



Citizen-Centered Approaches  
to State and Market



# Dissemination Note: Governance

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### *I. Introduction to Governance*

Governance first appeared as a means for understanding university structures in Carson's seminal piece in 1961<sup>1</sup>. It was used to differentiate between administration and management and was then applied to governments, and later to businesses. Since then, this term has acquired the character of an overarching category, subsuming both administration and management under its rubric.

The general usage of the term however, has also brought with it a vagueness, as the relationship between an analytic framework and operational boundaries has been indeterminate. Under these circumstances, it risks becoming a substitute for administration or for management without the precision that those terms enjoyed in a different epoch when distinctions between the public and private sectors were considerably clearer. If the term is to be of utility commensurate with its general use, then precision, both in the analytic framework and the operational definition, must be dealt with. ISE's multi-functional framework of state function has been based on a distinctive concept of governance.

The objective of this sourcebook is to provide an analytic definition that is then illustrated through detailed operational examples, so that readers of sourcebooks directed at each of the specific ten functions of the state have a clear view of why state functions are framed in terms of governance and why each of the functions must be understood both in its own distinctive terms and as part of a cohesive whole.

We use the definition "rules for creating decision rights" to avoid the confusion between institutions as the rules as the game and organizations as the vehicle for implementation of these rules. Without specification of decision rights, the rules of the game remain at such a level of generality that obscures the distinction between constraints as positive boundaries between which actions and decisions can be made, and negative boundaries where decision rights are contained. Rules, we argue, create positive boundaries by specifying the domain of flexibility and autonomy for action – which allow for authorities to be exercised. Negative constraints define the limits of where exercising of power becomes violation of authority, illegal or criminal. A focus on decision rights rather than abstract rules of the game allows for exploration of rule-making as a sometimes static, sometimes dynamic process. Chess, the most important illustration of a game that cannot exist without rules, is an illustration of a game where without understanding of the agreement of the two players on the rules, outsiders cannot independently gauge what the rules are or that the two players have agreed on them.

Equally important, for a game to remain dynamic, as the recent analysis by Roger Martin in *Fixing the Game*, the referees must adjust the game. This cannot be done without the decision rights to empower the stakeholders and the referees with reflexively monitoring and changing the boundaries of the rules.

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<sup>1</sup> Carson, Arthur L. Higher Education in the Philippines. 1961. <http://eric.ed.gov/?id=ED544129>

## **II. A New Beginning**

There has been a consensus on the central importance of governance in state-building for the last two decades. The promotion of good governance, particularly in developing countries, however, has proven difficult.

These difficulties have stemmed from a number of factors:

1. Instead of clarifying problems and focusing on design of governance as a system, often-times pre-existing solutions have been offered without a grasp of context.
2. Legal reforms have been often separated from both understanding of organizational and cultural context, and have lacked detailed focus on a user perspective in general and citizen perspectives in particular.
3. Issues of leadership and management through clear delineation of decision rights, in relation to objectives to be achieved, have not received attention.
4. In the context of poor governance, the focus has been overwhelmingly on what does not work, instead of what works. Similarly, focus has been on needs rather than assets that exist and can be mobilized.
5. Governance as active learning requiring reflexive monitoring, feedback and willingness to undertake constant adjustment and change. These mechanisms have often been neglected.

The objective of this sourcebook is to provide policy-makers and analysts with an analytic framework that cuts across core state functions to be able to see the forest without losing sight of the trees. It is essential that the discussion of governance is built on a foundation that balances analytic and operational concerns simultaneously.

We therefore define governance as containing the following key elements:

1. Rules for creating decision rights
2. Decision processes for setting objectives, allocating resources, and assigning people to tasks
3. Guidelines for understanding and managing relationships between individuals, organizations, interest groups, networks and systems
4. Mechanisms for decision-making, creating accountability and feedback loops, and revising governing rule-sets

## **III. Keys to Governance**

There are various critical aspects in evaluating governance and implementing change and transition within the area of governance:

### *Understanding the context*

We view rules as resources, for they establish clear and useful boundaries between what is permissible and what is forbidden. Rule-setting enables the establishment of decision rights or authorities. As such, the creation of rules that must be grounded in an understanding of the problems that need to be solved. This requires design thinking rather than planning, for the former focuses on problem setting first, while the latter focuses on problem solving. It must be

immediately added that planning is necessary – we do not consider planning obsolete – it is just that in the sequence of governance interventions, it must come in sequence after design, and not as a substitute for it. The sourcebook offers illustrations of these distinctions in practice.

### *Getting design and implementation right*

Viewing rules as resources permits us to play close attention to both the user and citizen perspective. Public policy both in developed and developing countries has been haunted by the problem of good intentions and unintended consequences, for policy makers have often assumed that they know what is best for a specific group of users or citizens in general. The problem of implementation has rarely received serious attention, and backward mapping, a concept that was formulated in the 1970s to clarify the relationship between objective and policy-making, has been all but forgotten. To introduce backward mapping to governance, we are focused on how decision rights establish and relate individuals, organizations, interest groups, networks and systems. By beginning from the premise that individuals, organizations and interest groups build and change organizations, and enter and exit from networks, the linkage between decision rights and fields of maneuvers of people can be grasped in specific contextual rather than abstract terms.

The concept of governance, it is worth noting, was coined over 50 years ago for application to universities, where the complexity of interactions between various stakeholders required articulation of a notion that was different both from administration – then applied to government – and management – then reserved for business. The elevation of the concept to an overarching term of discourse and practice we argue now reflects the changes in the organization of power both within the corporate world and the relationship of governments and citizens.

### *Leadership and management*

Leadership and management, as John Kotter has frequently commented, are different. Depending on context, a task sometimes requires 90% leadership and 10% management, and at others, 90% management and 10% leadership. Focusing on the corporate world, Kotter and other commentators on the private sector do not sufficiently explore the centrality of rules, establishing decision rights, and the maneuvering and strategizing of individuals, organizations and interest groups. But the business literature does offer lessons for relating decision rights to processes for setting objectives, allocating resources and assigning people to tasks. O'Malley and Tushman for instance have developed a detailed methodology for organizing decision processes around critical tasks, people and resources. Systems of accountability for leaders in the public and private sectors differ, as both the authorizing environments and authorities to be exercised are subject to different degrees of public scrutiny.

Our work both in and with leading development organizations shows that middle and lower levels of management, and the services they provide, often do not figure into high-level analyses. Instead, the overwhelming emphasis is placed on the notion of champions, a contemporary revival of the notion of Carlisle's charismatic leader. If the promise of governance is to be realized, then a system perspective has to be established to relate rule making in general terms to specific mechanisms of decision making, setting of objectives, creation of processes, and assigning of people to tasks. As the specific task-oriented sourcebooks in the series will show, the problem must be tackled at two levels: the specific core state function, and second synergies and linkages among state functions to allow for distribution of risks and utilization of capabilities across functions.

### *Feedback loops and monitoring*

Rules become institutions through prolonged and repeated enforcement, but being of human making, any set of rules will have to confront the problem of time and changing context, as time itself results in change of context. Moreover, repetition reveals gaps between the objectives set and the processes created to achieve the objectives. Feedback loops, therefore, are essential to giving a system of governance both continuity and flexibility. Continuity is essential, as otherwise, individuals, organizations and interest groups will not be able to plan with certain assumptions regarding context. Our detailed empirical work shows that when formal rules constantly change, then informal rules and practices become prevalent, creating problems of irrelevance, skepticism and cynicism regarding the government, and worse, creating huge opportunities for corruption, and informalization and criminalization of economies and polities. Flexibility on the other hand is essential to acknowledge gaps and to take account of the entry of new stakeholders, whether as social categories and groups, or new social, economic and political interests that have materialized. Ensuring that these new entrants and organized forces play by the rules and find the system responsive to them is required for trust in the system of governance. Understanding strengths and weaknesses within systems and promoting flexibility therefore become key to system continuity.

### *Building on assets and examples of success*

Proliferation of indices on various components of governance have provided data and points of reference on poor governance. What these indices do not reveal, however, are the assets, capabilities and pockets of good governance in even in countries with very difficult governance environments. Beginning from the premise that nothing is working in a country has often resulted in the approach of importing wholesale external solutions. Russia after the collapse of the Soviet Union was one example of such an approach. But application of a governance framework for the Russian Coal sector allowed us to apply the concepts of stitching and tailoring to get maximum buy-in and ensure sustainability. Russian coal miners, like other workers in the Soviet economy, had never been paid in full and on time. In 1996, the crisis had reached a proportion where cash had disappeared from the economy, and barter had become the prevailing method. We were able to devise a system of payment to individual miners by connecting components or pockets of good governance that had existed in isolation but had never been linked to a system. The result was full delivery of wages and social benefits within six months, and its continuation during the five years of engagement of the World Bank with the program. As no external consultants were involved, the system has acquired strong Russian buy-in and has been replicated to other sectors by the Russian government subsequently. This sourcebook will illustrate some examples of success, but the other sourcebooks that are oriented towards specific functions will have each have full discussions on the prevailing governance of how the function is being dealt with and examples of where breakthroughs are being achieved.