

## Healing an Organization: High Performance Lessons from Africa

By Sanford V. Berg and William T. Muhairwe<sup>1</sup>

June 25, 2007

What nations do business executives visit for insights about how water utility performance can be improved? What company might provide lessons and encouragement for managers? This short article describes how managers at the National Water and Sewerage Company of Uganda (NWSC) were successful in healing an organization that had become fragmented, un-focused, and unproductive. The key lesson is that while no single prescription exists for transforming a corporation, the basic ingredients are well known: thoughtful leadership, careful measurement, performance benchmarking, open communication channels, strong incentive programs, and well-designed implementation strategies. These components do not always characterize state-owned enterprises, yet they are essential if the Millennium Development Goals for water coverage are to be achieved. Proverbs from Africa are used to reinforce some of the principles for reforming water utilities in developing nations.

*A person who never travels, believes his mother's cooking is the best in the world. (Kiganda).*

We need to travel further from home more often. Those who have grown up in wealthy nations cannot fully appreciate the challenges faced by institutions emerging from turmoil. Yet the same organizational sicknesses that have promoted inefficiency, bureaucracy, and complacency in Africa also infect businesses in the developed world—the difference is *only* a matter of degree. While the business strategies that are improving corporate performance in Africa are the same as those that make a difference in OECD nations, the dramatic impacts serve to highlight the universal elements of sound strategy. Reviewing the steps for healing sick organizations in dire circumstances provides both lessons and inspiration for those attempting to transform enterprises within countries at any stage of development.

What can the developed world learn from Africa? First, Africa is *not* what the press characterizes as the continent of despots, disease, disaster, and despair. It is undergoing a transformation, as Charlayne Hunter-Gault (2006) states in her book, *New News Out of Africa: Uncovering Africa's Renaissance*. She identifies the political and social changes unleashed by a new generation of leaders. The purpose of this short article is to describe the parallel economic transformations engineered by new business leaders—highlighted by proverbs that capture insights from the region's oral cultures. In an era when globalization is driving

---

<sup>1</sup> Distinguished Service Professor of Economics and PURC Director of Water Studies (University of Florida) and Managing Director, National Water and Sewerage Company, Uganda, respectively. An expanded, more technical, companion study is entitled "Promoting High Performance in SOEs: Lessons from Africa." The authors are grateful for supporting material and comments provided by Silver Mugisha, George Okol, Mark Jamison and Lynne Holt. Patti Casey supplied helpful editorial suggestions.

changes in every society, it is useful to focus on lessons that stand the test of time, lessons of healing from Africa.

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 listens to the advice of organizational gurus, reads books by successful executives, 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.<sup>2</sup>

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

Mugabi, Kayaga and Njiru (2007) underscore these steps in their survey of strategic planning for water utilities, which uses NWSC to illustrate how setting (and achieving) performance targets require the utility to have a strong commercial orientation. This article draws upon the experiences of NWSC to illustrate the links among these fundamental elements of organizational transformation. There is no magic involved in healing a sick organization; the process is disruptive for the organization and potentially dangerous to those who are committed to changing the status quo. Thus, a leader who becomes a change agent is but one of many factors contributing to the creation of a healthy and successful organization.

### **1. Identify Trends:** *A visible stone does not harm a hoe. (Rundi, Burundi)*

Reform is impossible without an understanding of 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.

Of course, failing organizations are complex. Like our bodies, an organization consists of many parts, and the conditions involve mental as well as physical processes. The attempt to

---

<sup>2</sup> There are many comparable “lists” of steps for organizational transformation: these happen to fit the NWSC experience, so while they are not original they provide a framework for surveying strategies for change.

reform (or transform) a sick organization can be likened to that of curing a “sick” person, where the range of conditions can be extremely varied. The situation facing the National Water and Sewerage Company of Uganda (NWSC) was typical of an organization in trouble, characterized by

- 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/m<sup>3</sup>, the monthly deficit was about US\$300,000, putting severe cash flow pressures on the organization. The urgency of the situation could be characterized by the West African proverb: *If your house is burning, there is no time to go hunting.*

## **2. Establish Baselines:** *Lack of knowledge is darker than night. (Hausa, Nigeria)*

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. The new management team in 1998 focused on past trends and baselines—utilizing basic benchmarking as a tool for identifying problem areas and realistic targets (Matta and Murphy, 2001). 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 (Mugisha, Berg, and Muhairwe, 2007): *Make a new arrow by comparing it to the old one. (Akan)*

## **3. Select Measurable Goals:** *You cannot throw one thing while you are holding many things. (Rundi, Burundi)*

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 (collections), operational efficiency (leakage), and staff productivity. The selection of indices reflected the performance situation at that time. Of course, measuring what matters requires consensus on priorities.

**4. Design Internal Incentives:** *Better a single decision-maker than a thousand advisors. (Ethiopia)*

Designing incentives involves making employees responsible for outcomes, delegating authority, providing information and resources, and ensuring accountability. Although the new Managing Director 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. Of course, *He who cannot dance will say: "The drum is bad."* (Ashanti) However, the burden of proof was on those who would not contribute to meeting divisional targets.

**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)*

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). NWSC then introduced competition for managerial responsibility through business plan preparation and expressions of interest.

*Being an eyewitness is better than listening to tattle-tales. (Sumbwa Proverb, Western Tanzania)* 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. 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.

Benchmarking permeated the new organizational culture, but the process started with listening: *There is more wisdom in listening than in speaking. (Nilotic proverb)* As part of the reform process, 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: *Wisdom is not like gold that it should be tied up and kept in a safe place. (Akan)*

**6. Develop and Implement Strategies:** *Between imitation and envy, imitation is better. (Ekonda, Democratic Republic of Congo)*

Developing strategies involved borrowing ideas from many organizations and people. 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)*

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.

The reform strategy 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. Significant attention was given to capacity development within the organization: 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)*

Accountability requires that tasks be well-defined and appropriately assigned. The outcomes are anticipated, reviewed, and evaluated. 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. 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.

**8. Review Results:** *That which is good is never finished. (Sukuma, Tanzania)*

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. Performance indicators shown below indicate that the reform initiatives from 1998 – 2006 have had positive impacts:

	1998	2006
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.

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.

**Diagnosis, Treatments, and Habits:** *The healer does not drink medicine for the patient.*  
(Akan)

In the process of addressing the health of an organization, five questions can be raised. Taking these one at a time for NWSC provides a convenient way to review the situation at the start of the transformation process.

(1) *What is the diagnosis?* When the patient is an organization, documenting trends of key indicators is the first step in diagnosing the “patient’s” condition. To be based on reality, a working hypothesis requires data. Collecting information involves a physical examination in the case of a person, and a financial analysis and management audit in the case of an organization. For an individual, diagnostic testing requires laboratory work and imaging information, so specific tests are made. For an organization, listening to managers and gathering information are essential if underlying problems are to be distinguished from superficial symptoms.

(2) *What is the cause of weak performance?* Addressing this issue requires an analysis of the factors leading to the observed problem; the objective is to identify causal elements. It is easy to imagine a patient who is overweight, lethargic, and easily distracted: a patient whose health status is in jeopardy. A physician can collect information on a patient’s temperature, pulse, height, and weight. Those four indicators help the physician determine whether the person has a dangerous fever and/or is overweight. The indicators point to potential or existing health

problems. For example, fever is a short-term problem that can be addressed with specific medications; weight is a longer-term health issue with implications for heart attacks and other problems—diet and exercise programs might be prescribed. However, a set of blood tests would provide more detailed information that can aid in diagnosing the physical problems that are only partly reflected in the fever and weight indicators. Furthermore, diagnosing and treating mental health issues would require other diagnostics and treatments. The lessons for corporate executives should be clear: any business becomes unhealthy if managers are not skillful, do not adapt to changing market conditions, and take financial sustainability for granted. Of course, a single index of corporate performance has the same problems as any indicator: it will be neither comprehensive nor fully diagnostic

(3) *What is likely to happen without intervention?* Here, it is necessary to have an understanding of the natural history of the disease (based on prior experience with the same conditions). In addition, early on, the physician must predict potential complications (based on patterns observed in other cases) to be prepared to confront adverse developments should they arise. Similarly top decision-makers in an organization need to have a clear understanding of the consequences of the status quo. In Uganda, the *status quo* for NWSC was socially unacceptable, but healing was going to require some dramatic changes. Key stakeholders understood that there would be no gain without some pain. Broad consensus and new leadership set the stage for organizational renewal.

(4) *Is there a strategy (or cure) for the problem?* Is the treatment worse than the disease? Sometimes the best strategy is to limit the impact of the disease rather than to attempt to cure it. Even if a particular physical regimen, medicine, or treatment is generally effective, it is still necessary to address issues related to patient compliance. Likewise, leaders need the right tools to transform an organization. In the case of NWSC, the tools involved the introduction of change management programs and strong incentives: bonuses of 50% for meeting targets based on benchmarking (Berg, 2007).

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. Nevertheless, the organization continues to explore cost-effective ways to carry out this task, given public policy objectives.<sup>3</sup>

(5) *Could the problem re-surface, depending on the strategy that is pursued?* The physician performs the equivalent of elaborate scenario tests, anticipating other situations and considering likely predispositions based on the current situation. Such a meta-analysis really addresses the issue of whether it is possible to prevent other problems from arising by intervening in the overall system. 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

---

<sup>3</sup> The issue of access for the poor is developed by Sansom (2006).

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.

The issue here is water utility performance, not public ownership or private participation. Political leaders need to move beyond rhetoric to tracing the links between managerial incentives and cost, service quality and network coverage. Prices that are not financially sustainable lead to improper maintenance and broken equipment. Like individuals, aspects of organizations have self-healing qualities. However, neglect, political (genetic) predispositions, and laziness present challenges for leaders who are responsible for promoting a healthy, growing business. Good stewardship requires leaders to recognize and apply the eight steps supporting high performance organizations. The examples and illustrative proverbs used here come from Africa: however, the lessons are universal.

## References

Berg, Sanford (2007). "Conflict Resolution: Benchmarking Water Utility Performance," *Public Administration and Development*, 27, 1-11.

Hunter-Gault, Charlayne (2006), *New News Out of Africa: Uncovering Africa's Renaissance*, Oxford University Press, x-173.

Mugabi, Josses, Sam Kayaga, Cyrus Njiru (2007). "Strategic Planning for Water Utilities in Developing Countries," *Utilities Policy*, 5, 1-8.

Matta, Nadim and Patrice Murphy (2001). "When Passionate Leadership Stimulates Enduring Change: A Transformational Capacity Development Anecdote from Uganda," *Capacity Development Brief*, World Bank Institute, Number 13, October.

Mugisha, Silver and Sanford Berg (2006) "Turning Around Struggling State-Owned Enterprises in Developing Countries: The Case of NWSC-Uganda." PURC Working Paper presented at 'Reforming public utilities to meet the water and sanitation millennium Development Goal' at the UK's Department for International Development, July 4, 2006 (organized by the World Development Movement). A shorter version appeared in *Going Public: Southern Solutions to the Global Water Crisis*, edited by Hugh Warwick and Vicky Cann, World Development Movement, March 2007, 15-25.



Mugisha, Silver, Sanford Berg, and William T. Muhairwe (2007). "Using Internal Incentive Contracts to Improve Water Utility Performance: the Case of Uganda," *Water Policy*, Vol. 9, No. 3, 271-284.

Moore, Mark (1995). *Creating Public Value: Strategic Value in Government*, Harvard University Press, Cambridge, MA.

Sansom, Kevin (2006), "Government Engagement with Non-State Providers of Water and Sanitation Services," *Public Administration and Development*, 207-217.