and refined the strategy.
- **The strategic role of collaboration:** The technical partner's (Harvard Business School) role in faculty development and its sharp focus on long term institution building constituted the second pillar of IIMA's development. HBS's role went far beyond the conventional notions of technical collaboration. The flagship programmes of IIMA were patterned after the HBS model. There was a Harvard team on the campus that jointly taught courses and conducted

field research and writing with the young Indian faculty. This, however, was only one of the contributions of HBS. More important were the role that the HBS team played in faculty orientation and development in the early years through structured courses at Harvard, and the hands on advice and assistance it provided for the management of the Institute, on aspects such as administrative practices, academic autonomy, and the values and norms that should govern its operations. Though the formal collaboration ended after five years, IIMA continued to draw upon HBS for faculty development, faculty exchanges and teaching materials for several more years.

- **GOI's autonomy enhancing role:** Senior officials in the Ministry of Education and the Planning Commission played a key role in ensuring that a governance system is put in place that balanced the duties and responsibilities of the key stakeholders. GOI agreed to a fair measure of autonomy for the Institute. Dr. Sarabhai's negotiations with the concerned ministries were influential in this regard. Control through an Act of Parliament as was done for IITs, was not insisted upon by GOI. Letting the faculty engage in consultancy and earning a share of the income was a new practice that IITs at that time did not enjoy. Though the annual budget of IIMA was met by GOI, the Board was made responsible for the use of the funds and to make personnel decisions. The Board had adequate representation from industry, and was free to co-opt other members. Courses and curricula were determined by the faculty. All these were departures from the practices being followed in other government funded institutes at that time.
- **Institutional processes and practices:** As noted above, nearly 25 faculty members had gone through programmes of one to two years at HBS in the first five years. They had, therefore, a shared vision of how the programmes at IIMA should be designed and conducted, and of their own role in building the institution. Whether it was about the curricula, admissions or new programmes, the dominant role was played by the faculty in decision making. There was once an occasion when Dr. Sarabhai argued with the faculty on the criteria for admission to the PGP. Finally, however, the director had to reluctantly give in as the faculty were able to present a more convincing case in support of their stand. The faculty's sense of ownership of and commitment to the programmes of IIMA were consequently significant. Academic decisions were made not based on hierarchy or authority, but rather, on the strength of knowledge and reason. And, directors like Vikram Sarabhai and Ravi Mathai respected it.
- **The pillar of professionalism and integrity:** The stakeholders in an institute like IIMA are multiple and varied in their interests and concerns. A coalition of this nature can be sustained only when all participants are convinced that the underlying processes are well managed. From its inception, IIMA was fortunate that its leaders were able to create a track record of decisions and actions based on high professional standards. Though there have been occasional conflicts among stakeholders, no one in the early years could point a finger at a director or Board member of acting without integrity or in violation of the standards they had set for themselves. In matters of admission, external pressures were ever present. There was, however, no instance that any one could point to as a violation of accepted policy. When complaints arose, they were discussed in the Board openly and sorted out. Unlike in many other institutions, the faculty nor the Board ever asked for quotas or special privileges in admissions. A remarkable

case was that of a former Board chairman, Shri Kasturbhai Lalbhai's grandson being denied admission to the PGP at IIMA. I came to hear about this only after he was rejected. Kasturbhai used to meet me at Board meetings, but never said a word about this matter either before or after the event. These traditions, established very early, enhanced the credibility and reputation of the Institute and made it easier for its succeeding leaders to resist undue external pressures.

The final outcome is determined by the convergence and reinforcement of these five pillars. Blending and orchestrating them is the very essence of leadership. How each of them is crafted and sustained also matters. Leaders like Vikram Sarabhai laid the foundation on which IIMA stands today. But if those who succeeded him had failed to build on it, institutional decay would surely have set in. The most appropriate metaphor that captures the process involved is a relay race. Each relay team passes the baton on to the next team. It is only when every team runs hard and performs well that institutional survival and success will be assured.

Author's Profile

Samuel Paul is the Chairman of the Public Affairs Centre in Bangalore, a think tank and citizen action support group. He also currently serves as a consultant to several national and international bodies. For the major part of his career, Dr. Paul has served as Professor of Economics and later as the Director of the Indian Institute of Management Ahmedabad. He has also been a World Bank Advisor in public sector management and has been involved in a variety of global public sector reforms. Dr. Paul has served as Chief Technical Advisor to the International Labour Organisation and as Special Advisor to the United Nations Commission on Transnational Corporations. Dr. Paul has taught at several US universities and Business Schools, including Harvard and Princeton. Dr. Paul has served on several Government of India Committees and has been a member of the boards of several companies. He has also served on the boards of several international research centers, including CGIAR committees and the World Development Report Advisory Panel. Dr. Paul is the author of several books and numerous professional articles within economics and management.