

FROM INSTITUTIONS TO ORGANIZATIONS:
MANAGEMENT AND INFORMALITY IN
GHANA'S PUBLIC BUREAUCRACIES

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Abstract

Studies of state capacity in political science and economics have largely sought to explain variation in bureaucratic quality over space or time through the lens of national-level factors, notably the quality of institutions. However, these institutional approaches are unable to explain variation among organizations within the same government. I develop a complementary approach grounded in organizational economics, in particular relational contracts theory, that is consistent with organizational-level variation in bureaucratic quality within governments and generates predictions about the changing qualitative relationship between formal and informal practices across this spectrum. I find empirical support using original interview-based data on management quality from 40 organizations in Ghana's central government. The range of variation in management quality across organizations is substantial and systematic, is not limited to a handful of exceptional "islands" of excellence, and is qualitatively more consistent with theories of relational contracts and organizational culture than prevailing theories of formal and informal institutions. I suggest a number of ways in which institutional and organizational approaches can usefully complement each other in the study of government bureaucracies and their reform.

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From Institutions to Organizations: Management and Informality in Ghana's Public Bureaucracies

A large and influential literature has sought to explain variation in societies' economic and political performance through the framework of institutions – the formal and informal “rules of the game” that define the action sets within which actors operate (North 1990). Since state capacity plays an important role in economic and political development, this institutional lens has also come to dominate studies of state capacity and the quality of government bureaucracies, especially in developing countries. For example, the World Bank's widely used World Governance Indicators list “government effectiveness” as one dimension of governance quality alongside other abstract elements of institutional quality such as “rule of law” and “protection of property rights”.¹ Across a wide range of theoretical and methodological perspectives, from rational choice to historical institutionalism to the literature on good governance, the language of institutions has become the default vocabulary for the study of state bureaucracies and their reform.

Yet for all its theoretical and empirical successes, the institutions framework has run up against important limitations in understanding the functioning of government bureaucracies. First, the institutions literature has focused heavily on explaining variation in performance at the national or societal level across space or time, and thus cannot explain within-government variation among ministries and agencies that face identical institutional, historical, geographic, and socio-cultural contexts. While the implicit assumption of the institutions literature is that such organization-level variation is non-existent (or at least is second-order to society-level variation), an increasing body of case studies (Grindle 1997, Tendler 1997, Leonard 2010, Roll 2013) and large-N studies (Gingerich 2013, Rasul and Rogger 2014) shows that within-government variation cannot be assumed away even as a first approximation. This empirical evidence also presents a deep theoretical challenge to the institutions literature: if we observe a wide range of outcomes across organizations operating within the same institutional context, how much do these institutions actually determine or constrain performance? Understanding this cross-sectional variation can therefore shed new light on the difficult question of how institutional equilibria change over time that has challenged both rational choice and historical scholars of institutions (North 1990; Greif and Laitin 2004; Mahoney and Thelen 2010; Hacker, Pierson, and Thelen 2015).

Second, while institutional perspectives recognize that both formal and informal aspects of institutions are important and potentially interactive, they offer limited analytical tools for understanding the interactions of formal and informal factors in actual bureaucratic practice (North 1990, Ostrom 1990, La Porta et al 1999, Helmke and Levitsky 2004, Stein and Tommasi 2008, Andrews 2013). This is because the analytical focus on informal *institutions* is simultaneously very broad and very restrictive, and because it overlooks the role that organizational hierarchies play in consciously and continuously trying to shape the informal norms and practices of their members. Informal institutions is a broad category in that it potentially

¹ This is defined as “perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.” (Kaufmann, Kraay, and Mastruzzi 2010, p.4)

encompasses everything from subconscious socio-cultural cognitive frames to highly regularized and actively enforced norms, and factors that are general to an entire society as well as those that are propagated within specific institutional sub-fields or organizations. Yet it excludes or elides a wide range of informal processes, actions, and behavioral regularities that are extremely important for the functioning of bureaucracies, but are not institutionalized. Furthermore, while much of the literature on informal institutions examines how they can emerge organically from strategic interaction among actors, informal norms and practices within organizations are the product not just of organic interactions but also the deliberate interventions of leadership and managers to cultivate useful norms (i.e. “organizational culture”) and govern day-to-day practices that require the exercise of discretion by its members. Even formal structures and processes, such as incentive schemes and performance monitoring, may be consciously designed affect informal norms and practices. While institutionalist approaches thus correctly emphasize that informality is an important feature of government bureaucracies, an approach tailored to the specificities of how informality functions within organizations could provide richer insights.

The central argument of this paper is that, for many purposes, there are theoretical and empirical advantages to studying government bureaucracies from an *organizational* rather than an *institutional* perspective. Organizations are the literal bricks-and-mortar of governments; political choices over laws, policies, and resource allocations are implemented not by an abstract notion of “government effectiveness” but by particular ministries, departments, and agencies through complex, painstaking, and sometimes ineffective bureaucratic processes. Though organizations have long been a key unit of analysis for scholars of public administration and management, particularly in wealthy democracies (Wilson 1989; Ingraham, Joyce, and Donahue 2003; Talbot 2010), studies of the state as institution and state as organizations have increasingly diverged. This seemingly semantic distinction has significant consequences for research, because institutional and organizational approaches are associated with different research questions, different bodies of theory, and different sets of empirical methodologies. This divergence is even more evident in the assessing the impact of the New Institutional Economics (NIE) on studies of state capacity: while the Northian “institutions” branch of the NIE has thoroughly transformed the way political scientists and economists think about the development and functioning of government bureaucracies, the influence of the Williamsonian “organizations” branch of the NIE has been largely restricted to particular niches of the public administration sub-discipline.

More specifically, I argue that the theoretical and methodological tools of organizational economics and organization theory provide insights into the two shortcomings of institutional approaches identified above: 1) explaining within-government variation in organizational performance, and 2) analyzing the interaction of formal and informal processes in these bureaucracies. A large body of empirical research shows large and persistent differences in productivity and management quality among organizations even within the same narrowly defined field (Gibbons and Henderson 2013; Bloom and Van Reenen 2007; Syverson 2011; Dunleavy and Carrera 2013; Bloom, Propper, Seiler, and Van Reenen 2015). This literature also explores the micro-foundations of variation in performance among *ex ante* identical organizations, outlining theories based on: the necessarily incomplete nature of formal contracts, since appropriate actions cannot always be codified *ex ante* or verified *ex*

post; and the repeated nature of principal-agent interactions within organizations. Together, these create the potential for multiple equilibria in organizational performance, and make informal methods of management and control necessary complements to formal ones.

These theories of organizational performance as determined by *relational contracts* provide an integrated view of formal processes and informal norms and practices within organizations.² In this view, the organization functions as a *nexus of institutions*, both formal and informal. It is also an important agent of *endogenous institutional change*, in that it acts calculatively and purposively to shape the incentives, norms, and behavior of its members. The informal factors on which it seeks to act include both general, organization-wide norms (e.g. organizational culture), as well as the task-specific exercise of discretion by agents. This organizational approach not only provides a more appropriate basis for the analysis of the day-to-day functioning of organizations but also sheds light on the workings of institutional mechanisms by revealing the ways in which they are – and are not – constraining on the actors that operate within them.

I empirically illustrate the contributions of an organizational approach by drawing on original interview-based data on management practices from 40 organizations in Ghana's central government, using an adaptation of Bloom and Van Reenen's (2007) influential methodology for benchmarking management quality. These organizations are all located near each other in the capital city, sometimes even sharing the same building, and are thus subject to identical sets of institutional, historical, socio-cultural, and national-level political factors; in many cases formal uniformity of structures and even specific practices is dictated by a common set of legal and administrative regulations. Yet the range of variation in management quality across organizations is substantial and systematic, and is not limited to a handful of exceptional "islands" of excellence. Across this spectrum, a qualitative pattern emerges: in the worst-managed organizations, formal management processes are either undefined or unexecuted, and substitutive informal norms are absent or rare; somewhat better-managed organizations execute most formal processes but without the support of complementary informal norms and practices, thus following the letter of the process but not its spirit – perfunctory performance, in the language of relational contracts (Williamson 1975, Hart and Moore 2008); and the best-managed organizations not only define and execute formal processes, but also cultivate and encourage complementary informal processes to ensure that management processes are executed according to their spirit – consummate performance). Both of these empirical results are consistent with the predictions of an organizational approach based in relational contract theory, but are not well explained by prevailing institutionalist approaches in their rational choice, historical, or governance and development varieties.

² In contrast, historical institutionalism makes an explicit distinction between institutional enforcement (Levitsky and Murillo 2009) and the analysis of informal institutions (Helmke and Levitsky 2004). In showing how formal structures can co-exist with and reinforce informal practices, relational contracts bears some similarity to Greif and Laitin's (2004) theory of endogenous institutional change that rests on the concept of quasi-parameters that are exogenous in the short run but endogenous in the long run. But whereas Greif and Laitin's quasi-parameters typically occurs as an unintended byproduct of formal institutional structures, the development of positive relational contracts in organizations – organizational culture – is typically the result of deliberate efforts of managers and is directly and often consciously linked to the design of formal structures, processes, and incentives within the organization.

The remainder of this paper proceeds as follows. Section 1 discusses the relationship between organizational and institutional theories of government bureaucracy, and draws implications for empirical analysis. Section 2 details the methodology, sample, and context for the analysis of management practices in Ghanaian government organizations. Section 3 shows that the changing qualitative relationship of formal and informal processes across the spectrum of management quality is consistent with relational contract theories of management, and Section 4 demonstrates that aggregating these micro-level differences reveals the existence of substantial and systematic variation in management quality at the organization-level. Section 5 concludes by discussing the relationship of an organizational perspective on government bureaucracies to approaches rooted in institutions and political economy, and considers other implications for research on states, institutions, and development.

1. INSTITUTIONS, ORGANIZATIONS, AND RELATIONAL CONTRACTS

This section highlights two shortcomings of institutionalist approaches to studying government bureaucracy: their inability to explain organization-level variation within governments, and their weak predictions about the interaction of formal and informal factors. It argues that alternative theoretical approaches from organization economics, in particular relational contracts theory, can address both of these shortcomings. Finally, the section sets out the quantitative and qualitative empirical implications of this theoretical framework, and discusses how the empirical distribution and patterns of bureaucratic performance can provide guidance on whether (and when) it is more appropriate to analyze government bureaucracy as *an institution* or as *a set of organizations*.³

1.1 Institutions and organizational performance

The explosion of literature on institutions, governance, and development in the past two decades has been fundamentally shaped by North's distinction between institutions as the formal and informal "rules of the game" and organizations as the "players" of this game (1990, 1-2).⁴ Like North, this literature has largely focused – empirically and theoretically – on institutions, to the neglect of organizations. In large part, this neglect stems from North's assumption that organizations operate efficiently within the constraints of a society's institutions. North is explicit about this: after referring to Williamson's (1975, 1985) transaction cost theories of organization, he writes "Whatever the merits of these alternatives...the focus in this study is on organizations as purposive entities designed by their creators to maximize wealth, income, or other objectives defined by the opportunities afforded by the institutional

³ The purpose of this discussion is not to hypothesize a specific model or determinant of bureaucratic performance; indeed, organizational approaches to bureaucracy and relational contracts theory are both broad enough to encompass numerous potential models and determinants. Nonetheless, the distribution of a variable is informative about the process through which it is generated (Jones et al 2009), and it is this broader question of the applicability of institutional and organizational frameworks with which this paper is concerned.

⁴ For example, Acemoglu, Johnson, and Robinson's (2005, p.388) influential review of the literature on institutions and development cites North's definitions. North's definition of institutions is a broad one, encompassing everything from formal political institutions to diffuse factors such as culture, social capital, and trust. While these are all important theoretical constructs in their own right, in this paper I follow North's distinction and group them together for brevity in order to more clearly juxtapose institutional and organizational theories of bureaucracy.

structure of the society.” (1990, 73) With this assumption, a theory of institutions as *constraints* on organizations becomes a theory of institutions as *determinants* of organizational performance – that is, organizations are assumed to be operating at their notional production frontier.⁵ Since institutions are defined as society-wide, they provide no theoretical explanation for organization-level variation in performance within governments. While institutionalists would likely not deny that any organization-level variation is possible within institutions, the assumption is nevertheless that such variation is either negligible or second-order.

Likewise, the empirical and theoretical literature has overwhelmingly focused on explaining the causes and consequences of variation in institutional quality across countries or other geographic units (Tilly 1990, Evans and Rauch 1999; Acemoglu, Johnson, and Robinson 2001; Gennaioli and Rainer 2007; Acemoglu, Garcia-Jimeno, and Robinson 2012; Acemoglu, Ticchi, and Vindigni 2011; Nunn and Wantchekon 2011). While more recent models of state capacity have sought to distinguish between different aspects of state capacity, such as fiscal and legal capacity (Besley and Persson 2009), even these more sophisticated models do not provide a general explanation for variation among organizations in the same government. Even the qualitative, case study-based literature that seeks to identify “islands” or “pockets” of effectiveness in developing country governments (Grindle 1997, Tendler 1997, Leonard 2010, Roll 2013) inadvertently reinforces this homogenizing assumption by emphasizing that such variation is “exceptional”.⁶

What larger-N research does exist at the organizational level, however, suggests that variation within government may be the norm rather than the exception. In their study of 63 government organizations in Nigeria, Rasul and Rogger (2014) document extensive variation both in management quality and output delivery. Gingerich (2013) draws on a survey of civil servants in 30 organizations across three countries in Latin America to argue that within-country variation across organizations is actually greater than cross-country variation, for a variety of survey items related to politicization, capacity, and corruption – this calls into question the institutionalist assumption that organization-level variation is second-order compared to institution-level variation. Studies of government performance in OECD countries have long viewed organizations as a fundamental unit of analysis (Wilson 1989, Ingraham *et al* 2003, Talbot 2010), and have documented substantial differences in performance among them.⁷

⁵ This is a consequence of how North defines the scope of his work: “the emphasis in this study is on the institutions that are the underlying rules of the game and the focus on organizations (and their entrepreneurs) is primarily on their role as agents of institutional change; therefore the emphasis is on the interaction between institutions and organizations.” (1990, 3) While North’s view of organizations as agents of institutional change does recognize that causality may also run from organizations to institutions in the long term, institutions are nevertheless determinative of organizational performance at any given point in time.

⁶ For instance: “It is well established that even in countries that have poor governance and weak public sectors, exceptional well-functioning government and government-supported agencies do exist.” (Leonard 2010, 91)

⁷ Some of this literature also discusses inherent differences across organizations in the nature of management, for example due to different types of tasks or budget structures (Mintzberg 1983, Wilson 1989, Dunleavy 1991). While these can be important, for brevity my discussion focuses on theoretical and empirical literature on true inefficiency in the sense of organizations operating within their notional production frontier, given external constraints.

Outside of the public sector, the potential for organizations to operate inefficiently has long been a key theme in the study of organizations. Early theorists questioned economic models of firms as perfectly rational maximizers with concepts such as organizational slack (Cyert and March 1963), X-inefficiency (Leibenstein 1966), and organizational culture (Schein 1985).⁸ A growing body of empirical research shows large and persistent differences in productivity and management quality among organizations even within the same narrowly defined field (Gibbons and Henderson 2013), with evidence most heavily concentrated in the manufacturing sector (Bloom and Van Reenen 2007, Syverson 2011) but extending also to other fields such as hospitals (Bloom et al 2015, Carrera and Dunleavy 2010) and schools (Bloom et al 2014). These “persistent performance differences” among *ex ante* identical organizations appear to be the norm, not the exception, within organizational fields (Gibbons and Henderson 2013). Both theoretically and empirically, the institutional treatment of organizations as purposive rational maximizers within institutional constraints is at odds with the vast scholarship on management and organizational performance.

1.2 Relational contracts and management practices

Relational contract theories of dispersion in organizational performance among *ex ante* identical organizations rest on the idea that contracts are necessarily incomplete.⁹ This is particularly true of the employment contract and the management practices that specify the actions of managers and employees within this contract. Contracts may be incomplete in two senses: future states of the world and the associated actions for each party to take may be impossible to fully anticipate and specify *ex ante* (Simon 1951, Kreps 1996); and/or some value-creating aspects of parties’ actions may be unverifiable by third parties *ex post*, and thus unenforceable (Hart and Moore 2008). This incompleteness implies that it is generally efficient for both parties to retain some level of discretion – indeed, as a practical matter it is almost impossible to completely eliminate discretion.¹⁰ In a repeated game framework, this creates short-term incentives for both employees and managers to play Defect strategies (by shirking on effort or renegeing on promises of rewards, for example), even if the cooperative equilibrium is both socially and privately efficient in the long term (Kreps 1996).

Management in organizations is therefore both technical – in the specification of tasks, contingencies, and the design of incentives – but also relational, in that it requires building shared expectations, understandings, and norms over time.¹¹ This creates the potential for substantial long-term divergences in performance among organizations, along with path dependence arising from minor stochastic shocks (Chassang 2010). The relational aspects of management are likely to be even more

⁸ Other perspectives view cultural dispositions as semi-inherent to organizations (e.g. Douglas 1992).

⁹ I focus on relational contracts that are within rather than between organizations. My discussion of relational contracts here is highly stylized and oriented towards building intuition about why performance might differ among organizations embedded in identical institutional, historical, socio-cultural, political, and task contexts. See Gibbons and Henderson (2012) for a concise formal exposition of these models.

¹⁰ Agent discretion has long been an important element of theories of management and public administration (Mintzberg 1983, Wilson 1989), and much of the recent work on relational management practices in organizational economics formalizes these arguments.

¹¹ Nelson and Winter’s (1982) work on routines in organizations places a similar emphasis on the accretion of shared understandings and processes over time.

important in public sector organizations than private sector ones: outputs of public sector organizations are often non-priced and/or difficult to measure (Wilson 1989, Prendergast 2003)¹²; and public sector organizations often have multiple principals, thus weakening the potential effectiveness of incentive schemes (Dixit 1996).¹³

The idea that shared norms can be used to sustain cooperation without the intervention of formal enforcement mechanisms is, of course, a familiar one for scholars of institutions (Ostrom 1990, Greif 1993, Putnam 1993, Nunn 2008, Nunn and Wantchekon 2011), and studies such as La Porta et al (1997) have demonstrated that variations in generalized trust in large organizations across countries are positively correlated with levels of economic and institutional development. The contribution of an organizational perspective is to emphasize that socio-cultural norms, expectations, and cognitive frames not only vary across organizations within a given society from their societal “mean”, but also that they are explicitly *organizational* phenomena in that organizations invest a great deal of effort and resources into shaping and maintaining them. Indeed, hierarchy in organizations exists explicitly in order to facilitate cooperation among and coordination amongst members of the organization, and the cultivation of shared understandings and beliefs amongst individuals constitutes much of what managers actually do in organizations (Gibbons and Henderson 2013). The determinants and consequences of “organizational culture” are central questions for scholars of management (Schein 1985) and increasingly for empirical organizational economics (Martinez et al 2015, Gibbons and Kaplan 2015).

In this sense, the organization functions as a *nexus of institutions*.¹⁴ While they are certainly influenced by more general societal institutions, whether formal (e.g. contract enforcement) or informal (e.g. trust), organizations design and promulgate among their members a mutually reinforcing bundle of formal rules and informal norms. Whereas changing a formal institution in society typically requires negotiation and coordination among multiple actors, organizations centralize the design and enforcement of many formal rules in a calculative hierarchy that exists largely for this purpose. Likewise, informal institutions in society arise either organically through long-term repeated interactions or (occasionally) through deliberate coordination amongst elites. In contrast, organizational hierarchies attempt to directly shape informal norms amongst their members – albeit with great difficulty and uncertain success – and link this effort to the design of formal structures and processes, such as incentive schemes. Organizations are therefore far from being passive “price-takers” of institutions, at least with respect to their internal functioning.

In addition to general, organization-wide cultures and norms, a key function of management is to develop shared informal norms about the execution of specific tasks that require agents to exercise discretion. Since the optimal exercise of discretion

¹² As Prendergast (2003) notes, public sector tasks are in the public sector precisely because they cannot be efficiently delivered through market mechanisms, and thus observed (non-commercial) public bureaucracies are necessarily inefficient.

¹³ Dixit’s (1996) multiple principal model is one of many non-relational contract theoretical models that can be used to explain why the political principals of public organizations may not be able to realize their preferred outcomes. But whereas inefficiency arises in the multiple principal model arises due to competing incentives being offered to the agent by the multiple principals, the *lack* of strong incentives is a more common scenario in developing country bureaucracies.

¹⁴ This is analogous to Alchian and Demsetz’s (1972) theory of the firm as a nexus of property rights.

cannot always be specified *ex ante* or verified *ex post*, the performance of any tasks involving discretion cannot be fully governed by formal management tools like organizational manuals, standard operating procedures, or administrative regulations. Examples of tasks that require agents' discretion include those where the principal cannot perfectly observe either the state of the world or the agent's action, or those that involve an important non-measurable quality dimension. In these cases, the utility to the principal of an agent performing only the formal (fully specifiable and verifiable) aspects of a task may be substantially less than if the agent performs both the formal and the informal aspects of the task. Hart and Moore (2008) model these as perfunctory and consummate performance – actions consistent with the letter of the contract versus those consistent with the spirit of the contract, respectively.¹⁵ Likewise, discretion for agents also implies discretion for principals (managers), in deciding whether the task was performed perfunctorily or consummately and thus in how the reward or punish the agent. As Gibbons and Henderson (2012, 2013) argue, building these relational understandings often requires employees and managers not just to solve a problem of *credibility* of mutual commitments over the use of discretion (sustaining cooperative equilibria) but also a simultaneous problem of *clarity* (building shared understanding of what actions constitute cooperation and defection in which states of the world). Informality is thus an important feature of bureaucracies even when formal contracts and management practices can be perfectly enforced.

This view of the relationship between formal processes and informal norms and practices in organizations improves over institutionalist approaches in several ways. For example, Helmke and Levitsky (2004) categorize informal institutions as potentially complementary, substitutive, accommodating, or competing according to their convergence with formal institutions and the strength of formal institutions. While useful, this approach takes as given the design and strength of both formal and informal institutions, whereas a relational contracts approach emphasizes that within organizations these are jointly and consciously shaped. Likewise, by defining informal institutions as those that are shared “*created, communicated, and enforced outside of officially sanctioned channels*” (Helmke and Levitsky 2004, p. 727; emphasis in original), it explicitly excludes that much of what managers in bureaucratic hierarchies do is create, communicate, and enforce management practices that involve both formal and informal behaviors.¹⁶ Finally, this literature limits its focus purely to *institutionalized* informal behaviors rather than those driven simply by incentives or other “behavioral regularities” (Helmke and Levitsky 2004, p. 727), whereas management in organizations is typically concerned with all of these. Corruption, for example, can be thoroughly institutionalized or a simple result of agency problems and imperfect monitoring. Andrew's (2013) discussion of institutional reform comes closer in recognizing that public sector reform requires changes not just to formal structures but also to informal socio-cultural norms and

¹⁵ Hart and Moore (2008) assume that the agent is indifferent between perfunctory and consummate performance; more generally, deadweight loss is created (and multiple equilibria are possible) if and only if the agent's cost of performing the informal aspect of the task is less than the utility it creates for the principal. The language of perfunctory and consummate performance is originally from Williamson (1975, p. 69).

¹⁶ To take an extreme example, Gibbons and Henderson (2013) refer to the employee handbook of the retailer Nordstrom which, for many years, consisted solely of the sentence: “Use good judgment in all situations.”

cognition. But whereas this approach regards informal factors as “content” to be “supplied” by reforms alongside formal content (Andrews 2013, p. 66), relational contract theory emphasizes that, by its very nature, informal “content” cannot be specified *ex ante* in the same way as formal reforms can be. This qualitative understanding of the relationship between formality and informality in organizations is thus crucial to theories of bureaucratic performance and reform.

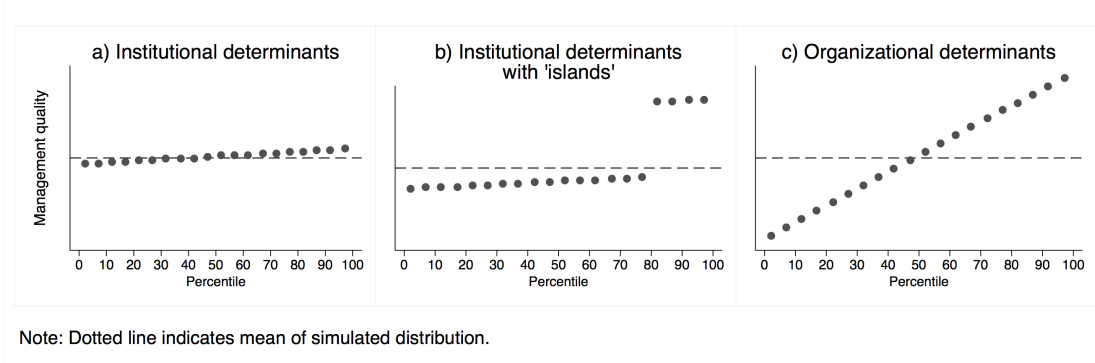
1.3 Implications for empirical analysis

This paper’s aim is to explain why we observe variation in performance among organizations within a common institutional setting and to explore the mechanisms that generate this variation, not to hypothesize a specific set of determinants of organizational performance. Indeed, relational contracts theory implies that asking “what are the exogenous determinants of organizational performance?” is in some ways the wrong question, since organizations that share the same context and external features may perform very differently for purely internal, endogenous reasons. Instead, this paper’s empirical analysis seeks to examine the extent to which quantitative and qualitative patterns of variation in management quality among organizations are consistent with and well explained by organizational (as opposed to institutionalist) theoretical approaches. These empirical predictions are not about the determinants of organizational performance, but rather about its *distribution* – the extent and distribution of dispersion in performance among organizations within a government – and its qualitative *mechanisms* – *how* organizations are well or poorly managed, rather than *why*. The distribution and mechanisms of management in turn shed light onto the processes through which it is generated, and thus can inform hypotheses about how these processes might be influenced.

The distribution of performance among organizations operating in identical institutional contexts is an indirect indicator of how constraining institutions actually are on organizations.¹⁷ Institutionalist perspectives on state bureaucracies explicitly or implicitly assume that organizations are purposive, rational actors that maximize some objective function within overall institutional constraints (North 1990), and so there is little reason to expect substantial variation in outcomes among them (other than perhaps some random noise). This corresponds to the stylized distribution illustrated in Figure 1(a), where deviations from the overall mean are uniformly low. If this distribution pertains in reality, then the assumption that institutions tightly constrain and thus determine bureaucratic quality is a sound one, and an organizational perspective would contribute little. The literature on “islands” of effectiveness in developing country governments takes this distribution and theoretical framework as a baseline, then argues that “exceptional” well functioning organizations can exist (Grindle 1997, Tendler 1997, Leonard 2010, Roll 2013). But because this literature relies exclusively on small-N case studies, it cannot identify whether such organizations are indeed exceptional – as illustrated in Figure 1(b) – or whether they are simply the upper end of a continuous distribution that includes not just very strong and very weak organizations, but also a full spectrum in between.

¹⁷ The definitions of government performance and good governance are heavily contested (Rothstein and Teorell 2008, Talbot 2010, Fukuyama 2013, Rotberg 2014). While I focus on one specific measure of performance – management quality – the broader point about within-government variation is generally applicable.

Figure 1: Three stylized distributions of management quality



This is the perspective implicitly adopted by medium- or large-N organization-focused empirical work (Ingraham *et al* 2003, Talbot 2010, Gingerich 2013, Rasul and Rogger 2014). Figure 1(c) illustrates this as a uniform distribution with large deviations from the mean. For simplicity a uniform distribution is shown to illustrate the framework’s distributional prediction, but it is equally compatible with other alternatives (such as a normal distribution) that are both continuous – to distinguish them from 1(b) – and have a substantial degree of variation – to distinguish them from 1(a). If organizational factors are important and systemic determinants of performance above and beyond institutional factors, the overall distribution of performance across organizations will resemble the distribution in Figure 1(c). The following section discusses methodological details of how this paper defines and measures organizational performance, and compares its distribution in Ghana’s government to these hypothetical distributions.¹⁸

On the question of mechanisms, the relational contracts view of management predicts that the way in which formal and informal factors interact will change qualitatively when moving along the spectrum of overall management quality. That is, although formal and informal factors always interact, the difference between good and bad organizations is not simply “better” interactions, but qualitatively different ones. Table 1 illustrates three qualitative typologies of management. Perfunctory performance of a task involves carrying out the formal aspects of the task that are fully codifiable and verifiable, but not the associated informal aspects that also create value. Consummate performance, however, involves carrying out both the formal *and* the informal aspects of the task. In better-performing organizations, then, qualitative examination of day-to-day tasks would show managers and employees collaborating not just to design and enforce formal rules, but also to cultivate the complementary informal practices that enhance the efficiency of the formal practice. In less well-

¹⁸ The definition of “substantial” in this context is, of course, contestable, since organizational performance has no natural scale. One option is to compare it to cross-country variation, as Gingerich (2013) does in arguing that within-country variation in governance quality across organizations actually exceeds variation across-countries, using self-reported survey data. However such comparisons raise methodological issues about cultural and contextual differences affecting item interpretation, as well as other possible sources of survey bias. This paper’s approach is to use an objectively defined methodology for benchmarking management that covers a range of variation that is “substantial” quantitatively in that it has been widely used in other contexts and shown to be predictive of significant variations in performance, and qualitatively in that the benchmarks cover a range of variation in practices comparable to what public sector reform efforts seek to realize. Section 2 discusses measurement in more detail.

managed organizations, however, agents might follow formal rules, but only to the extent they are codifiable and verifiable. Finally, in the worst organizations, agents may not even execute these formal processes, and managers may not attempt to or be able to enforce them. In this state of non-performance, positive informal practices (now substitutive rather than complementary of formal practices) only exist on an *ad hoc* basis – due to exceptional individuals, for example – rather than being systematically fostered and institutionalized, and thus should be empirically rare. Note that this framework is agnostic about the *design* of these formal and informal practices; rather they are shaped on an ongoing basis through a relational process, and the assumption is that regardless of whether a given management practice is theoretically optimal, executing it is better than not executing it.¹⁹

Table 1: Formality, informality, and performance in organizations

	Non-performance	Perfunctory performance	Consummate performance
Formal processes defined and executed	No	Yes	Yes
Supporting informal norms and practices cultivated	No	No	Yes

Qualitatively, then, the empirical analysis examines the extent to which this spectrum of performance – from non-performance to perfunctory performance to consummate performance – is an accurate characterization of day-to-day bureaucratic functioning and management in government organizations. Unlike the distributional predictions, these qualitative predictions of relational contract theory are not necessarily in tension with institutionalist approaches to formal and informal institutions; rather, they are considerably more specific. If they are accurate, then, their specificity provides a stronger – or at least complementary – analytical basis for understanding the functioning of government bureaucracy than institutionalist approaches. They also predict that, to the extent they result from relational processes in organizations rather than generalized socio-cultural institutions, informal norms and expectations will vary substantially across organizations, and that better-managed organizations will try to actively foster positive informal norms through official channels.

I address these quantitative and qualitative predictions in reverse order: Section 3 examines qualitative variation at the level of two specific management practices, and Section 4 then aggregates these practice-level variations up to the organizational level in order to draw a picture of the overall distribution of variation in management quality in Ghana’s central government. Before this, however, the next section discusses details of measurement and methodology.

¹⁹ This may not be true in cases where the organization’s political principles heavily incentivize outcomes but also impose rigid and poorly designed formal rules that hamper the achievement of these outcomes; Helmke and Levitsky (2004) cite the Soviet *blat* system as an example of an “accommodating” informal institution that improved efficiency by working around a formal institution. These seem less likely to be important in the contexts of developing country bureaucracies, where outcomes are typically not strongly incentivized and formal rules are often weakly enforced.

2. MEASURING MANAGEMENT

To examine the extent to which performance varies across organizations within the same government, I conduct semi-structured interviews on management practices with senior managers in 40 organizations in Ghana's central government. Broadly defined as the cumulative operation of formal structures and processes and informal norms and practices within an organization, management is a close proxy for organizational performance: better-managed organizations perform better than worse managed ones, all else equal. To measure management quality, I adapt the methodology of Bloom and Van Reenen (2007; BVR henceforth) from organizational economics, which uses semi-structured interviews with senior managers to benchmark the effectiveness of a variety of management practices in the organization.²⁰ This method produces an indicator of performance that is more comparable across organizations than the outcome-based measures used by most cross-national studies, and is also largely attributable to and within the control of the organization itself.²¹ Likewise, it is also more comparable across organizations than qualitative small-N methods, making it possible to incorporate a large enough sample to be representative of the overall population of organizations in a government.²²

In contrast to most survey-based approaches to studying management, the BVR method uses interviews with managers to investigate about the *actual* state of practice in their organization, rather than asking what the management practices are *supposed to be* on paper or what interviewees' *perceptions* of management quality are. This focus is particularly important in the context of governments in developing countries, since it is widely recognized that *de facto* practices frequently diverge from *de jure* ones in this context (Andrews 2013) and much of the comparative governance literature has so far relied on perception-based measures of experts or the subjects themselves (Kaufmann et al 2010; Teorell et al 2011, Gingerich 2013), both of which may be subject to various biases (Schwarz 1999, Bertrand and Mullainathan 2001, Olken 2009). To get at *de facto* practice, the conduct of the interviews included a number of measures to elicit honest answers and avoid social desirability bias, such as starting with open questions (e.g. "How do individual staff know what tasks and targets they are responsible for?") rather than the types of closed questions ("Do individual staff have tasks and targets?") that are common to most surveys; following up with more specific probing questions ("So how do officers know what to do when they get to the office on Monday morning?") and requests for examples; and asking

²⁰ This method has been shown to be highly correlated with productivity in organizations as diverse as manufacturing firms, schools, hospitals, and non-governmental organizations, in developed as well as developing countries (see Bloom et al 2014 for a survey).

²¹ In contrast, organizational outputs depend on the supply of resource inputs and outcomes may depend on the interaction of these outputs with societal factors or the actions of other government organizations. While certain aspects of management are not entirely within an organization's control (for example due to labor laws or budgeting processes), in Ghana these largely apply government-wide and thus cannot explain variation. In fact, examining the implementation of these common *de jure* processes provide a useful test to alleviate concerns that variation is being driven by organizations choosing to implement management practices that are different but not necessarily better or worse.

²² The BVR approach has also been adapted to African public sectors by Rasul and Rogger (2014), who use it with government organizations in Nigeria. Although there are many similarities between Rasul and Rogger and this article, the two projects were independently conceived and implemented. I first became aware of the Rasul and Rogger study in May 2013, mid-way through fieldwork for this article. However, the details of this article's methodology differ in important ways from both BVR and Rasul and Rogger's adaptation of it – these distinctions are discussed below.

whether “on paper” management practices were actually carried out and meaningful in reality (“Do these targets actually influence what individuals do on a day-to-day basis, or are they just on paper?”). Finally, all interviews were conducted anonymously at both the individual and organization level, so respondents had no incentive to misreport.²³

The interviews focused on 15 aspects of management across four sub-groups: operations management, target setting, performance monitoring, and human resources management. Following BVR, these practices are evaluated against a pre-defined scoring grid on a scale of 1-5, with scores defined according to objective benchmarks rather than subjective relative perceptions (such as Likert scales).²⁴ Appendix 1 provides full details of each practice, sample questions associated with it, criteria for benchmarking, and examples. The benchmarking criteria are designed to be neutral with respect to the *style* of management and instead focus on whether for each practice the organization has a process or routine that is consciously designed and followed in reality, and which it continuously seeks to improve. The framework is thus largely agnostic with respect to the many prominent debates in the academic literature on public management that focus more on defining optimal practices (distinguishing between the 90th and 99th percentiles) than on explaining organizations’ failures to adopt anything resembling an optimal practice (distinguishing between the 10th and 90th percentiles). To aggregate the scores, each practice was converted into a normalized z-score and then averaged across the organization, with missing practices excluded, and the resulting average was then re-converted to a z-score for use in analysis.²⁵

²³ It is of course still possible that respondents could lie about actual management practices, but the combination of open-ended questions and probing follow-ups means that to do so, a respondent must both: 1) want to lie despite having no incentive to do so; and 2) be aware of what a better management practice would be.

²⁴ While this approach is more effective at eliciting information about sensitive and/or informal practices than typical closed-ended survey questions, it also requires the interviewer to use more discretion in posing and coding questions. While this could engender concerns about possible interviewer bias, this method is at least more transparent about how discretion and judgment are used by the interviewer than the strictly qualitative case study approaches that have thus far been used to study informal practices and institutions.

²⁵ To check whether reported practices depended heavily on the individual being interviewed, I conducted two interviews with individuals from different divisions in each of the 20 ministries. The correlation of overall z-scores between interviewees in the same organization is very strong (0.84) and highly statistically significant. Figure A1 in the appendix shows this relationship graphically. The difference is due to some combination of measurement error and genuine differences in management practices between divisions in the same organization. This correlation is higher than that found in re-interviews by BVR. This may be explained in part by methodological differences – BVR’s resurveys were of a manager in the same organization but a different plant, whereas I focused on two individuals within the same building. The BVR resurveys were also conducted by different interviewers, which likely increased the variance of scores. For the purpose of analysis, in the organizations where two interviews were completed, I first averaged each practice score between the two interviews before converting them to z-scores and aggregating. Although averaging the two interviews mechanically reduces the variance of scores among ministries somewhat, alternative aggregation schemes, such as using only the first interview in each organization, do not change the conclusions of the analysis.

Table 2: Organizations in sample

Ministries (20)	Agencies and Departments (20)
<i>Administration sector</i>	
<ul style="list-style-type: none"> Ministry of Chieftaincy and Traditional Affairs Ministry of Finance and Economic Planning Ministry of Information Ministry of Justice and Attorney-General's Department Ministry of Local Government and Rural Development 	<ul style="list-style-type: none"> Department of Community Development Ghana Revenue Authority Information Services Department Registrar-General's Department
<i>Economic sector</i>	
<ul style="list-style-type: none"> Ministry of Environment, Science, Technology, and Innovation Ministry of Food and Agriculture Ministry of Lands and Natural Resources Ministry of Tourism, Culture, and Creative Arts Ministry of Trade and Industry 	<ul style="list-style-type: none"> Environmental Protection Agency Fisheries Commission Ghana Irrigation Development Authority Ghana Standards Authority Ghana Tourism Authority Minerals Commission
<i>Infrastructure sector</i>	
<ul style="list-style-type: none"> Ministry of Communications Ministry of Energy and Petroleum Ministry of Roads and Highways Ministry of Transport Ministry of Water Resources, Works, and Housing 	<ul style="list-style-type: none"> Department of Rural Housing Ghana Highway Authority Ghana Investment Fund for Electronic Communications Ghana Shippers' Authority National Petroleum Authority
<i>Social sector</i>	
<ul style="list-style-type: none"> Ministry of Education Ministry of Employment and Labour Relations Ministry of Gender, Children and Social Protection Ministry of Health Ministry of Youth and Sports 	<ul style="list-style-type: none"> Department of Children Department of Cooperatives Ghana Library Authority National Health Insurance Authority National Youth Authority

Note: Organization names are reported as at mid-2013, when fieldwork for this article was conducted. Some organizations have since been renamed, merged, or split. Sectoral classifications based on Government of Ghana budget classification, with the exception of the Ministry of Energy, which is coded as Infrastructure rather than Economic sector due to its expenditure profile.

I conducted these interviews in person with management-level staff in 40 organizations in Ghana's central government, comprising all twenty of Ghana's ministries (excluding security sectors such as the Ministry of Defense) and one randomly selected agency of each ministry, thus covering a representative sample of organizations across nearly the whole of government.²⁶ Respondents in specific

²⁶ The three security sector ministries – Defense, Interior, and Foreign Affairs and Regional Cooperation – were excluded from the study. At the time of the study the Ministry of Fisheries and Aquaculture Development was newly created and not yet operational, but was being created out of the extant Fisheries Commission, which was included in the sample. To select agencies, I first excluded all organizations that are: primarily commercial (state-owned enterprises); very small (below 30 staff); the two largest agencies (Ghana Education Service and Ghana Health Service), which are each an order of magnitude larger in terms of staff size than any other organization in Ghana's government; and an assorted handful of organizations whose specific functions or structure made them non-comparable to

positions within each organization were targeted for interviews, in order to minimize the potential for selection bias, and although timing and availability necessarily played some role in selection, there is no evidence that responses or management scores differed systematically by interview or interviewee characteristics (see Appendix 2 for more details).

In addition to these numerical measures, I also treat the interviews as rich sources of qualitative data. This allows me not only to capture the nuanced interactions of formal and informal factors in day-to-day management practices, but also to make comparisons across a much larger sample than the small-N methods usually associated with research into informal institutions would allow. The qualitative data underlying these codings continues to serve to validate these codings and provide an important check for consistency in the coding process, which helps to alleviate the concerns about interviewer bias often associated with survey research as well as qualitative fieldwork methods.²⁷

3. FORMALITY AND INFORMALITY IN GOVERNMENT ORGANIZATIONS

This section examines qualitative variation within two of the fifteen management practices covered by the interviews: defining the tasks and responsibilities of employees, and assessing and rewarding performance. There is a wide range of variation in these across organizations. However, this variation is characterized not by a gaping chasm between a handful of exceptional organizations and a mass of poor ones, but by an accumulation of marginal yet collectively significant differences. Qualitatively, the observed qualitative relationship between formal processes and informal norms and practices corresponds to that hypothesized by relational contracts theory, ranging from non-performance to perfunctory performance to consummate performance of the practice.

The definition of individual tasks and responsibilities and the assessment of individual performance are both critical aspects of management in any organization. Both are also subject to some degree of standardization across public service organizations in Ghana. For the assessment of individual performance this level of intended uniformity is very high, as the process is standardized even down to the specific form used for every government employee's annual appraisal.²⁸ This makes it a particularly strong test of this paper's theoretical arguments: the formal "rules" (and any society-wide informal norms) are constant across organizations, so variation in their execution

other organizations. A random selection of one eligible agency per ministry was then made. The Ministry of Chieftaincy and Traditional Affairs had no eligible agencies.

²⁷ This qualitative data was referred to throughout the interview process in order to ensure that codings were consistent. All individual practice scores were finalized *before* aggregation and analysis, however, in order to minimize the potential for data mining and other forms of bias. Drawing on qualitative data to ensure the consistency of coding is a partial compensation for the inability to statistically control for interviewer bias.

²⁸ Ghana's governmental structure makes a distinction between the Civil Service and the Public Service, each of which have their own staff appraisal system. The staff of ministries and departments, which comprise the Civil Service, therefore undergo a slightly different appraisal process than staff of the agencies, who are part of the Public Service but not the Civil Service. For the purposes of this study, however, the differences between these two appraisal schemes are negligible, and each scheme is formally identical across organizations within each service.

must be due to organization-level factors; if this variation comprises not just the execution of formal processes but also the fostering of complementary informal norms and practices, then these organization-level factors have a strongly relational element.

3.1 Defining individual tasks and responsibilities

The interview item Defining Tasks and Responsibilities deals whether individuals know what they are responsible for and do it, as opposed to waiting around to be told what to do. In other words, when individuals come to work on Monday morning, how do they know what they should be doing? In the best organizations, individual objectives and tasks are clearly defined through a combination of formal target setting, periodic review meetings, to-do lists, and informal check-ins. This means that staff can handle routine tasks with a high degree of autonomy, and understand how these connect to the work of their colleagues and the division and organization as a whole. In these cases autonomy complements rather than replaces hierarchical supervision, as individuals still consult regularly with their directors in one-on-one and team meetings and are directly assigned tasks that arise in addition to their defined duties.

In organizations on the other end of the spectrum, in contrast, direct hierarchical supervision is the sole method for assigning tasks, with the result that officers spend much of the time idle and supervisors feel overloaded because they are responsible for managing not only for their own daily workload, but also that of all their subordinates. Service-wide regulations mandate that individual tasks and targets be defined annually, as part of the appraisal process, but in poorly managed organizations this is either not carried out, or is carried out in a formalistic way using vague or recycled objectives that are forgotten as soon as they are written and do not actually guide individuals' work during the year.

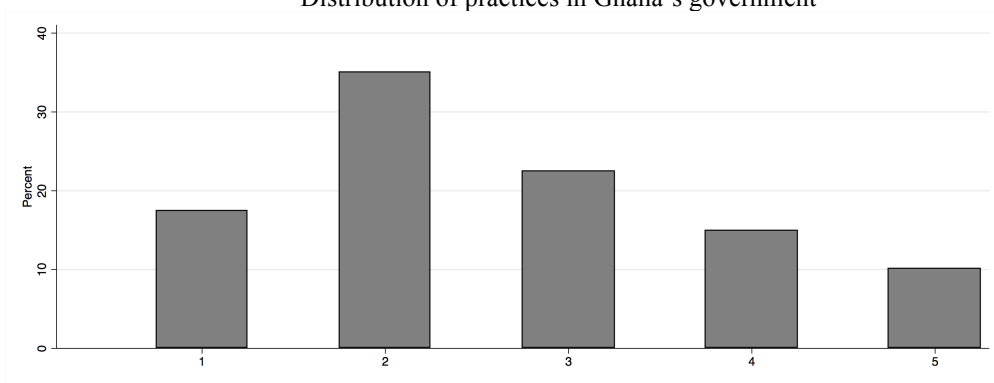
As the histogram in Table 3 shows, both of these extremes are represented, but the majority of organizations find themselves somewhere in between. Often this means partial execution of these processes: targets are defined for individuals, but not regularly; job descriptions provide some guidance about general responsibilities; and some officers can carry out certain routine tasks autonomously, but periods of idleness while waiting for direct orders from a superior are still common.

3.2 Assessing and rewarding individual performance

A similar range of practices exists with respect to assessing and rewarding individual performance. Personnel decisions and payscales are subject to a high degree of central control and regulation, and on paper, the process is completely standardized across organizations.²⁹ Yet in actual practice, there is a significant amount of positive and negative deviance from the intended standard. On the negative side, in many organizations individual performance is so unimportant that the annual appraisal process is not even carried out annually, as intended; rather, individuals often complete several years' worth of appraisals retrospectively as they near the date for

²⁹ The Office of the Head of Civil Service and Public Services Commission are heavily involved in almost all human resources decisions pertaining to pay, promotion, hiring, and firing, so for all intents and purposes these are formally identical within the Civil Service and Public Service. In general, however, the Public Service organizations have a slightly higher degree of autonomy in some of these respects.

Table 3: Defining individual tasks and responsibilities

Examines how well the organization allocates tasks and defines individual responsibilities														
Sample questions														
<ul style="list-style-type: none">• How are objectives set for individual staff members?• Could everyone in the organization say what they are responsible for and how that will be assessed?• When a staff member comes to work on Monday morning, how do they know what to do?• How do you know which tasks are best suited to different staff?														
Benchmarking criteria														
Score 1	Score 3	Score 5												
Objectives are undefined or very vague. Staff are expected simply to “do what they’re told”. Tasks are allocated to individuals on an <i>ad hoc</i> basis, with little or no consideration of individual competences or workloads. Staff are often unsure what they should be doing.	Objectives may be formally defined but are vague or inconsistently applied. Staff have a general sense what they are responsible for, but completion of most tasks relies mainly on the giving/ following of direct orders. There is some consideration of which tasks should be allocated to certain individuals, but this is partial, inconsistent, or based only on an officer’s formal position.	Individuals understand clearly what they are responsible for and what they should be doing at all times. Objectives are meaningful and are defined through a two-way process. Tasks are allocated based on identified competences.												
Distribution of practices in Ghana’s government														
 <table><caption>Data for Distribution of practices in Ghana's government</caption><thead><tr><th>Score</th><th>Percent</th></tr></thead><tbody><tr><td>1</td><td>18</td></tr><tr><td>2</td><td>35</td></tr><tr><td>3</td><td>23</td></tr><tr><td>4</td><td>15</td></tr><tr><td>5</td><td>10</td></tr></tbody></table>			Score	Percent	1	18	2	35	3	23	4	15	5	10
Score	Percent													
1	18													
2	35													
3	23													
4	15													
5	10													
Selected examples														
Below average (score 1)	Average (score 2.5)	Above average (score 4.25)												
<ul style="list-style-type: none">• Officers in a social-sector ministry have targets defined through the appraisal process, but in practice they wait for work to be minuted to them by a superior.• Targets are seen as a formality that don’t actually influence work. "People set targets, but the fact is that in most situations in our parts of the world these things are only done when there is something critical that occurs, like the officer wants a promotion."• Staff are often idle because they don’t have work. "It's not like you come to work every time and there is something special that you do."• One consequence of this is that management have to micro-manage and are often overworked.	<ul style="list-style-type: none">• In one economic-sector ministry, directors apportion their division’s objectives to officers at the start of the year. This is supposed to be annual but is not always done.• Job descriptions provide some guidance about individual responsibilities, but not enough that officers are always aware of what specific tasks they should be doing.• “It's not everyone who knows what they're responsible for and can get on with it without waiting for director's minutes...[but] some of us who have routine work know.”	<ul style="list-style-type: none">• In an infrastructure ministry, each officer sits with their boss at the start of every year and reaches mutual agreement on a set of specific tasks and targets (e.g. submitting a report within 48 hours of a workshop).• Individual tasks are derived directly from the division’s targets and areas of responsibility.• “People are pretty clear on what they need to be doing.”• Each division meets regularly to discuss the status of each officer’s work, the connections between their roles, and the organization’s targets.												

promotion interviews. In these organizations the appraisal itself is essentially a self-assessment that the supervisor merely signs off on, except in cases of extreme misconduct, and there is no link between formal or informal assessments of performance and promotion or other rewards.

On the positive side, some organizations not only carry out the formal appraisal process as designed, but also institute complementary informal measures to make the formal process more meaningful. Supervisors hold the standard annual and mid-year performance review meetings with each of their staff, but also hold informal discussions on performance in weekly divisional meetings so that individuals are not only kept aware of their own performance, but also how they compare to others in the division. Because there are strong centrally-imposed constraints on pay and promotions, organizations find other ways to recognize and reward good performance: awards nights for top performers as voted by their colleagues, occasional written letters of recognition for exemplary work, opportunities for training, and so on. While accelerated formal promotions are rare, it is common for these organizations to reward star performers with “informal promotions”: appointment to committees, roles as a focal person, and other opportunities that further career development and may also entail some financial benefit. In between the extremes of good and bad practice, similar types of informal recognition or rewards sometimes exist but are often less transparent in their selection criteria and linked only indirectly, or not at all, to performance assessments – bags of rice or small bonuses for all staff at Christmas, for example, or highly subjective allocation of training opportunities by supervisors.³⁰

3.3 Qualitative variation and relational contracts

For both of these practices, the variation among organizations is clearly qualitatively significant, in the sense that improving the practice would require dramatically different actions in each organization. Some organizations fail to execute even simple required procedures, while others not only execute them consistently but also take initiative to go above and beyond these minimum requirements and find ways to make them more than mere formalities. In between these extremes, organizations’ management practices vary in ways that are more marginal, yet still non-trivial. The distribution of practice across the other 13 management practices is similar, albeit with some variation across practices (see Appendix 1 for qualitative examples, and Appendix 2 for the quantitative distributions).

The qualitative nature of this variation is also consistent with relational contracts theory, as outlined in Table 1, but is not well explained by theories of informal institutions. While parts of this variation can be characterized using institutional theory – the enforcement of formal institutions (Levitky and Murillo 2009), or the complementary nature of informal norms in well-managed organizations (Helmke and

³⁰ One of the key results of Rasul and Rogger (2014) is that incentive-linked management practices are negatively related to project completion in Nigeria’s civil service; they explain this as a distortion of effort and cooperation as a result of incentives that are harder than optimal. However, this study found no examples of the pay-for-performance type incentives that could generate this kind of perverse relationship in any of the 40 organizations in Ghana’s government. Whether this is a difference between methodologies or between public management in Ghana and Nigeria is unclear, but in any case there is no evidence of any incentive schemes in Ghana’s government that could potentially undermine organizational performance through distortion of effort.

Table 4: Assessing and rewarding performance

Examines whether individual performance is assessed transparently and rewarded proportionately

Sample questions														
<ul style="list-style-type: none">• How does your appraisal system work? Are the appraisals actually completed regularly?• Are there any financial or non-financial (e.g. awards, training, travel opportunities) rewards related to this review?• Are better performers likely to be promoted faster or are promotions given solely on the basis of tenure / seniority?														
Benchmarking criteria														
<u>Score 1</u>	<u>Score 3</u>	<u>Score 5</u>												
People are rewarded in the same way irrespective of their performance. Promotions are solely based on tenure.	There is an evaluation system which in principle awards good performance (financially or non-financially), but awards are not based on clear criteria/ processes. Performance can sometimes influence career progression.	There is an evaluation system which rewards individuals (financially or non-financially) based on performance. Rewards are given as a consequence of well-defined and monitored individual achievements. Performance is a key criterion for promotion decisions.												
<p>Distribution of practices in Ghana's government</p> <table><thead><tr><th>Score</th><th>Percent</th></tr></thead><tbody><tr><td>1</td><td>20</td></tr><tr><td>2</td><td>32</td></tr><tr><td>3</td><td>20</td></tr><tr><td>4</td><td>22</td></tr><tr><td>5</td><td>5</td></tr></tbody></table>			Score	Percent	1	20	2	32	3	20	4	22	5	5
Score	Percent													
1	20													
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3	20													
4	22													
5	5													
Selected examples														
<u>Below average (score 1)</u>	<u>Average (score 2)</u>	<u>Above average (score 3.5)</u>												
<ul style="list-style-type: none">• In an economic-sector ministry, staff appraisals are only completed once every three years, when it is time for the officer to be considered for promotion.• The appraisal is a self-assessment; actual discussions about officers' performance rarely happen.• "The appraisals don't improve the system. They're a formality."• There is no link between performance and promotion. Recommendations for promotion are based solely on seniority.• In principle performance can be incentivized with training opportunities, but the allocation of these is viewed as subjective. "One director even says he'll send you 'if your face looks nice'."	<ul style="list-style-type: none">• Appraisals in one social-sector ministry are always done annually, but there are no rewards and the process is viewed mainly as a formality.• Better performing officers are sometimes more likely to be recommended as a focal person for an activity and receive additional responsibilities, but this is viewed as subjective and dependent on one's director and the chief director.• In principle non-performing officers can be not recommended for promotion, but in practice this does not happen and recommendation for promotion is based entirely on years served.• The ministry gives officers a bag of rice at Christmas as a bonus, but this is given to all staff regardless of performance.	<ul style="list-style-type: none">• In one infrastructure ministry, appraisals are always done annually, and individuals' performance is also discussed weekly in divisional meetings, so officers are also aware of their peers' performance.• Each year the ministry holds an awards night. Within each division staff vote for a top performer, and then these individuals vote for an overall top performer.• Accelerated promotions are rare, but non-performing individuals tend to be recommended more slowly, so better performers rise through the ranks faster.• The HR division makes an effort to recognize officers for exceptional work, for example by writing letters of commendation for outstanding performance on a particular task.												

Levitsky 2004) – other qualitatively important aspects of management are not. For example, the same complementary informal norms in well-managed organizations do not exist as substitutive informal norms in poorly managed organizations, as Helmke and Levitsky's (2004) classification of the relationship between formal and informal institutions might predict. Relational contracts theory is clear about why this is, whereas an institutional framework has little explanation for why institutions *do not* exist in a particular setting. Likewise, actual management practice clearly is shaped by and seeks to shape numerous behavioral incentives, regularities, and actions that fall outside the realm of “institutions”. These can only be understood by viewing informal norms and practices in management as arising due to the need to guide and coordinate the use of discretion by managers and agents.

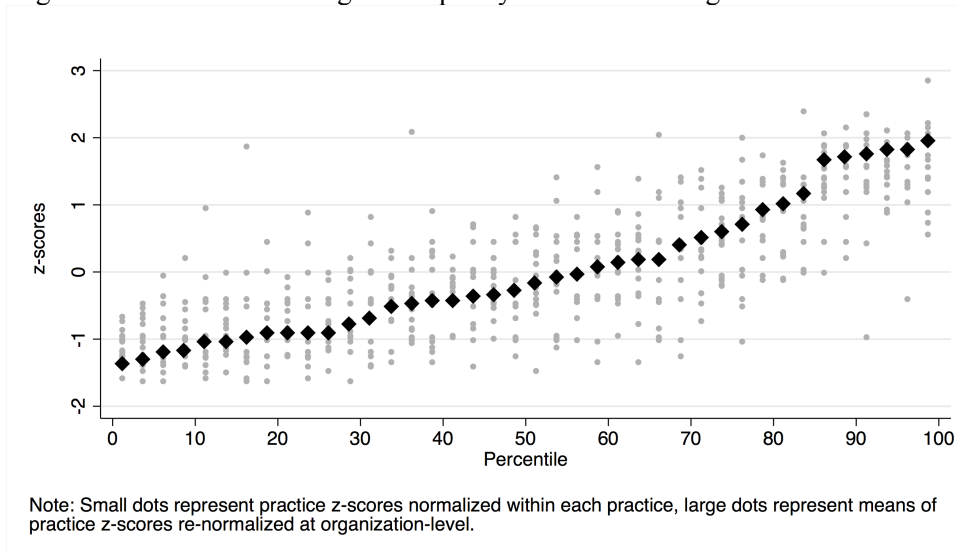
4. THE DISTRIBUTION OF MANAGEMENT QUALITY ACROSS ORGANIZATIONS

The previous section demonstrated that there is considerable micro-level variation in management practices among organizations within Ghana's government. This section aggregates these micro-level differences to the level of the organization, and examines the resulting distribution against the three stylized distributions discussed in Section 2.3. If practice-level variation is just random noise – idiosyncratic decisions by individual managers, perhaps, or simple stochastic error accumulation over time – it will average out across organizations and the overall distribution of management quality will be relatively flat. If the quality of management practices is correlated within organizations, however, then these micro-level differences will aggregate into significant differences across organizations. This corresponds to the organization-focused view of performance and management, which views management as both a technical and relational problem that has to be deliberately and systematically shaped over time by organizations.

4.1 Variation across organizations

Figure 2 plots the normalized practice z-scores along with the overall organization score (the renormalized mean of the individual practice z-scores). The distribution is slightly right skewed – the mean is below the median – but there is continuous incremental variation in overall scores across the entire spectrum. There is a strong within-organization correlation of practice scores – the correlation coefficients between each practice score and the overall organization score all fall between 0.61 and 0.88, and are all highly statistically significant. At the extremes, the within-organization distribution of the best organizations dominates that of the worst organizations. That is, the most lagging management practice in the top few organizations is still better than the best practice of the bottom organizations. Despite this, the variation within organizations is still meaningful. An improvement of a quartile, from the 10th percentile to the 35th, would require an overall improvement of just 0.65 standard deviations, equivalent to an average increase of just 0.58 marks in each practice. If each organization simply improved all its practices to the level of the 75th-percentile practice *in that organization*, this alone would increase the overall organization score by 0.60 standard deviations.

Figure 2: Variation in management quality across Ghana's government



This distribution is inconsistent with the view that national- or societal-level institutions tightly constrain or determine organizational performance. Although management quality has no natural scale, the numerical codings of individual management practices are based on qualitative descriptions benchmarked to objective scales (as opposed to subjective, perception-based, Likert-type scale); this makes it possible to link the overall organizational management score to the variation at the practice-level is qualitatively meaningful, and thus show that the differences between the worst, the average, and the best organizations are indeed meaningful ones. Accumulated across the numerous aspects of management, these minor differences add up to organizations that function in fundamentally different ways. This is consistent with the findings of the case study literature on “islands” of excellence in developing country governments, which also draws on primarily qualitative evidence. However, the empirical distribution in Figure 2 is not consistent with this literature’s view of variation in management as a feature solely of “exceptional” organizations. Rather, the distribution is smooth and continuous, consisting of minor and marginal differences that collectively amount to significant heterogeneity. The largest discontinuity in this distribution is a minor gap at the 85th percentile, but this is equivalent to just under half a standard deviation and is far from systematic enough to be considered evidence of a bimodal pattern of “islands” of excellence.

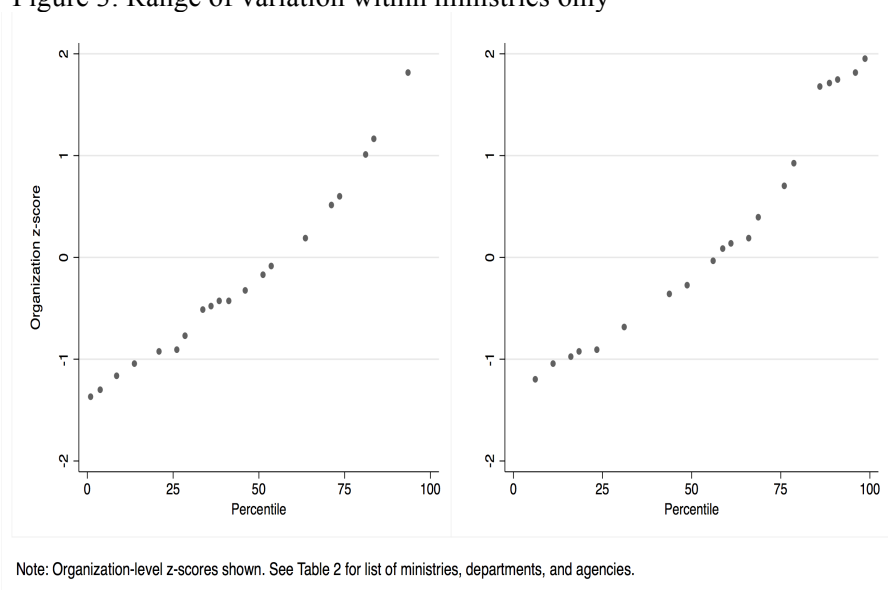
4.2 Variation among similar organizations

While this is strong evidence that management quality varies substantially at the organizational level within Ghana’s government, it does not show whether this variation arises from factors internal or external to the organization. For example, organizations might have different task characteristics that are inherently more or less difficult to carry out, and thus better management could be a reflection of these contextual differences rather than (or in addition to) an independent causal factor in its own right. If, hypothetically, variation was due entirely to external factors, then organizational performance would still be tightly constrained by contextual variables, as institutionalist perspectives presume; however, these constraints would not be national-level or purely institutional in nature, but specific to particular organizations. Investigating the extent to which management quality is driven by internal and

external factors is beyond the scope of this paper – indeed, it is an entire research agenda in its own right (cite G&H, Martinez et al, others). In principle, this could be tested by conditioning on a full set of observable and unobservable characteristics of organizations, but this is obviously unfeasible for measurement and the potential number of variables (and their interactions) would be vastly larger than the universe of government organizations in any country.

Instead, this paper’s more humble claims are that: a great deal of variation seems to be driven by organizational factors (whether internal or external) rather than institutional ones; this variation is qualitatively consistent with relational management processes playing an important role; and since relational processes imply that management quality can vary substantially among *ex ante* identical organizations (i.e. those with identical external contexts), external factors (whether institutional or organizational) are unlikely to fully determine management quality. While conditioning on the full set of observable and unobservable characteristics of organizations is impossible, it is nonetheless possible to examine as a simple robustness check two ways of restricting the analysis to organizations that are more likely to be comparable to each other: ministries only, and organizations within the same sector.

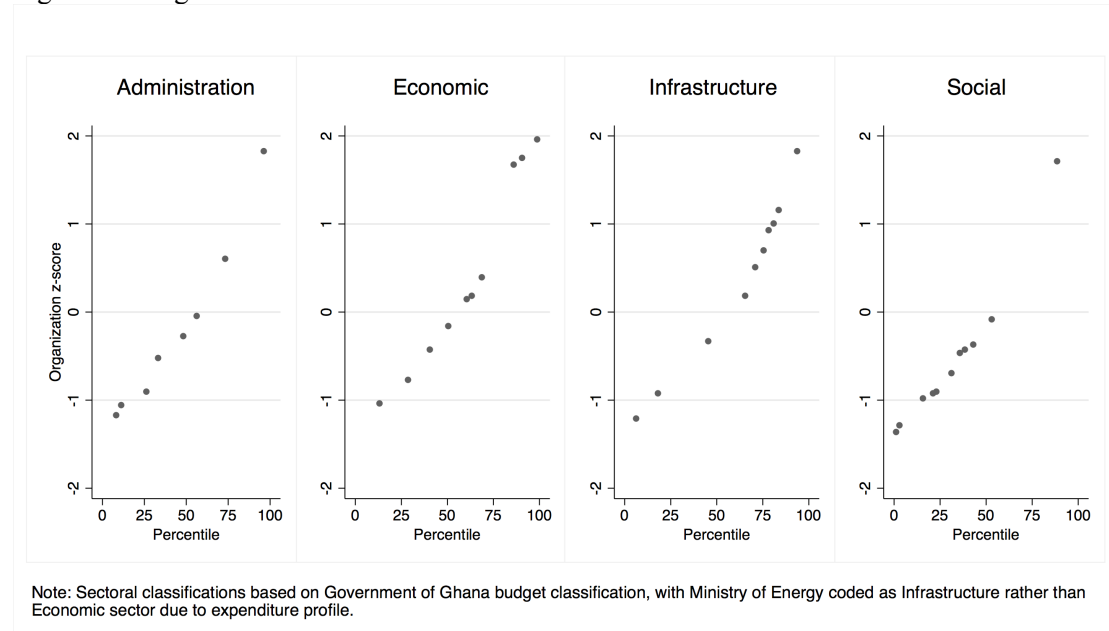
Figure 3: Range of variation within ministries only



Management within the subset of 20 ministries is even more comparable than among the sample as a whole, because Ghana’s structure of government gives all ministries identical functions – policymaking, and oversight of subsidiary departments and agencies – while all implementation activities are undertaken by departments and agencies. Thus the core tasks of the agencies and departments in the sample vary somewhat, but those of ministries do not. Figure 3 demonstrates that the range and distribution of variation among ministries is comparable to that in the full sample. Next, Figure 4 shows the distribution of organization-level management scores across the four broad sectors of Ghana’s government: Administration, Economic, Infrastructure, and Social (Table 2 lists these by organization). The only significant

difference across sectors is the lower average performance of social sector organizations, although the range of scores in this sector is comparable to that of other sectors.³¹

Figure 4: Range of variation within sectors



While these sub-sample comparisons illustrate that substantial organization-level variation exists even after conditioning on some particularly salient observable external characteristics of organizations, they are only suggestive (but not conclusive) evidence that these external characteristics do not fully determine organizational performance. Nonetheless, this study has shown empirical evidence that is both quantitatively and qualitatively consistent with internal management factors – based in relational contracts theory – playing a large role in the day-to-day functioning of organizations. At a minimum, this theory and evidence suggests that, rather than presuming that organizational performance is fully determined by institutional or external organizational-level factors, the new default assumption for studies of bureaucratic quality should be that these factors are not fully constraining. The appropriate question for research on state capacity is not whether management matters – it is how much it matters, and how it can be changed.

5. DISCUSSION AND IMPLICATIONS

This paper has argued that institutionalist approaches to studying state capacity should be complemented by organizational approaches, for both empirical and theoretical reasons. Empirically, taking organizations rather than institutions as the key unit of analysis makes it possible to understand and begin to explain within-country variation in bureaucratic quality. This variation across organizations is empirically important, and may in some cases even exceed cross-country variation (Gingerich 2013).

³¹ This difference is statistically significant at the five percent level, albeit with an extremely small sample size.

Studying variation among organizations in the same government also sheds light on the operation of institutions, by revealing the ways in which institutions are – and are not – constraining on the actors that operate within them.

Theoretically, an analytical focus on organizations enables scholars to draw on a rich body of theory from organizational economics, organization theory, and management. In particular, relational contracts theory provides both an explanation for overall differences in management quality among organizations, and an account of its micro-foundations in the governance of discretion within organizations. It also offers testable qualitative predictions about the relationship between formal structures and processes and informal norms and practices. While organizational approaches are not necessarily incompatible with institutionalist frameworks for analyzing the relationship between formal and informal institutions, they nonetheless bring to the fore the ways in which organizations act as a nexus for institutions, by consciously using both formal and informal means to shape the incentives and behavior of individuals. Relational contracts theory also permits the analysis of behaviors and control mechanisms that are not institutionalized but are nonetheless important, whereas these are beyond the scope of institutionalist approaches.

This is not to say that institutionalist approaches to studying government bureaucracy and state capacity are never useful. Rather, the claim is that bureaucratic outcomes are the joint products of both institutional *and* organizational factors. To draw on a statistical metaphor, if institutional factors represent national averages, then organizational factors represent deviations up or down from that average. This requires researchers to choose their framework according to their question, in ways that require going beyond a simple distinction between cross-country versus within-country. Focusing on institutional differences may be appropriate for cross-country studies of mean levels of overall bureaucratic quality, but not for cross-country comparisons of particular sectors or agencies – as Gingerich (2013) points out, national-level averages may be uninformative about particular organizations if organization-level variance within countries is high. On the other hand, an organizational framework may be appropriate for studies of the *relative* performance of different organizations within a country (since they share the same national-level institutions), but a longitudinal study of *changes* in the performance of a particular organization would need to consider changes in both national-level institutional factors as well as changes in organization-specific factors, both external and internal to the organization. While these distinctions may seem basic, they are nonetheless crucial – yet absent from much scholarship on bureaucracy and its reform.

Deeper engagement with the role of organizations and management also raises a difficult set of questions about identifying causality. Empirical studies of the determinants of institutional quality often identify causal effects by focusing on factors that are deeply historical; this solves the endogeneity problem, but also excludes any determinants of institutional quality that present-day actors could conceivably affect. Likewise, empirical studies of the determinants of organizational performance can estimate the effects of external, exogenously defined characteristics of organizations, such as task characteristics or organization-specific political economy factors; while these are important and largely under-researched, they also exclude by design factors that are internal to the organization, such as management. At the level of particular management practices, experimental methods can establish

the impact of interventions on both formal and informal aspects of management (Bloom et al India, Martinez et al 2015), yet the external validity of any intervention that targets informal norms and practices is necessarily limited because these practices are as much relational as technical, so the specifiable details of any intervention are incomplete. For both quantitative and qualitative studies, then, there is a major role to play for descriptive research on mechanisms and processes, as well as research that focuses on cleanly identifying causal impacts.

Finally, these same factors that make organizational performance and management difficult topics for scholars also make improving them a non-trivial challenge for their political principals. While institutionalist approaches to state capacity have largely elided this reality, focusing instead on understanding the conditions under which political actors rationally want to invest in state capacity (e.g. Besley and Persson 2009), an organizational approach would bring this “investment” technology to the foreground. Even when political actors have long time horizons and an interest in a stronger state, are they always able to achieve this, and through what mechanisms?³² Conversely, when and how can state capacity improve if these preconditions are absent, as is perhaps the most prevalent case in developing countries? What is the role of specific organizations in the development of broader societal institutions? Questions such as these provide a rich agenda for a new wave of scholarship on state capacity. Answering them requires a new perspective on the quality of government bureaucracy as not just as an abstract institution, but as the outcome of the day-to-day workings, inefficiencies, and complexities of the organizations that comprise it.

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³² Indeed, a large literature beginning with McCubbins, Noll, and Weingast (1987) treats political control of the bureaucracy as an open question rather than a given. While this literature focuses almost exclusively on advanced democracies, Huber and McCarty (2004) show that low bureaucratic capacity weakens political control of the bureaucracy as well as politicians’ incentives to reform.

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