CHAPTER

2 Strategy, Organization Design, and Effectiveness


iStock.com/chinaface

Learning Objectives

After reading this chapter you should be able to:

1. Describe the role of strategy when designing an organization.
2. Describe the key similarities and differences between Porter's strategy model and Miles and Snow's strategy typology.
3. Identify key distinctions among the goal, resource, internal process, and strategic constituents approaches to measuring effectiveness.
4. Explain the competing values model and how it relates to effectiveness.

Chapter Outline

MANAGING BY DESIGN QUESTIONS

Before reading this chapter, please check whether you agree or disagree with each of the following statements:

1 **A company's strategic intent or direction reflects managers' systematic analysis of organizational and environmental factors.**

I AGREE ________ I DISAGREE ________

2 **The best business strategy is to make products and services as distinctive as possible to gain an edge in the marketplace.**

I AGREE ________ I DISAGREE ________

3 **The best measures of business performance are financial.**

I AGREE ________ I DISAGREE ________

Kim Kardashian uses it. So does Donald Trump, Taylor Swift, Michelle Obama, David Beckham, and Queen Elizabeth II. When the Queen made her debut on Instagram in March 2019, the post showcasing her visit to the London Science Museum got more than 57,000 likes within a few hours. The Queen decided it was time she hopped on Instagram, the popular photo and video sharing social platform that had grown to more than a billion active users worldwide. That rapid growth has far outpaced the growth of rival Snapchat, as well as that of Instagram's parent company Facebook. Instagram created a short, lofty mission statement—to capture and share the world's moments—soon after it was acquired by Facebook in 2012, but within a few years, then-CEO Kevin Systrom and his Instagram co-founder Mike Krieger realized they needed help if the company was going to grow and start making money. Enter Marne Levine, who joined Instagram as chief operating officer in 2016. One of Levine's talents is bringing order out of chaos by helping set clear goals. For instance, she discovered that Instagram didn't even have a formal budget, so one of her first tasks was creating a budget so people had guidelines and ways to keep track of spending in their pursuit of goals. Levine also worked with managers to set well-defined goals for hiring employees and creating new products, which has helped Instagram mature from a pell-mell operation into a full-fledged business bringing in billions in revenue.[1]

One of the primary responsibilities of managers is to position their organizations for success by establishing goals and strategies that can keep the organization competitive. Establishing mission, goals, and strategy is the first step for any business to achieve its purpose. Managers have to know where they want the organization to go before they can take it there. When managers don't have clear goals, or have conflicting goals, the organization finds itself in a difficult position and achieving anything may seem improbable. Consider the situation at Yahoo, which had early success on the Internet (it was the most trafficked website in early 2000) but has steadily fallen behind over the past two decades as a succession of CEOs have failed to define a clear direction and purpose for the organization. "If you're everything, you're kind of nothing," said Brad Garlinghouse, a former Yahoo executive, suggesting that Yahoo has been in a slow decline because "it never solved its core identity crisis."[2]

Purpose of This Chapter

Top managers give direction to organizations. They set goals and develop the plans for their organization to attain them. The purpose of this chapter is to help you understand the types of goals that organizations pursue and some of the competitive strategies managers use to reach those goals. We provide an overview of strategic management, examine two significant frameworks for determining strategic action, and look at how strategies affect organization design. The chapter also describes the most popular approaches to measuring the effectiveness of organizational efforts. To manage organizations well, managers need a clear way to measure how effective the organization is in attaining its goals.

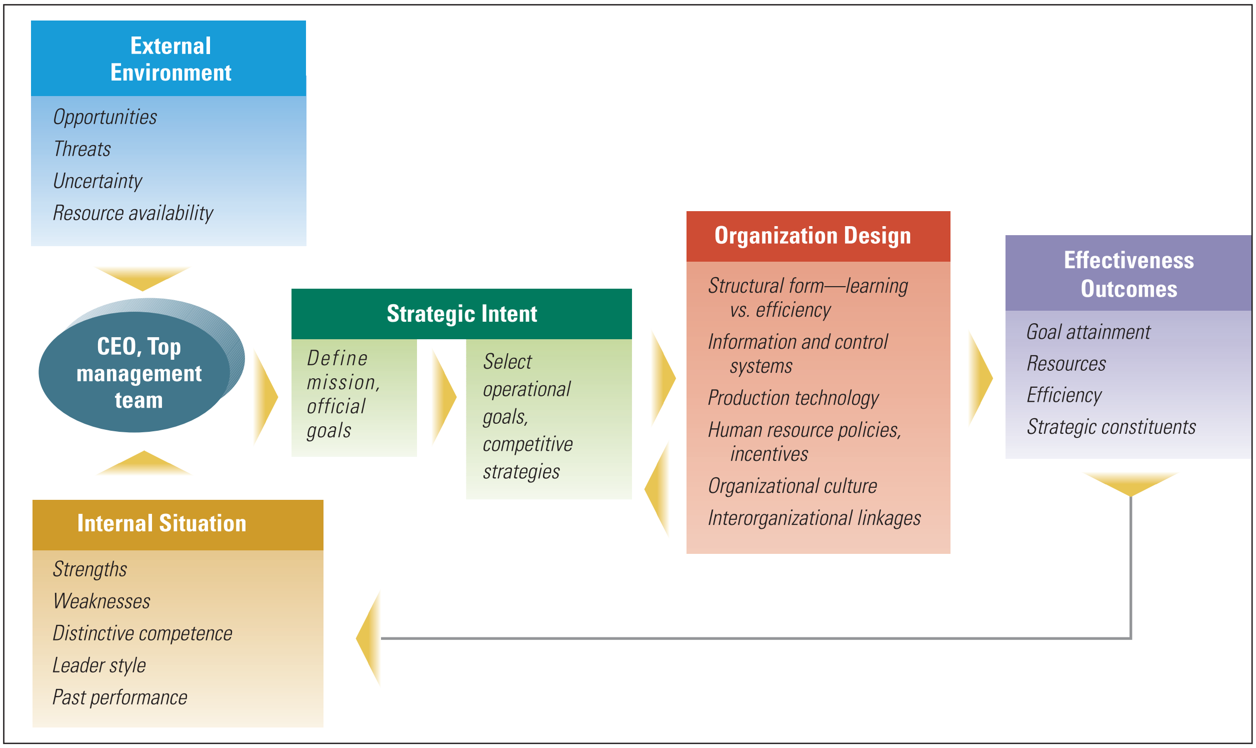
2.1 The Role of Strategic Direction in Organization Design

The choice of goals and strategy influences how an organization should be designed. An **organizational goal** is a desired state of affairs that the organization attempts to reach.[3] A goal represents a result or end point toward which organizational efforts are directed.

Top executives decide the end purpose the organization will strive for and determine the direction it will take to accomplish it. It is this purpose and direction that shapes how the organization is designed and managed. Indeed, *the primary responsibility of top management is to determine an organization's goals, strategy, and design, thereby adapting the organization to a changing environment.*[4] Middle managers do much the same thing for major departments within the guidelines provided by top management. Exhibit 2.1 illustrates the relationships through which top managers provide direction and then design.

The direction-setting process typically begins with an assessment of the opportunities and threats in the external environment, including the amount of change, uncertainty, and resource availability, which we discuss in more detail in Chapter 4. Top managers also assess internal strengths and weaknesses to define the company's distinctive competence compared with other firms in the industry. **SWOT analysis** (in which "SWOT" stands for "strengths, weaknesses, opportunities, and threats") includes a careful assessment of the strengths, weaknesses, opportunities, and threats that affect organizational performance. This competitive analysis of the internal and external environments is one of the central concepts in strategic management. Leaders obtain information about external opportunities and threats from a variety of sources, including customers, government reports, professional journals, suppliers, bankers, friends in other organizations, consultants, and association meetings. Information about internal strengths and weaknesses comes from company budgets, financial ratios, profit and loss statements, and surveys of employee attitudes and satisfaction, among other reports. Executives at The Kroger Company, like those at other grocery retailers, have been dealing with strong and swift changes in the industry in recent years. A brief SWOT analysis can give leaders a guide for how to position the company as it adapts to these changes.

EXHIBIT 2.1
Top Management Role in Organization Direction, Design, and Effectiveness



Source: Adapted from Arie Y. Lewin and Carroll U. Stephens, "CEO Attributes as Determinants of Organization Design: An Integrated Model," *Organization Studies* 15, no. 2 (1994), 183–212.

IN PRACTICE

The Kroger Company

The Kroger Company is the largest supermarket chain in the United States, with around 2,800 stores in 35 states and the District of Columbia. Top executives have been revamping strategy and overhauling operations to adapt to a variety of changes, including increased competition and shifting consumer interests.

One of Kroger's primary *strengths* is the company's broad array of products and services, including groceries, jewelry, fuel, pharmacy services, and home products, that provides one-stop shopping for customers. Kroger also has a strong line of private label brands, and sales of the company's own brands are growing faster than national brands in almost every category. One *weakness* is that the organization has a high debt load on its balance sheet compared to many of its competitors. In addition, falling prices for mainstay products such as eggs, milk, and meats affect Kroger along with other retailers. Leaders identified an *opportunity* to expand the line of organic foods offered in its grocery stores, and to address growing customer concerns over food waste. They found that customers responded favorably to the addition of natural and organic products and that Kroger was able to offer many of them at a lower cost than competitors such as Whole Foods. A significant *threat* is the aggressive expansion of non-traditional rivals such as Walmart, Target, and Amazon into the grocery business.

Kroger leaders are positioning the company to provide consumers with "anything, anytime, anywhere." The company has invested in new technology to launch a direct-to-consumer shipping platform and is expanding home delivery. A merger with Home Chef

(continued)

strengthens Kroger's ability to offer convenience, simplicity, and fresh food solutions. The company is also increasing its offerings of natural and organic products. It expanded its private label brands and introduced the Pickuliar Picks brand, selling "ugly" fruits and vegetables. Selling misshapen or unusual-looking tomatoes, bell peppers, and other produce that would otherwise be thrown out lowers costs for customers and helps Kroger achieve an ambitious goal of zero food waste.[5]

ASSESS YOUR ANSWER

1 A company's strategic intent or direction reflects managers' systematic analysis of organizational and environmental factors.

ANSWER: *Agree.* The best strategies come from systematic analysis of organizational strengths and weaknesses combined with analysis of opportunities and threats in the environment. Careful study combined with experience enables top managers to decide on specific goals and strategies.

A second approach leaders use in setting direction is a forecasting technique known as scenario planning.[6] **Scenario planning** involves looking at current trends and discontinuities and visualizing future possibilities. Rather than looking only at history and thinking about what has been, managers think about what *could be*. The events that cause the most damage to companies are those that no one even conceived of. Managers can't predict the future, but they strengthen their ability to cope with uncertainty by rehearsing a framework within which future events can be managed.[7] Organizations can be disrupted by any number of events. A survey by the Chartered Management Institute and the Business Continuity Institute found that some of the top events for which managers might need scenario plans include extreme weather, loss of IT systems, loss of key employees, loss of access to offices or plants, failure of communications systems, and supply chain disruptions.[8] Scenarios are like stories that offer alternative vivid pictures of what the future will be like and how managers will respond. Typically, two to five scenarios are developed for each set of factors, ranging from the most optimistic to the most pessimistic view. Royal Dutch Shell has long used scenario planning and has been preparing for a world in which oil prices continue to decrease. Scenario planning has helped steer Shell's strategy of moving toward producing fuel for electricity, such as natural gas and renewable sources, and focusing on keeping its costs low.[9]

After direction-setting, the next step, as shown in Exhibit 2.1, is to define and articulate the organization's *strategic intent*, which includes defining an overall mission and official goals based on the correct fit between external opportunities and internal strengths. Leaders then formulate specific operational goals and strategies that define how the organization is to accomplish its overall mission. In Exhibit 2.1, organization design reflects the way goals and strategies are implemented so that the organization's attention and resources are consistently focused toward achieving the mission and goals.

Organization design is the administration and execution of the strategic plan. Managers make decisions about structural form, including whether the organization will be designed primarily for learning and innovation (an organic approach) or to achieve efficiency (a mechanistic approach), as discussed in Chapter 1. Other choices are made about information and control systems, the type of production technology, human resource policies, culture, and linkages to other organizations.

Changes in structure, technology, human resource policies, culture, and interorganizational linkages will be discussed in subsequent chapters. Also note the arrow in Exhibit 2.1 running from organization design back to strategic intent. This means that strategies are often made within the current structure of the organization so that current design constrains, or puts limits on, goals and strategy. More often than not, however, the new goals and strategy are selected based on environmental needs and then top managers attempt to redesign the organization to achieve those ends.

Finally, Exhibit 2.1 illustrates how managers evaluate the effectiveness of organizational efforts—that is, the extent to which the organization realizes its goals. This chart reflects the most popular ways of measuring performance, each of which is discussed later in this chapter. It is important to note here that performance measurements feed back into the internal environment so that past performance of the organization is assessed by top managers in setting new goals and strategic direction for the future.

Procter & Gamble (P&G) provides an example of how these ideas translate into organization practice. Former CEO A. G. Lafley wanted to provide a framework for organizing the discussion about goals and strategic direction so he used the OGSM (Objectives, Goals, Strategies, and Measures) tool illustrated in Exhibit 2.2. Note

EXHIBIT 2.2

Procter & Gamble's Framework for Strategy Discussion

OBJECTIVES	STRATEGIES	MEASURES
Improve the lives of families by providing consumer-preferred paper products for kitchen and bathroom Be the operating TSR leader in North American tissue/towel and value creator for P&G	WHERE TO PLAY: • Win in North America • Grow Bounty and Charmin margin of leadership • Win in supermarket and mass discount channels • Build performance, sensory and value consumer segments	• Operating TSR progress • Share and sales growth progress • Profit growth progress Efficiency measures: • Capital efficiency • Inventory turns
GOALS Year-on-Year operating TSR> XX% X% annual share and sales growth X% annual gross & operating profit margin improvement X% return on capital investments in plant equipment and inventory	HOW TO WIN: 1. Be lean • Get plant/equipment capital spend to XX of sales • Reduce inventory by XX% 2. Be the choice of consumers • Superior base products, prices right • Preferred product formats and designs • Manage category growth 3. Be the choice of retailers • Improve shelf availability and service • Develop differentiated shopping solutions • Win with the winners	Consumer preference measures: • Weighted purchase intent • Trial, purchase, and loyalty Retailer feedback measures: • Key business drivers (distribution, share of shelf, share of merchandising, etc.) • Preferred vendor

Source: Adapted from A.G. Lafley and Roger Martin, "Instituting a Company-Wide Strategic Conversation at Procter & Gamble," *Strategy & Leadership* 41, no. 4 (2013), 4–9; Table 6.1.

that a broad objective such as “Be the operating TSR (total shareholder return) leader in North American tissue/towel and value creator for P&G” is translated into more specific goals and strategies, such as “Grow Bounty and Charmin margin.”[10] In addition, the chart lists measures that managers will use to determine the success of their efforts. This is the essence of strategic management: setting goals, defining strategies for achieving the goals, and measuring the effectiveness of efforts.

The role of top management is important because managers can interpret the environment differently and develop different goals and strategies. Several years ago, in the midst of a U.S. sales slump, top executives at Walmart tried a new direction. Instead of sticking with goals of strict operational efficiency and everyday low prices, they decided to court upscale customers with remodeled, less cluttered stores, organic foods, and trendy merchandise. Instead of offering everyday low prices, the retailer raised prices on many items and promoted price cuts on select merchandise. Walmart succeeded in meeting its goal of attracting more upscale clientele, but many of its core customers decided they’d start shopping at other discount and dollar store chains. Walmart’s sales took a sharp downturn. “I think we tried to stretch the brand a little too far,” said William Simon, head of the U.S. division.[11]

The choices top managers make about goals, strategies, and organization design have a tremendous impact on organizational effectiveness. Remember that goals and strategies are not fixed or taken for granted. Top managers and middle managers must select goals for their respective units, and the ability to make good choices largely determines a firm’s success. Organization design is used to implement goals and strategy and also determines organization success.

REMEMBER THIS

- Leaders’ choices of mission and purpose influence how the organization should be designed and have a tremendous impact on organizational effectiveness.
- Setting a direction for the organization begins with top leaders looking at both the external environment and the organization’s internal situation. Two approaches leaders may use in the direction-setting process are SWOT analysis and scenario planning.
- Leaders then define and articulate the organization’s strategic intent, which includes defining an overall mission as well as operational goals and strategies for reaching them.
- Goals and strategies help shape how an organization should be designed.

2.2 Organizational Purpose

All organizations, including Instagram, Walmart, Procter & Gamble, Uber, Stanford University, Google, the Catholic Church, the U.S. Department of Agriculture, the local laundry, and the neighborhood deli, exist for a purpose. This purpose may be referred to as the overall goal or mission. Different parts of the organization establish their own goals and objectives to help meet the overall goal, mission, or purpose of the organization.

2.2a Strategic Intent

Many types of goals exist in organizations, and each type performs a different function. To achieve success, however, organizational goals and strategies are focused with strategic intent. **Strategic intent** means that all the organization's energies and resources are directed toward a focused, unifying, and compelling overall goal.[12] Examples of ambitious goals that demonstrate strategic intent are Microsoft's early goal to "Put a computer on every desk in every home," Komatsu's motto, "Encircle Caterpillar," and Coca-Cola's goal "To put a Coke within 'arm's reach' of every consumer in the world."[13] Strategic intent provides a focus for management action. Three aspects related to strategic intent are the mission, core competence, and competitive advantage.

BRIEFCASE

As an organization manager, keep these guidelines in mind:

Establish and communicate organizational mission and goals. Communicate official goals to provide a statement of the organization's mission to external constituents. Communicate operating goals to provide internal direction, guidelines, and standards of performance for employees.

Mission. The overall goal for an organization is often called the **mission**—the organization's reason for existence. The mission describes the organization's shared values and beliefs and its reason for being. For example, the long-standing mission of Berrett-Koehler Publishers is stated as, "Connecting People and Ideas to Create a World That Works for All." An organization's mission is sometimes called the **official goals**, which refers to the formally stated definition of business scope and outcomes the organization is trying to achieve. Official goal statements typically define business operations and may focus on values, markets, and customers that distinguish the organization. Whether called a mission statement or official goals, the organization's general statement of its purpose and philosophy is often written down in a policy manual or the annual report. Exhibit 2.3 shows the mission statement for CVS Health. CVS defines its mission (or purpose, as shown in the exhibit) as "Helping people on their path to better health." The statement also defines the company's core values.

One of the primary purposes of a mission statement is to serve as a communication tool.[14] The *mission statement* communicates to current and prospective employees, customers, investors, suppliers, and competitors what the organization stands for and what it is trying to achieve. A mission statement communicates legitimacy to internal and external stakeholders, who may join and be committed to the organization because they identify with its stated purpose and values. Most top leaders want employees, customers, competitors, suppliers, investors, and the local community to look on the organization in a favorable light, and the concept of legitimacy plays a critical role. CVS Caremark changed its name to CVS Health and redefined its purpose to reflect a broader healthcare commitment and the company's vision to "drive innovations needed to shape the future of health."[15] CVS, which provides health clinics as well as pharmacy and retail sales, stopped selling cigarettes and other tobacco products in all its stores by October of 2014. For a company involved in promoting health and wellness, managers say, selling tobacco products didn't make sense and hurt the company's reputation. Other pharmacies involved in providing healthcare have also stopped selling tobacco products because of the need to communicate legitimacy.

Companies where managers are sincerely guided by mission statements that focus on a larger social purpose, such as Medtronic's "To restore people to full life and health" or Liberty Mutual's "Helping people live safer, more secure lives," typically attract better employees, have better relationships with external parties, and perform better in the marketplace over the long term.[16]

EXHIBIT 2.3
Mission Statement for CVS Health

CVS Health

Competitive Advantage. The overall aim of strategic intent is to help the organization achieve a sustainable competitive advantage. **Competitive advantage** refers to what sets the organization apart from others and provides it with a distinctive edge for meeting customer or client needs in the marketplace. Strategy necessarily changes over time to fit environmental conditions, and good managers pay close attention to trends that might require changes in how the company operates. Managers analyze competitors and the internal and external environments to find potential *competitive openings* and learn what new capabilities the organization needs to gain the upper hand against other companies in the industry.[17] Competitive openings might be thought of as spaces that a company can potentially fill. This chapter's BookMark describes how organizations can move from competing in "red oceans," crowded markets where companies chew each other up for smaller and smaller chunks of market share, toward "wide open blue oceans," where there is more promise and less competition.

Core Competence. A company's **core competence** is something the organization does especially well in comparison to its competitors. A core competence may be in the area of superior research and development, expert technological know-how, process efficiency, or exceptional customer service.[18] Mimeo, an online printing and copying company, for example, excels with core competencies of superb customer service and the application of technology to ensure internal process efficiency. Mimeo can handle rush jobs that larger companies can't. At Apple, strategy focuses on core competencies of superior design and marketing skills.[19] In each case, managers identified what their company does especially well and built the strategy around it.

BOOKMARK 2.0 HAVE YOU READ THIS BOOK?

Blue Ocean Shift: Beyond Competing; Proven Steps to Inspire Confidence and Seize New Growth

By W. Chan Kim and Renée Mauborgne

Almost every book or article you read about strategy focuses on how to outpace rivals, beat the competition, and win at the expense of other companies. That's why there are so many managers and companies out there fighting in the "red ocean" of cutthroat and bloody competition. In their previous book *Blue Ocean Strategy* and their new volume, *Blue Ocean Shift*, W. Chan Kim and Renée Mauborgne take a different approach: *Create a new market where there is less competition*. That is the essence of blue ocean strategy. Kim and Mauborgne's more recent *Blue Ocean Shift* gives managers a roadmap for doing just that.

MAKING THE SHIFT

Kim and Mauborgne's book is based on decades of research into successful and unsuccessful strategic moves spanning more than a hundred years and 30 industries. They describe three components for successfully executing blue ocean strategy.

- *Start with the Right Perspective*. A shift in perspective means recognizing that managers can shape industry conditions and create or expand new markets. They cite powerful real-life examples such as Square, which opened up the credit card market for small businesses and sole proprietors, and French appliance maker Groupe SEB, which established a goal of producing a French fry maker that didn't involve any actual frying.
- *Apply the Right Set of Tools.* Kim and Mauborgne provide a set of market-creating tools, such as "The Three Tiers of Non-Customers," which helps managers identify various levels of people who do not currently patronize the industry in which the company operates.
- *Use a Humanistic Process to Create an Involved Workforce.* The third key component is to ensure that the blue ocean shift recognizes and harnesses the humanity within people, "acknowledging their fears, their insecurities, their need to be treated with dignity, their desire to matter."

MAKING THE PROCESS HUMANISTIC

Without employee contributions and buy-in, the new strategy will fail. A successful blue ocean transformation process recognizes that "each pair of hands comes with a brain and a heart" so it involves people by weaving three humanistic elements throughout the entire journey:

- *Engagement*. Managers actively involve people in the change process. If people aren't involved in the strategic decisions that affect them, the transformation from red to blue ocean strategy could founder from lack of involvement.
- *Explanation*. Managers give people throughout the organization "a clear account of the thinking that underlies the process."
- *Reassurance*. Managers might not adopt all employee ideas and opinions, but they are careful to reassure people "that their opinions have been considered." Providing reassurance also means letting people know what to expect and clarifying their roles and responsibilities in the new blue ocean world.

Blue Ocean Shift, by W. Chan Kim and Renée Mauborgne, is published by Hachette.

2.2b Operating Goals

The organization's mission and overall goals provide a basis for developing more specific operating goals. **Operating goals** designate the ends sought through the actual operating procedures of the organization and explain what the organization is actually trying to do.[20] Operating goals describe specific measurable outcomes and are often concerned with the short run. Operating goals typically pertain to the primary tasks an organization must perform.[21] For example, one of the critical tasks at technology companies is fixing bugs, but the work is tedious and most programmers prefer designing new features to fixing bugs in current ones. To motivate employees, top leaders at Mozilla Corporation, maker of the Firefox Web browser, gave them two goals: to close 40 high-priority bugs on the browser between February 2017 and the next beta release of Firefox in September, and to bring Mozilla's performance within 20 percent of Chrome's score on a browser benchmarking service. The goals worked! By late August, Mozilla's programmers had closed nearly 400 bugs and were close to the goal of closing the performance gap with rival Chrome.[22]

Specific goals for each primary task provide direction for the day-to-day decisions and activities within departments. Typical operating goals that define what an organization is trying to accomplish include performance goals, resource goals, market goals, employee development goals, productivity goals, and goals for innovation and change, as illustrated in Exhibit 2.4.

Overall Performance. Profitability reflects the overall performance of for-profit organizations. Profitability may be expressed in terms of net income, earnings per share, or return on investment. Other overall performance goals are growth and output volume. Growth pertains to increases in sales or profits over time. Volume pertains to total sales or the number of products or services delivered.

Government and nonprofit organizations such as social service agencies or labor unions do not have goals of profitability, but they do have goals that attempt to specify the delivery of services to clients or members within specified expense levels. The

EXHIBIT 2.4
Typical Operating Goals for an Organization

Internal Revenue Service has a goal of providing accurate responses to 85 percent of taxpayer questions about new tax laws. Growth and volume goals also may be indicators of overall performance in nonprofit organizations. Expanding their services to new clients is a primary goal for many social service agencies, for example.

Resources. Resource goals pertain to the acquisition of needed material and financial resources from the environment. They may involve obtaining financing for the construction of new plants, finding less expensive sources for raw materials, or hiring top-quality technology graduates. Starbucks formed an alliance with India's Tata Group to obtain Indian premium Arabica coffee beans for use in Starbucks stores. Eventually, the alliance will also enable Starbucks to find prime locations for outlets in India, which can also be considered valuable resources.[23] A new resource goal for Walmart is to hire every veteran who wants a job, provided the person left the military in the previous year and did not have a dishonorable discharge.[24] For nonprofit organizations, resource goals might include recruiting dedicated volunteers and expanding the organization's funding base.

Market. Market goals relate to the market share or market standing desired by the organization. Market goals are largely the responsibility of marketing, sales, and advertising departments. At L'Oreal SA, the world's largest cosmetics company, executives set a goal of adding one billion customers by 2020. As one step to achieve the goal, managers are making changes in marketing and selling approaches designed to win over more customers in Brazil. Women there are some of the biggest spenders on beauty products, but L'Oreal has had trouble adapting to the Brazilian market.[25] Market goals can also apply to nonprofit organizations. Cincinnati Children's Hospital Medical Center, not content with a limited regional role in healthcare, has gained a growing share of the national market by developing expertise in the niche of treating rare and complex conditions and relentlessly focusing on quality.[26]

Employee Development. Employee development pertains to the training, promotion, safety, and growth of employees. It includes both managers and workers. Strong employee development goals are one of the characteristics common to organizations that regularly show up on *Fortune* magazine's list of "100 Best Companies to Work For." Moreover, employee learning goals have been found to be related to higher levels of department performance.[27] Wall Street banks have long been known for encouraging long work hours, but some are now taking a critical look at that hard-charging culture. Bank of America Merrill Lynch (rebranded BofA Securities), for example, issued an internal memo saying junior bankers should have two weekends off a month. To expand employee development, the bank also intends to "make certain that junior bankers work on a wider variety of different assignments . . . and ensure that the development of core skills is an important factor in making staffing assignments."[28]

Productivity. Productivity goals concern the amount of output achieved from available resources. They typically describe the amount of resource inputs required to reach desired outputs and are thus stated in terms of "cost for a unit of production," "units produced per employee," or "resource cost per employee." Illumination Entertainment, the production company behind the hit movie "Hop," has productivity goals that help the company make animated films at about half the cost of those made by larger studios. CEO Christopher Meledandri believes strict cost controls and successful animated films are not mutually exclusive, but it means Illumination's 30 or so employees have to be highly productive.[29]

Innovation and Change. Innovation goals pertain to internal flexibility and readiness to adapt to rapid changes in the environment. Innovation goals are often defined with respect to the development of specific new services, products, or production processes. Kraft Heinz has been falling behind competitors since leaders cut funding and attention for research and development. After the Brazilian private-equity firm 3G Capital acquired H.J. Heinz and Kraft Foods, executives focused heavily on goals of cost-cutting. There have been some positive results, but weak attention to goals of innovation and change has limited the company's ability to adapt to the shift away from processed foods toward fresher, simpler and more natural products.[30]

Successful organizations use a carefully balanced set of operating goals. For example, some of today's best companies recognize that a single-minded focus on bottom-line profits may not be the best way to achieve high performance. Innovation and change goals are increasingly important, even though they may initially cause a *decrease* in profits. Employee development goals are critical for helping to maintain a motivated, committed workforce.

2.2c Goal Conflict

Organizations perform many activities and pursue many goals simultaneously to accomplish an overall mission. But who decides what mission and goals to strive for? Pursuing some goals means that others have to be delayed or set aside, which means managers often disagree about priorities.[31] Employee development goals might conflict with productivity goals; goals for innovation might hurt profitability. As one real-life example of goal conflict, recent analyses of company operations at Facebook reveal that goals of protecting user privacy and personal data have long been in conflict with goals of growth and increased advertising revenue. While Facebook has publicly presented an idealistic mission of "bringing people together by making the world more open and connected," internal e-mails and other reports reveal a long-standing pattern of exploiting and deceiving users, undermining competitors, strong-arming development partners, and other ruthless and sometimes unscrupulous business practices designed to increase the company's profits. The founders of WhatsApp, Facebook's largest acquisition, left the company because of conflicts with Facebook executives over issues such as data privacy and ways to increase ad revenue.[32]

The Facebook example illustrates that many companies mix value systems and behaviors that represent different sectors of society, which leads to tensions and conflict within the organization over goals and priorities.[33] For example, a social mission, such as helping the community, often conflicts with business goals of making money. Differences in goal orientation can trigger manipulation, avoidance, or defiance on the part of one side versus the other unless managers can balance the conflicting demands. When the goals and values of the two sides are mutually exclusive, managers must negotiate and come to some agreement on which direction the company will take. Chapter 7 will discuss organizing for social impact in detail.

2.2d The Importance of Goals

Both official goals and operating goals are important for the organization, but they serve very different purposes. Official goals and mission statements describe a value system for the organization and set an overall purpose and vision; operating goals represent the primary tasks of the organization. Official goals legitimize the organization; operating goals are more explicit and well defined.

EXHIBIT 2.5
Goal Types and Purposes

Operating goals serve several specific purposes, as outlined in Exhibit 2.5. For one thing, goals provide employees with a sense of direction so that they know what they are working toward. This can help to motivate employees toward specific targets and important outcomes. Numerous studies have shown that specific high goals can significantly increase employee performance.[34] A recent study verified that departments perform significantly better when employees are committed to the goals.[35] People like having a focus for their activities and efforts. Jennifer Dulski, currently head of Groups and Community at Facebook, talks about how she motivated people at a previous organization. "One quarter we had three big goals. I said, 'If we hit all three, it's the trifecta and we're going to all go to the horse races.' And I gave everybody $50 to bet with at the races. I learned as a teacher that everybody has a little kid inside them, and people really love these fun, silly things. They may not admit they love them, but they do."[36] A recent scandal at Wells Fargo provides a negative example of just how powerful goals can be as a motivational tool.

IN PRACTICE

Wells Fargo

iStock.com/Roman Tiraspolsky

Wells Fargo has been battling a series of scandals since it was discovered that employees were opening fake bank accounts and forcing customers into unnecessary products. Even after managers began firing known offenders, the actions continued. Why would they do such a thing? Former employees say the answer is simple: people were breaking the rules and engaging in unethical practices in order to meet high sales goals set by top management. "They warned us about this

(*continued*)

type of behavior [in ethics workshops] and said, 'You must report it,' but the reality was that people had to meet their goals," said Khalid Taha, a former Wells Fargo personal banker.

Another former employee says his branch managers were continually asking people how many banking solutions (such as checking and savings accounts, credit cards, home equity loans, personal loans, and so forth) they had sold that day. "They wanted three to four a day. In my mind, that was crazy—that's not how people's financial lives work," said Sharif Kellogg. District managers gathered and discussed daily sales for each branch and each individual sales employee four times a day. The aggressive goals pushed some employees to bend the rules by asking friends or local business owners to open additional accounts and promising to close them later. Others opened fake accounts. Eventually, the U.S. Consumer Financial Protection Bureau revealed that more than 5,000 lower-level employees had engaged in the illegal activity. At the time, top executives said the sham accounts were the result of poor decisions by unethical employees, but Kellogg speaks for other employees when he says, "It seems that [managers would] have to be wilfully ignorant to believe that these goals are achievable through any other means."[37]

As shown by this example, another important purpose of goals is to act as guidelines for employee behavior and decision making. Managers can establish appropriate goals that act as a set of constraints on individual behavior and actions so that employees behave within boundaries that are acceptable to the organization and the larger society.[38]

As shown in Exhibit 2.5, goals also help to define the appropriate decisions concerning organization structure, innovation, employee welfare, or growth. Finally, goals provide a standard for assessment. The level of organizational performance, whether in terms of profits, units produced, degree of employee satisfaction, level of innovation, or number of customer complaints, needs a basis for evaluation. Operating goals provide this standard for measurement.

REMEMBER THIS

- Organizations exist for a purpose, and top leaders are responsible for deciding the organization's strategic intent, including a specific mission to be accomplished. The mission statement, or official goals, makes explicit the purpose and direction of an organization.
- Two other factors related to strategic intent are competitive advantage and core competence.
- Competitive advantage refers to what sets the organization apart from others and provides it with a distinctive edge.
- A core competence is something the organization does extremely well compared to competitors.
- Operating goals designate specific ends sought through the actual operating procedures of the organization. Operating goals include performance goals, resource goals, market goals, employee development goals, productivity goals, and innovation and change goals.
- Goal conflict is inevitable in organizations and managers sometimes have to negotiate to reach agreement about the important goals to pursue.
- Official and operating goals are a key element in organizations because they meet these needs—establishing legitimacy with external groups, providing employees with a sense of direction and motivation, providing decision guidelines, and setting standards of performance.

2.3 Two Frameworks for Selecting Strategy and Design

To support and accomplish the organization's strategic intent and keep people focused in the direction determined by organizational mission, vision, and operating goals, managers select specific strategy and design options that can help the organization achieve its purpose and goals within its competitive environment. In this section, we examine a couple of practical approaches to selecting strategy and design. The questionnaire in this chapter's "How Do You Fit the Design?" box will give you some insight into your own strategic management competencies.

BRIEFCASE

As an organization manager, keep these guidelines in mind:

After goals have been defined, select strategies for achieving those goals. Define specific strategies based on Porter's competitive strategies or Miles and Snow's strategy typology.

A **strategy** is a plan for interacting with the competitive environment to achieve organizational goals. Some managers think of goals and strategies as interchangeable, but for our purposes *goals* define where the organization wants to go and *strategies* define how it will get there. For example, a goal might be to achieve 15 percent annual sales growth; strategies to reach that goal might include aggressive advertising to attract new customers, motivating salespeople to increase the average size of customer purchases, and acquiring other businesses that produce similar products. Strategies can include any number of techniques to achieve the goal. The essence of formulating strategies is choosing whether the organization will perform different activities than its competitors or will execute similar activities more efficiently than its competitors do.[39]

Two models for formulating strategies are the Porter model of competitive strategies and the Miles and Snow strategy typology. Each provides a framework for competitive action. After describing the two models, we discuss how the choice of strategies affects organization design.

2.3a Porter's Competitive Strategies

Michael E. Porter studied a number of business organizations and proposed that managers can make the organization more profitable and less vulnerable by adopting either a differentiation strategy or a low-cost leadership strategy.[40] Using a low-cost leadership strategy means managers choose to compete through lower costs, whereas with a differentiation strategy the organization competes through the ability to offer unique or distinctive products and services that can command a premium price. These two basic strategies are illustrated in Exhibit 2.6. Moreover, each strategy can vary in scope from broad to narrow.

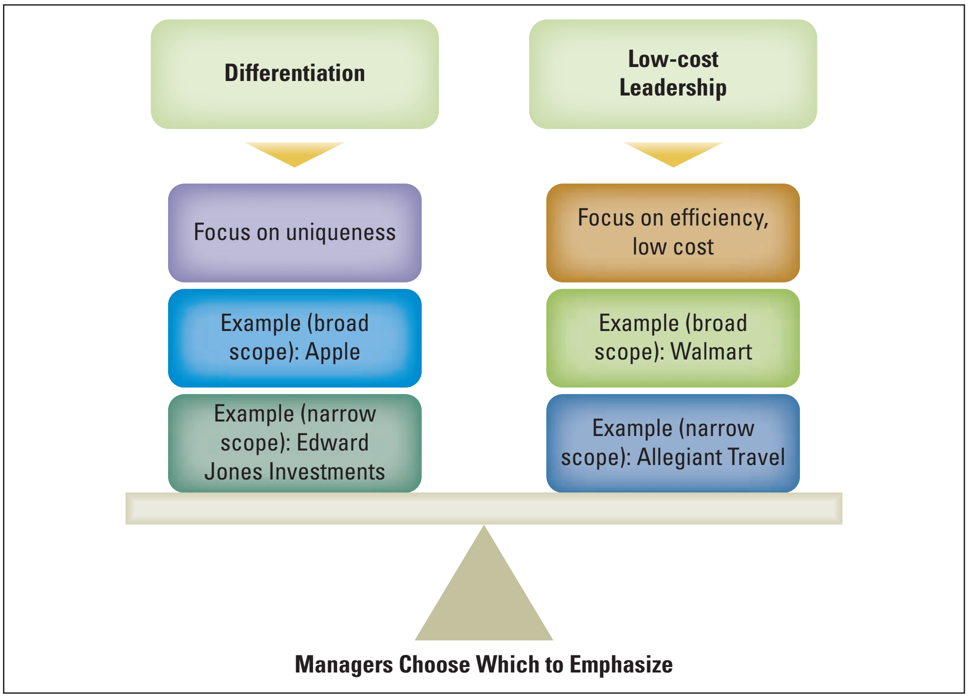
Differentiation. With a **differentiation strategy** the organization attempts to distinguish its products or services from others in the industry. Managers may use advertising, distinctive product features, exceptional service, or new technology to achieve a product perceived as unique. This strategy usually targets customers who are not particularly concerned with price, so it can be quite profitable.

A differentiation strategy can reduce rivalry with competitors and fight off the threat of substitute products because customers are loyal to the company's brand. However, managers must remember that successful differentiation strategies require a number of costly activities, such as product research and design and extensive advertising. Companies that pursue a differentiation strategy need strong marketing abilities and creative employees who are given the time and resources to seek innovations. One good illustration of a company that benefits from a differentiation strategy is Apple. Apple has never tried to compete on price and likes being perceived as an "elite" brand. The company has built a loyal customer base by providing innovative, stylish products and creating a prestigious image.

Service firms can use a differentiation strategy as well. Trader Joe's, started in 1967 as a typical convenience store, was quickly modified by founder Joe Coulombe into a novel business serving unique food and drink, and expanded to 17 stores in southern California. Today, there are more than 480 Trader Joe's nationwide, and people are begging for more. But managers are very, very careful about how they expand. TJ's doesn't carry any national brands, but instead offers innovative, high quality, health-conscious food and beverage products at modest prices. About 80 percent of products carry TJ's private label, and the company is secretive about who makes products for them. Many TJ's stores carry only about 2,500 items, compared to a traditional supermarket that has more than 40,000, and the selection is constantly changing. What keeps people coming back is the novelty and sense of adventure—you never know what you're going to find—and the friendly service you might expect at the mom-and-pop shop around the corner. Managers evaluate every decision with an eye to how it fits with the goal of maintaining a neighborhood store feel.[41]

Low-Cost Leadership. The **low-cost leadership strategy** tries to increase market share by keeping costs low compared to competitors. With a low-cost leadership strategy, the organization aggressively seeks efficient facilities, pursues cost reductions, and uses tight controls to produce products or services more efficiently than its competitors. Low cost doesn't necessarily mean low price, but in many cases cost

EXHIBIT 2.6
Porter's Competitive Strategies



Source: Based on Michael E. Porter, *Competitive Advantage: Creating and Sustaining Superior Performance* (New York: The Free Press, 1988).

HOW DO YOU FIT THE DESIGN?

YOUR STRATEGY/PERFORMANCE STRENGTH

As a potential manager, what are your strengths concerning strategy formulation and implementation? To find out, think about *how you handle challenges and issues* in your schoolwork or job. Then circle *a* or *b* for each of the following items depending on which is more descriptive of your behavior. There are no right or wrong answers. Respond to each item as it best describes how you respond to work situations.

1. When keeping records, I tend to
  a. be very careful about documentation.
  b. be more haphazard about documentation.

2. If I run a group or a project, I
  a. have the general idea and let others figure out how to do the tasks.
  b. try to figure out specific goals, time lines, and expected outcomes.

3. My thinking style could be more accurately described as
  a. linear thinker, going from A to B to C.
  b. thinking like a grasshopper, hopping from one idea to another.

4. In my office or home things are
  a. here and there in various piles.
  b. laid out neatly or at least in reasonable order.

5. I take pride in developing
  a. ways to overcome a barrier to a solution.
  b. new hypotheses about the underlying cause of a problem.

6. I can best help strategy by making sure there is
  a. openness to a wide range of assumptions and ideas.
  b. thoroughness when implementing new ideas.

7. One of my strengths is
  a. commitment to making things work.
  b. commitment to a dream for the future.

8. I am most effective when I emphasize
  a. inventing original solutions.
  b. making practical improvements.

Scoring: For *Strategic Formulator* strength, score one point for each "*a*" answer circled for questions 2, 4, 6, and 8, and for each "*b*" answer circled for questions 1, 3, 5, and 7. For *Strategic Implementer* strength, score one point for each "*b*" answer circled for questions 2, 4, 6, and 8, and for each "*a*" answer circled for questions 1, 3, 5, and 7. Which of your two scores is higher and by how much? The higher score indicates your *Strategy Strength*.

Interpretation: Formulator and Implementer are two important ways managers bring value to strategic management and effectiveness. Managers with implementer strengths tend to work on operating goals and performance to make things more efficient and reliable. Managers with the formulator strength push toward out-of-the-box strategies and like to think about mission, vision, and dramatic breakthroughs. Both styles are essential to strategic management and organizational effectiveness. Strategic formulators often use their skills to create whole new strategies and approaches, and strategic implementers often work with strategic improvements, implementation, and measurement.

If the difference between your two scores is 2 or less, you have a balanced formulator/implementer style and work well in both arenas. If the difference is 4–5, you have a moderately strong style and probably work best in the area of your strength. And if the difference is 7–8, you have a distinctive strength and almost certainly would want to contribute in the area of your strength rather than in the opposite domain.

Source: Adapted from Dorothy Marcic and Joe Seltzer, *Organizational Behavior: Experiences and Cases* (South-Western, 1998), 284–287, and William Miller, *Innovation Styles* (Global Creativity Corporation, 1997).

leaders provide goods and services to customers at cheaper prices. For example, Michael O'Leary, CEO of Irish airline Ryanair said of the company's strategy: "It's the oldest, simplest formula: Pile 'em high and sell 'em cheap. . . . Nobody will beat us on price. EVER." Ryanair can offer low fares because it keeps costs at rock bottom, lower than any other airline in Europe. The company's watchword is cheap tickets, not customer care or unique services.[42]

The low-cost leadership strategy is concerned primarily with stability rather than taking risks or seeking new opportunities for innovation and growth. A low-cost leadership position means a company can achieve higher profits than competitors because of its efficiency and lower operating costs. Cost leaders such as Ryanair can undercut competitors' prices and still earn a reasonable profit. In addition, if substitute products or potential new competitors enter the picture, the low-cost producer is in a better position to prevent loss of market share.

Porter found that companies that did not consciously adopt a low-cost or differentiation strategy achieved below-average profits compared to those that used one of the strategies. Many Internet companies have failed because managers did not develop competitive strategies that would distinguish them in the marketplace.[43] On the other hand, Google became highly successful with a coherent differentiation strategy that distinguished it from other search engines.

ASSESS YOUR ANSWER

2 The best business strategy is to make products and services as distinctive as possible to gain an edge in the marketplace.

ANSWER: *Disagree.* Differentiation, making the company's products or services distinctive from others in the market, is one effective strategic approach. A low-cost leadership approach can be equally or even more effective depending on the organization's strengths and the nature of competition in the industry.

Competitive Scope Can Be Broad or Narrow. With either strategy, the scope of competitive action can be either broad or narrow. That is, an organization can choose to compete in many market and customer segments or to focus on a specific market or buyer group. For example, Walmart uses a low-cost leadership strategy and competes in a broad market, selling to many market segments. A good example of a narrowly focused low-cost leadership strategy is Allegiant Air.

IN PRACTICE

Allegiant Air

"We want to be considered the hometown airline of all the little cities around the country," Andrew Levy, former president of Allegiant Air, once said. Allegiant flies just 85 jets and specializes in flying people from small, underserved cities such as Minot, North Dakota, and Plattsburg, New York, to warm-weather tourist destinations such as Orlando, Las Vegas, and Honolulu. Although the company has expanded to serve larger cities and other destinations—even announcing flights to Anchorage, Alaska beginning in May 2019—serving small regional airports remains its focus.

Allegiant's focused low-cost leadership strategy has made it one of the most profitable airlines in the industry. Managers believe in "attacking niche opportunities." For example, Allegiant moved in when other airlines left the shrinking cities of the Rust Belt and lures Canadian fliers just across the border to fly out of small U.S. airports. The airline has now set its sights on Mexico, hoping to fly middle-class Mexicans from cities such as Zacatecas or Culiacán to tourist destinations such as Las Vegas in the United States.

Allegiant goes to extremes to meet its goals of low cost. It depends largely on word-of-mouth advertising rather than paying travel agents. It offers a no-frills base fare and charges for nearly everything else, from carry-on luggage to water. Managers also say they "only fly when we can make money." "On Tuesdays, we look like a bankrupt airline," the former CEO said, but "who wants to start their vacation on a Tuesday?"[44]

An example of a narrowly focused differentiation strategy is Edward Jones Investments, a St. Louis-based brokerage house. The company concentrates on building its business in rural and small-town America and providing clients with conservative, long-term investment advice. Management scholar and consultant Peter Drucker once said the distinctive safety-first orientation means Edward Jones delivers a product "that no Wall Street house has ever sold before: peace of mind."[45]

2.3b Miles and Snow's Strategy Typology

Another strategy typology was developed from the study of business strategies by Raymond Miles and Charles Snow.[46] The Miles and Snow typology is based on the idea that managers seek to formulate strategies that will be congruent with the external environment. Organizations strive for a fit among internal organization characteristics, strategy, and the external environment. The four strategies that can be developed are the prospector, the defender, the analyzer, and the reactor.

Prospector. The **prospector** strategy is to innovate, take risks, seek out new opportunities, and grow. This strategy is suited to a dynamic, growing environment, where creativity to separate the organization from competitors is more important than efficiency. Nike, which innovates in both products and internal processes, exemplifies the prospector strategy. For example, the company introduced a new line of shoes based on designs that can be produced using recycled materials and limited amounts of toxic chemical-based glues.[47] Companies such as Uber and Facebook also use a prospector strategy.

Another company that uses a prospector strategy is the Cadillac division of General Motors. Since its beginning over a century ago, Cadillac has been a leader in technological and design breakthroughs. In the early 1900s, it put a fixed roof on the Model H and became the first company to build a car with a totally enclosed cabin. The company also invented the electric starter, introduced the industry's first thermostatically regulated heating, ventilation and air conditioning system, invented magnetic ride control, and was the first to integrate a global positioning satellite (GPS) system. Although Cadillac is not the strong leader it once was, managers continue to encourage people to pursue any technology or refinement that can enhance the brand's status. "Innovation isn't just what we do; it's coded in our DNA," states the Cadillac website.[48]

Defender. The **defender** strategy is almost the opposite of the prospector. Rather than taking risks and seeking out new opportunities, the defender strategy is concerned with stability or even retrenchment. This strategy seeks to hold on to current customers, but it neither innovates nor seeks to grow. The defender is concerned primarily with internal efficiency and control to produce reliable, high-quality products for steady customers. This strategy can be successful when the organization exists in a declining industry or a stable environment. Paramount Pictures has been using a defender strategy for several years.[49] Paramount turns out a steady stream of reliable hits but few blockbusters. Managers shun risk and sometimes turn down potentially high-profile films to keep a lid on costs. This has enabled the company to remain highly profitable while other studios have low returns or actually lose money.

Analyzer. The **analyzer** tries to maintain a stable business while innovating on the periphery. It seems to lie midway between the prospector and the defender. Some products will be targeted at stable environments in which an efficiency strategy designed to keep current customers is used. Others will be targeted at new, more dynamic environments, where growth is possible. The analyzer attempts to balance efficient production for current product or service lines with the creative development of new product lines. Amazon.com provides an example. The company's current strategy is to defend its core business of selling books and other physical goods over the Internet, but also to build businesses in multiple other areas, including a digital book service, new book content publishing, music and video streaming, games, and consumer electronics. Amazon is also exploring a limited brick-and-mortar presence with physical stores as part of its analyzer strategy.[50]

Reactor. The **reactor** strategy is not really a strategy at all. Rather, reactors respond to environmental threats and opportunities in an ad hoc fashion. With a reactor strategy, top management has not defined a long-range plan or given the organization an explicit mission or goal, so the organization takes whatever actions seem to meet immediate needs. Although the reactor strategy can sometimes be successful, it can also lead to failed companies. Some large, once highly successful companies, such as Blockbuster, have all but disappeared because managers failed to adopt a strategy consistent with consumer trends. In March 2019, there was only one video rental store left for the once ubiquitous video and game rental chain. What remains of the Blockbuster organization is now owned by Dish Network.

The Miles and Snow typology has been widely used, and researchers have tested its validity in a variety of organizations, including hospitals, colleges, banking institutions, industrial products companies, and life insurance firms. In general, researchers have found strong support for the effectiveness of this typology for organization managers in real-world situations.[51]

The ability of managers to devise and maintain a clear competitive strategy is considered one of the defining factors in an organization's success, but many managers struggle with this crucial responsibility.

BRIEFCASE

As an organization manager, keep these guidelines in mind:

Design the organization to support the firm's competitive strategy. With a low-cost leadership or defender strategy, select design characteristics associated with an efficiency orientation. For a differentiation or prospector strategy, on the other hand, choose characteristics that encourage learning, innovation, and adaptation. Use a balanced mixture of characteristics for an analyzer strategy.

2.3c How Strategies Affect Organization Design

Choice of strategy affects internal organization characteristics. Organization design characteristics need to support the firm's competitive approach. For example, a company wanting to grow and invent new products looks and "feels" different from a company that is focused on maintaining market share for long-established products in a stable industry. Exhibit 2.7 summarizes organization design characteristics associated with the Porter and Miles and Snow strategies.

With a low-cost leadership strategy, managers take a primarily mechanistic, efficiency approach to organization design, whereas a differentiation strategy calls for a more organic, learning approach. Recall from Chapter 1 that mechanistic organizations designed for efficiency have different characteristics from organic organizations designed for learning. A low-cost leadership strategy (efficiency) is associated with strong, centralized authority and tight control, standard operating procedures, and emphasis on efficient procurement and distribution systems. Employees generally perform routine tasks under close supervision and control and are not empowered to make decisions or take action on their own. A differentiation strategy, on the other hand, requires that employees be constantly experimenting and learning. Structure is fluid and flexible, with strong horizontal coordination.

EXHIBIT 2.7
Organization Design Outcomes of Strategy

Porter's Competitive Strategies	Miles and Snow's Strategy Typology
Strategy: Differentiation **Organization Design:** • Learning orientation; acts in a flexible, loosely knit way, with strong horizontal coordination • Strong capability in research? • Values and builds in mechanisms for customer intimacy • Rewards employee creativity, risk-taking, and innovation **Strategy:** Low-Cost Leadership **Organization Design:** • Efficiency orientation; strong central authority; tight cost control, with frequent, detailed control reports • Standard operating procedures • Highly efficient procurement and distribution systems • Close supervision; routine tasks; limited employee empowerment	**Strategy:** Prospector **Organization Design:** • Learning orientation; flexible, fluid, decentralized structure • Strong capability in research **Strategy:** Defender **Organization Design:** • Efficiency orientation; centralized authority; tight cost control • Emphasis on production efficiency; low overhead • Close supervision; little employee empowerment **Strategy:** Analyzer **Organization Design:** • Balances efficiency and learning; tight cost control with flexibility and adaptability • Efficient production for stable product lines; emphasis on creativity, research, risk-taking for innovation **Strategy:** Reactor **Organization Design:** • No clear organizational approach; design characteristics may shift abruptly, depending on current needs

Source: Based on Michael E. Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (New York: The Free Press, 1980); Michael Treacy and Fred Wiersema, "How Market Leaders Keep Their Edge," *Fortune*, (February 6, 1995), 88–98; Michael Hitt, R. Duane Ireland, and Robert E. Hoskisson, *Strategic Management* (St. Paul, MN: West, 1995), 100–113; and Raymond E. Miles, Charles C. Snow, Alan D. Meyer, and Henry J. Coleman, Jr., "Organizational Strategy, Structure, and Process," *Academy of Management Review* 3 (1978), 546–562.

Empowered employees work directly with customers and are rewarded for creativity and risk-taking. The organization values research, creativity, and innovativeness over efficiency and standard procedures.

The prospector strategy requires characteristics similar to a differentiation strategy, and the defender strategy takes an efficiency approach similar to low-cost leadership. Because the analyzer strategy attempts to balance efficiency for stable product lines with flexibility and learning for new products, it is associated with a mix of characteristics, as listed in Exhibit 2.7. With a reactor strategy, managers have left the organization with no direction and no clear approach to design.

2.3d Other Contingency Factors Affecting Organization Design

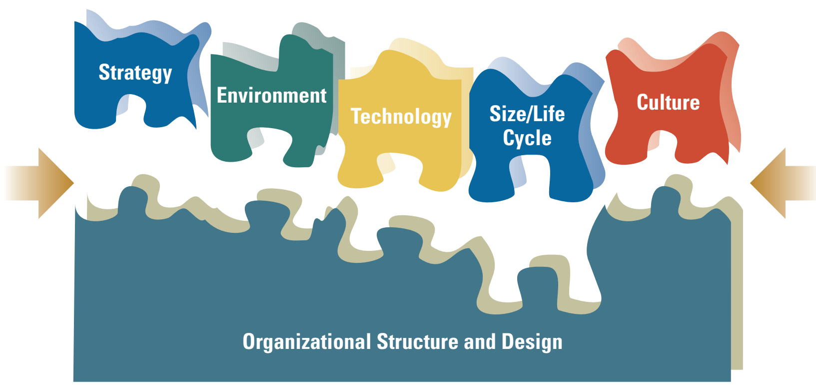
Strategy is one important factor that affects organization design. Ultimately, however, organization design is a result of numerous contingencies, which will be discussed throughout this book. The emphasis given to efficiency and control (mechanistic) versus learning and flexibility (organic) is determined by the contingencies of strategy, environment, size and life cycle, technology, and organizational culture. The organization is designed to “fit” the contingency factors, as illustrated in Exhibit 2.8.

In a stable environment, for example, the organization can have a traditional mechanistic structure that emphasizes vertical control, efficiency, specialization, standard procedures, and centralized decision making. However, a rapidly changing environment may call for a more flexible, organic structure, with strong horizontal coordination and collaboration through teams or other mechanisms. Environment will be discussed in detail in Chapter 4 and Chapter 5. In terms of size and life cycle, young, small organizations are generally informal and have little division of labor, few rules and regulations, and ad hoc budgeting and performance systems. Large organizations such as Coca-Cola, Samsung, or General Electric, on the other hand, have an extensive division of labor, numerous rules and regulations, and standard procedures and systems for budgeting, control, rewards, and innovation. Size and stages of the life cycle will be discussed in Chapter 10.

Design must also fit the workflow technology of the organization. For example, with mass production technology, such as a traditional automobile assembly line, the organization functions best by emphasizing efficiency, formalization, specialization, centralized decision making, and tight control. An e-business, on the other hand, would need to be more informal and flexible. Technology’s impact on design will be discussed in detail in Chapter 8 and Chapter 9. A final contingency that affects organization design is corporate culture. An organizational culture that values teamwork, collaboration, creativity, and open communication, for example, would not function well with a tight, vertical structure and strict rules and regulations. The role of culture is discussed in Chapter 11.

One responsibility of managers is to design organizations that fit the contingency factors of strategy, environment, size and life cycle, technology, and culture. Finding the right fit leads to organizational effectiveness, whereas a poor fit can lead to decline or even the demise of the organization.

EXHIBIT 2.8
Contingency Factors Affecting Organization Design



The Right Mix of Design Characteristics Fits the Contingency Factors

REMEMBER THIS

- Strategies may include any number of techniques to achieve the stated goals. Two models for formulating strategies are Porter's competitive strategies and Miles and Snow's strategy typology.
- Using Porter's low-cost leadership strategy means managers choose to compete through efficiency and lower costs, whereas with a differentiation strategy the organization competes through the ability to offer unique or distinctive products and services that can command a premium price.
- Miles and Snow's typology includes prospector strategy, which is concerned with innovation and growth; defender strategy, which is concerned with stability; analyzer strategy, which balances a stable business with innovation on the periphery; and reactor strategy, in which managers have failed to define a long-range plan and the organization responds to environmental changes in an ad hoc fashion.
- Organization design should fit the firm's competitive approach and the various contingency factors to contribute to organizational effectiveness.

2.4 Assessing Organizational Effectiveness

Understanding organizational goals and strategies, as well as the concept of fitting design to various contingencies, is a first step toward understanding organizational effectiveness. Organizational goals represent the reason for an organization's existence and the outcomes it seeks to achieve. The rest of this chapter explores the topic of effectiveness and how effectiveness is measured in organizations.

2.4a Definition of Organizational Effectiveness

Recall from Chapter 1 that organizational effectiveness is the degree to which an organization realizes its goals. *Effectiveness* is a broad concept. It implicitly takes into consideration a range of variables at both the organizational and departmental levels. Effectiveness evaluates the extent to which multiple goals—whether official or operating—are attained. *Efficiency* is a more limited concept that pertains to the internal workings of the organization. Organizational efficiency is the amount of resources used to produce a unit of output.[52] It can be measured as the ratio of inputs to outputs. If one organization can achieve a given production level with fewer resources than another organization, it would be described as more efficient.[53]

Sometimes efficiency leads to effectiveness, but in other organizations efficiency and effectiveness are not related. An organization may be highly efficient but fail to achieve its goals because it makes a product for which there is no demand. Likewise, an organization may achieve its profit goals but be inefficient. Efforts to increase efficiency, particularly through severe cost cutting, can also sometimes make the organization less effective. Recall the previous example of Kraft Heinz, where a new focus on goals of cost-cutting and efficiency have hurt innovation and the company's ability to adapt. As another example, a regional fast food chain wanting to increase efficiency decided to reduce food waste by not cooking any food until it was ordered. The move cut the chain's costs, but it also led to delayed service, irritated customers, and lower sales.[54]

Overall effectiveness is difficult to measure in organizations. Organizations are large, diverse, and fragmented; they perform many activities simultaneously, pursue multiple goals, and generate many outcomes, some intended and some unintended.[55] Managers determine what indicators to measure in order to gauge the effectiveness of their organizations.

2.4b Who Decides?

Key people in charge of the organization, such as top executives or board members, have to make a conscious decision about how they will determine the organization's effectiveness. Just as people determine goals, they also determine when the organization is successful. Organizational effectiveness is a **social construct**, meaning that it is created and defined by an individual or group rather than existing independently in the external world.[56]

An employee might consider the organization is effective if it issues accurate paychecks on time and provides promised benefits. A customer might consider it effective if it provides a good product at a low price. A CEO might consider the organization effective if it is profitable. Effectiveness is always multidimensional, and thus assessments of effectiveness are typically multidimensional as well. Managers in businesses typically use profits and stock performance as indicators of effectiveness, but they also give credence to other measures, such as employee satisfaction, customer loyalty, corporate citizenship, innovativeness, or industry reputation.[57]

As open systems, organizations bring in resources from the environment, and those resources are transformed into outputs delivered back into the environment, as shown in Exhibit 2.9. In addition, recall from Chapter 1 that organizations interact with a number of stakeholder groups inside and outside the organization. Four key approaches to measuring effectiveness look at different parts of the organization and measure indicators connected with outputs, inputs, internal activities, or key stakeholders, also called strategic constituents.[58] These four possible approaches to measuring effectiveness are:

- The Goal Approach
- The Resource-Based Approach
- The Internal Process Approach
- The Strategic Constituents Approach

Managers often use indicators from more than one of the four approaches (goal, resource, internal process, strategic constituents) when measuring effectiveness. Exhibit 2.10 lists a sample of 15 indicators that managers of large, multinational organizations reported using to assess effectiveness. As you read the descriptions of the four approaches to measuring effectiveness in the following sections, try to decide which approach each of these 15 indicators falls under.[59]

As the items in Exhibit 2.10 reveal, indicators of effectiveness are both quantitative and qualitative, tangible and intangible. An indicator such as achieving sales targets or percentage of market share is easy to measure, but indicators such as employee engagement, quality, or customer satisfaction are less clear-cut and often must be measured qualitatively.[60] Relying solely on quantitative measurements can give managers a limited or distorted view of effectiveness. Albert Einstein is

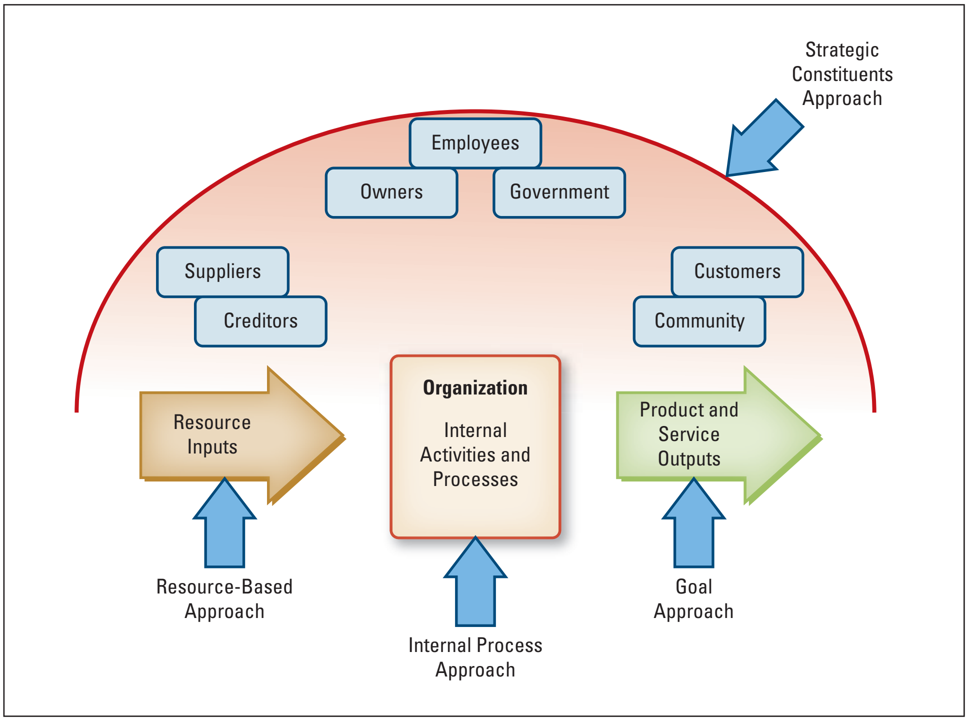


EXHIBIT 2.9
Four Approaches to Measuring Organizational Effectiveness

reported to have kept a sign in his office that read, "Not everything that counts can be counted, and not everything that can be counted counts."[61]

2.4c Goal Approach

The **goal approach** to effectiveness consists of identifying an organization's goals and assessing how well the organization has attained those goals.[62] This is a logical approach because organizations do try to attain certain levels of output, profit, or client satisfaction. For example, one major goal for Uber was to regain its license to operate in London, one of the company's most profitable markets outside the United States. Under the direction of a new CEO, Dara Khosrowshahi, Uber is toning down its "grow-at-any-cost" culture, and the company's goals now include proving to government officials that Uber can comply with local rules and regulations. Uber won its appeal to have the London license renewed after managers agreed to stricter government oversight, including new systems for reporting problems to regulators.[63] The goal approach measures progress toward the attainment of those goals.

Indicators. The important goals to consider are operating goals, because official goals (mission) tend to be abstract and difficult to measure. Operating goals reflect activities the organization is actually performing.[64]

Indicators tracked with the goal approach include:

- Profitability—the positive gain from business operations or investments after expenses are subtracted
- Market share—the proportion of the market the firm is able to capture relative to competitors

EXHIBIT 2.10
Some Indicators of Organizational Effectiveness Reported by Multinational Organizations

1. Meeting deadlines; on-time delivery
2. Timely material and equipment acquisition
3. Quality of product or service
4. Customer satisfaction/complaints
5. Market share compared to competitors
6. Employee training and development (number of hours)
7. Staying within budget
8. Shareholder satisfaction
9. Reduction in costs
10. Supply chain delays or improvements
11. Productivity; dollars spent for each unit of output
12. Employee engagement
13. Achieving sales targets
14. Product development cycle time (reduction in cycle time)
15. Number of hours/days and so on to complete tasks

Source: Based on "Table 1; Initial Items Derived from Interviews," in Cristina B. Gibson, Mary E. Zellmer-Bruhn, and Donald P. Schwab, "Team Effectiveness in Multinational Organizations: Evaluation Across Contexts," *Group & Organizational Management 28*, no. 4 (December 2003), 444–474.

- Growth—the ability of the organization to increase its sales, profits, or client base over time
- Social responsibility—how well the organization serves the interests of society as well as itself
- Product quality—the ability of the organization to achieve high quality in its products or services

Usefulness. The goal approach is used in business organizations because output goals can be readily measured. Some nonprofit organizations that aim to solve social problems also find the goal approach useful. For example, Every Child Succeeds is a public-private partnership funded primarily by United Way that aims to reduce infant mortality and improve maternal health in the area surrounding Cincinnati, Ohio. In the seven Ohio and Kentucky counties around the city, 8.3 out of every 1,000 newborns die before they reach their first birthday, on par with countries such as Lithuania and Brunei. Yet among the mothers enrolled in Every Child Succeeds, that statistic is only 2.8 percent, lower than in virtually every industrialized country. Using a rigorous model of performance measurement based on some of the management practices at P&G, social workers and nurses visit at-risk mothers in their homes and help them stop smoking, control their diabetes or high blood pressure, and improve their health in other ways. Unlike many social improvement programs, Every Child Succeeds sets and measures a few narrow and specific goals organized under seven focus areas.[65]

In businesses as well as in nonprofit organizations such as Every Child Succeeds, identifying operating goals and measuring effectiveness are not always easy. Two problems that must be resolved are the issues of multiple goals and subjective indicators of goal attainment. Since organizations have multiple and sometimes conflicting goals, effectiveness cannot be assessed by a single indicator. High achievement on one goal might mean low achievement on another. Moreover, there are department goals as well as overall organizational goals. The full assessment of effectiveness should take into consideration several goals simultaneously.

The other issue to resolve with the goal approach is how to identify operating goals for an organization and how to measure goal attainment. For business organizations, there are often objective indicators for certain goals, such as profit or growth. Every Child Succeeds can also use objective indicators for some goals, such as tracking how many infants are immunized or how many clients stop smoking during pregnancy. However, subjective assessment is needed for other goals, such as employee welfare, social responsibility, or client satisfaction. Top managers and other key people on the management team have to clearly identify which goals the organization will measure. Subjective perceptions of goal attainment must be used when quantitative indicators are not available. Managers rely on information from customers, competitors, suppliers, and employees, as well as their own intuition, when considering these goals.

2.4d Resource-Based Approach

The **resource-based approach** looks at the input side of the transformation process shown in Exhibit 2.9. It assumes organizations must be successful in obtaining and managing valued resources in order to be effective because strategically valuable resources give an organization a competitive edge.[66] From a resource-based perspective, organizational effectiveness is defined as the ability of the organization, in either absolute or relative terms, to obtain scarce and valued resources and successfully integrate and manage them.[67]

Indicators. Obtaining and successfully managing resources is the criterion by which organizational effectiveness is assessed. In a broad sense, resource indicators of effectiveness encompass the following dimensions:[68]

- Bargaining position—the ability of the organization to obtain from its environment scarce and valued resources, including tangible resources such as a prime location, financing, raw materials, and quality employees, and intangible assets such as a strong brand or superior knowledge
- The abilities of the organization's decision makers to perceive and correctly interpret the real properties of the external environment and supply forces
- The abilities of managers to use tangible (e.g., supplies, people) and intangible (e.g., knowledge, corporate culture) resources and capabilities in day-to-day organizational activities to achieve superior performance
- The ability of the organization to respond to changes in resource sectors of the environment

Usefulness. The resource-based approach is valuable when other indicators of performance are difficult to obtain. In many nonprofit and social welfare organizations, for example, it is hard to measure output goals or internal efficiency. The Shriners Hospitals for Children (SHC) system provides an example. The 22 Shriners Hospitals provide free treatment to thousands of children with orthopaedic conditions, burns, spinal cord injuries, and cleft lip and palette conditions. For most of its history, the SHC was highly successful in obtaining donations, the main source of funding for the hospitals' operations. However, when the federal government launched a no-cost health insurance program for children of low-income families,

BRIEFCASE

As an organization manager, keep these guidelines in mind:

Use the goal approach, internal process approach, and resource-based approach to obtain specific interpretations of organizational effectiveness in the areas of outputs, internal processes, and inputs. Assess the satisfaction of strategic constituents or use the competing values model to obtain a broader picture of effectiveness.

Shriners began losing patients to traditional healthcare providers. With a decline in patient registrations, donations began to decline as well. Managers had to search for new ways to respond to the increased competition and obtain needed resources.[69] Some for-profit organizations also use a resource-based approach because resources are critical to competitive success. For example, the British retail firm Marks & Spencer evaluates its effectiveness partly by looking at the company's ability to obtain, manage, and maintain valued resources such as prime locations for stores, a strong brand, quality employees, and effective supplier relationships.[70]

Although the resource-based approach is valuable when other measures of effectiveness are not available, it does have shortcomings. For one thing, the approach only vaguely considers the organization's link to the needs of customers. A superior ability to acquire and use resources is important only if resources and capabilities are used to achieve something that meets a need in the environment. Critics have challenged that the approach assumes stability in the marketplace and fails to adequately consider the changing value of various resources as the competitive environment and customer needs change.[71]

2.4e Internal Process Approach

In the **internal process approach**, effectiveness is measured as internal organizational health and efficiency. An effective organization has a smooth, well-oiled internal process. Employees are happy and satisfied. Department activities mesh with one another to ensure high productivity. This approach does not consider the external environment. The important element in effectiveness is what the organization does with the resources it has, as reflected in internal health and efficiency.

Indicators. One indicator of internal process effectiveness is economic efficiency. However, the best-known proponents of an internal process model are from the human relations approach to organizations. Such writers as Chris Argyris, Warren G. Bennis, Rensis Likert, and Richard Beckhard have all worked extensively with human resources in organizations and emphasize the connection between human resources and effectiveness.[72] Results from a study of nearly 200 secondary schools showed that both human resources and employee-oriented processes were important in explaining and promoting effectiveness in those school organizations.[73]

Internal process indicators include:[74]

- A strong, adaptive corporate culture and positive work climate
- Confidence and trust between employees and management
- Operational efficiency, such as using minimal resources to achieve outcomes
- Undistorted horizontal and vertical communication
- Growth and development of employees
- Coordination among the organization's parts, with conflicts resolved in the interest of the larger organization

Usefulness. The internal process approach is important because the efficient use of resources and harmonious internal functioning are good ways to assess organizational effectiveness. At Campbell Soup's Maxton, North Carolina-based factory, hundreds of small changes and improvements, many suggested by employees, increased operating efficiency to 85 percent of what managers believe is the maximum possible. UPS put devices on its delivery trucks to track how many left-turns against traffic its drivers have to make. By helping drivers optimize their routes with fewer left turns, the system will save UPS 1.4 million gallons of fuel per year.[75]

Today, most managers believe that committed, actively involved employees and a positive corporate culture are also important internal measures of effectiveness. The internal process approach also has shortcomings. Total output and the organization's relationship with the external environment are not evaluated. Another problem is that evaluations of internal health and functioning are often subjective because many aspects of inputs and internal processes are not quantifiable. Managers should be aware that this approach alone represents a limited view of organizational effectiveness. Following the merger of Burlington Northern Railroad and the Atchison, Topeka, and Santa Fe Railway, managers at BNSF Railway committed to creating an environment that provided overall organizational effectiveness, and they combine an internal process approach to measuring effectiveness with other approaches.

As this example illustrates, many organizations use more than one approach to measuring effectiveness because organizations pursue many different types of activities and serve many different interests.

IN PRACTICE

BNSF Railway

When faced with merging two operating systems, management systems, and cultures into one cohesive organization, managers at BNSF knew they could let the culture develop naturally over time or be active participants in creating the culture they wanted. They chose to take a deliberate role in building a positive internal environment.

Indicators of internal effectiveness at BNSF are that people take pride in working at the railway and have opportunities for personal growth and development. Shared values include listening to customers and doing what it takes to meet their expectations. In addition, managers focus employees on continuous improvement and provide a safe working environment.

Managers combine measures of internal process effectiveness with measures of how well BNSF meets goals for 100 percent on-time, damage-free customer service, accurate and timely information about their customer shipments, and giving customers the best value for their transportation dollar. Other goals are for shareholder returns that exceed other railroads and a return on invested capital that is greater than BNSF's cost of capital.

Other stakeholders are considered as well. BNSF considers its ethical and legal commitments to the communities it serves, as well as its sensitivity to the natural environment in evaluating overall effectiveness.[76]

2.4f Strategic Constituents Approach

The strategic constituents approach is related to the stakeholder approach described in Chapter 1. Recall that organizations have a variety of internal and external stakeholders that may have competing claims on what they want from the organization. Several important stakeholder groups are also shown at the top of Exhibit 2.9.

In reality, it is unreasonable to assume that all stakeholders can be equally satisfied. The **strategic constituents approach** measures effectiveness by focusing on the satisfaction of key stakeholders, those who are critical to the organization's ability to survive and thrive. The satisfaction of these strategic constituents can be assessed as an indicator of the organization's performance.[77]

Indicators. The initial work on evaluating effectiveness on the basis of strategic constituents looked at 97 small businesses and seven groups relevant to those organizations. Members of each group were surveyed to determine the perception of effectiveness from each viewpoint.[78] Each constituent group had a different criterion of effectiveness:

Strategic Constituent Group	Effectiveness Criteria
Owners	Financial return
Employees	Pay, good supervision, worker satisfaction
Customers	Quality of goods and services
Creditors	Creditworthiness
Community	Contribution to community affairs
Suppliers	Satisfactory transactions
Government	Obedience to laws and regulations

If an organization fails to meet the needs of several constituent groups, it is probably not meeting its effectiveness goals. Although these seven groups reflect constituents that nearly every organization has to satisfy to some degree, each organization might have a different set of strategic constituents. For example, independent software developers are key to the success of companies such as Facebook even though they are not necessarily customers, suppliers, or owners.

Usefulness. Research has shown that the assessment of multiple constituents is an accurate reflection of organizational effectiveness, especially with respect to organizational adaptability.[79] Moreover, both profit and nonprofit organizations care about their reputations and attempt to shape perceptions of their performance.[80] The strategic constituents approach takes a broad view of effectiveness and examines factors in the environment as well as within the organization. It looks at several criteria simultaneously—inputs, internal processes, and outputs—and acknowledges that there is no single measure of effectiveness.

The strategic constituents approach is popular because it is based on the understanding that effectiveness is a complex, multidimensional concept and has no single measure.[81] In the following section, we look at another popular approach that takes a multidimensional, integrated approach to measuring effectiveness.

REMEMBER THIS

- Assessing organizational effectiveness reflects the complexity of organizations as a topic of study.
- Effectiveness is a social construct, meaning that it is created and defined by people rather than existing independently in the external world.
- Different groups of people often have different views and criteria for what makes the organization “effective.” Managers must decide how they will define and measure the organization’s effectiveness.
- No easy, simple, guaranteed measure will provide an unequivocal assessment of effectiveness. Organizations must perform diverse activities well—from obtaining resource inputs to delivering outputs—to be successful.
- Four approaches to measuring effectiveness are the goal approach, resource-based approach, internal process approach, and strategic constituents approach. Effectiveness is multidimensional, so managers typically use indicators from more than one approach and they use qualitative as well as quantitative measures.
- No approach is suitable for every organization, but each approach offers some advantages that the others may lack.

2.5 An Integrated Effectiveness Model

The **competing values model** tries to balance a concern with various parts of the organization rather than focusing on one part. This approach to effectiveness acknowledges that organizations do many things and have many outcomes.[82] It combines several indicators of effectiveness into a single framework.

The model is based on the assumption that there are disagreements and competing viewpoints about what constitutes effectiveness. Managers sometimes disagree over which are the most important goals to pursue and measure. One tragic example of conflicting viewpoints and competing interests comes from NASA. After seven astronauts died in the explosion of the space shuttle Columbia in February 2003, an investigative committee found deep organizational flaws at NASA, including ineffective mechanisms for incorporating dissenting opinions between scheduling managers and safety managers. External pressures to launch on time overrode safety concerns with the Columbia launch.[83] Similarly, Congressional investigations of the 2010 Deepwater Horizon oil rig explosion and oil spill in the Gulf of Mexico found that BP engineers and managers made a number of decisions that were counter to the advice of key contractors, putting goals of cost control and timeliness ahead of concerns over well safety.[84] BP and NASA represent how complex organizations can be, operating not only with different viewpoints internally but also from contractors, government regulators, Congress, and the expectations of the American public.

The competing values model takes into account these complexities. The model was originally developed by Robert Quinn and John Rohrbaugh to combine the diverse indicators of performance used by managers and researchers.[85] Using a comprehensive list of performance indicators, a panel of experts in organizational effectiveness rated the indicators for similarity. Their analysis found underlying dimensions of effectiveness criteria that represented competing management values in organizations.

Indicators. The first value dimension pertains to organizational **focus**, which is whether dominant values concern issues that are *internal* or *external* to the firm. Internal focus reflects a management concern for the well-being and efficiency of employees, and external focus represents an emphasis on the well-being of the organization itself with respect to the environment. The second value dimension pertains to organization **structure** and whether *stability* or *flexibility* is the dominant structural consideration. Stability reflects a management value for efficiency and top-down control, whereas flexibility represents a value for learning and change.

The value dimensions of structure and focus are illustrated in Exhibit 2.11. The combination of dimensions provides four approaches to organizational effectiveness, which, though seemingly different, are closely related. In real organizations, these competing values can and often do exist together. Each approach reflects a different management emphasis with respect to structure and focus.[86]

A combination of external focus and flexible structure leads to an **open systems emphasis**. Management's primary goals are growth and resource acquisition. The organization accomplishes these goals through the subgoals of flexibility, readiness, and a positive external evaluation. The dominant value is establishing a good relationship with the environment to acquire resources and grow. This emphasis is similar in some ways to the resource-based approach described earlier.

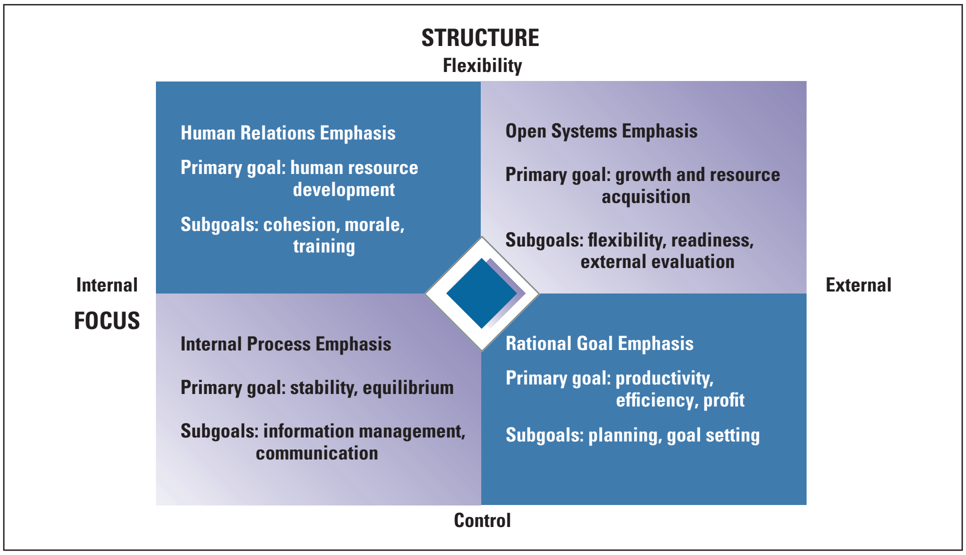
The **rational goal emphasis** represents management values of structural control and external focus. The primary goals are productivity, efficiency, and profit. The organization wants to achieve output goals in a controlled way. Subgoals that facilitate these outcomes are internal planning and goal setting, which are rational management tools. The rational goal emphasis is similar to the goal approach described earlier.

The **internal process emphasis** is in the lower-left section of Exhibit 2.11; it reflects the values of internal focus and structural control. The primary outcome is a stable organizational setting that maintains itself in an orderly way. Organizations that are well established in the environment and simply want to maintain their current position would reflect this emphasis. Subgoals include mechanisms for efficient communication, information management, and decision making. Although this part of the competing values model is similar in some ways to the internal process approach described earlier, it is less concerned with human resources than with other internal processes that lead to efficiency.

The **human relations emphasis** incorporates the values of an internal focus and a flexible structure. Here, management concern is for the development of human resources. Employees are given opportunities for autonomy and development. Management works toward the subgoals of cohesion, morale, and training opportunities. Organizations adopting this emphasis are more concerned with employees than with the environment.

The four cells in Exhibit 2.11 represent opposing organizational values. Managers decide which values will take priority in the organization. For example, managers at Stryker Corporation, which makes surgical equipment and implants used in joint replacements, among other medical devices, emphasize values of openness and flexibility to keep people throughout the company innovating on a day-to-day basis. Yet the organization also has values of control and efficiency. Stryker keeps research and development costs relatively low compared to other device makers.[87] The way two organizations are mapped onto the four approaches is shown in Exhibit 2.12.[88]

EXHIBIT 2.11
Four Approaches to Effectiveness Values



Source: Adapted from Robert E. Quinn and John Rohrbaugh, "A Spatial Model of Effectiveness Criteria: Toward a Competing Values Approach to Organizational Analysis," *Management Science* 29 (1983), 363–377; and Robert E. Quinn and Kim Cameron, "Organizational Life Cycles and Shifting Criteria of Effectiveness: Some Preliminary Evidence," *Management Science* 29 (1983), 33–51.

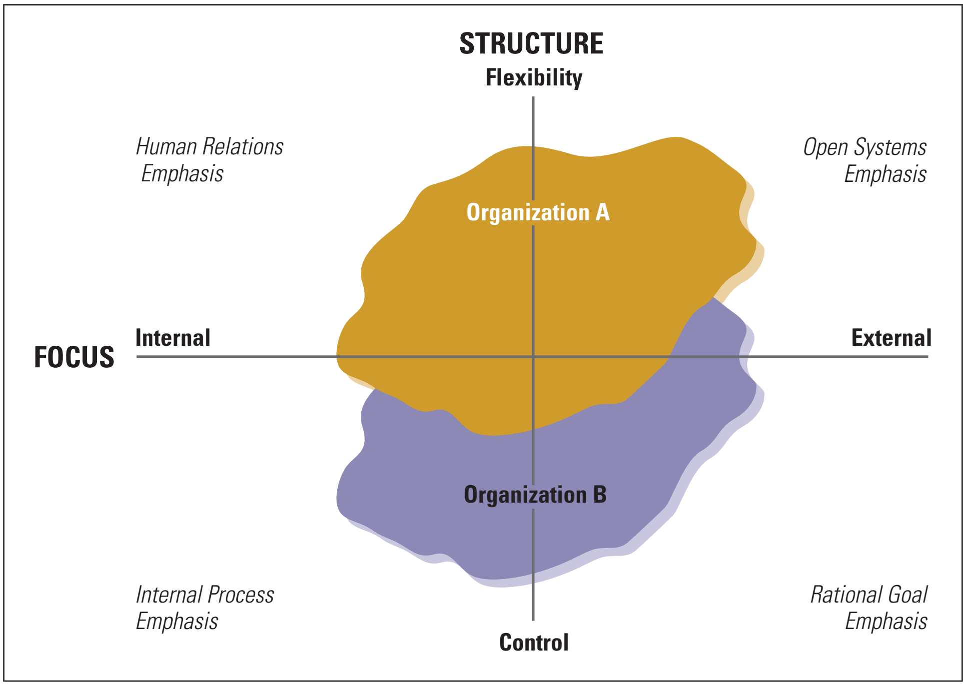


EXHIBIT 2.12
Effectiveness Values for Two Organizations

Organization A is a young organization concerned with finding a niche and becoming established in the external environment. Primary emphasis is given to flexibility, innovation, the acquisition of resources from the environment, and the satisfaction of external strategic constituents. This organization gives moderate emphasis to human relations and even less emphasis to current productivity and profits. Satisfying and adapting to the environment are more important. The attention given to open systems values means that the internal process emphasis is practically nonexistent. Stability and equilibrium are of little concern.

Organization B, in contrast, is an established business in which the dominant value is productivity and profits. This organization is characterized by planning and goal setting. Organization B is a large company that is well established in the environment and is primarily concerned with successful production and profits. Flexibility and human resources are not major concerns. This organization prefers stability and equilibrium to learning and innovation because it wants to maximize the value of its established customers.

3 The best measures of business performance are financial.

ANSWER: *Disagree.* If you can have only one type of measure of business performance, it might have to be financial. But diverse views of performance, such as using the competing values model, have proven to be more effective than financials alone because managers can understand and control the actions that cause business effectiveness. Financial numbers alone provide narrow and limited information.

ASSESS YOUR ANSWER

Usefulness. The competing values model makes two contributions. First, it integrates diverse concepts of effectiveness into a single perspective. It incorporates the ideas of output goals, resource acquisition, and human resource development as goals the organization tries to accomplish. Second, the model calls attention to how effectiveness criteria are socially constructed from management values and shows how opposing values exist at the same time. Managers must decide which values they wish to pursue and which values will receive less emphasis. The four competing values exist simultaneously, but not all will receive equal priority. For example, a new, small organization that concentrates on establishing itself within a competitive environment will give less emphasis to developing employees than to the external environment.

The dominant values in an organization often change over time as organizations experience new environmental demands, new top leadership, or other changes. For example, when Samsung Group managers shifted the company's focus from quantity of sales to quality of products, it required a shift in dominant values.

IN PRACTICE
Samsung Group

Kobby Dagan/Shutterstock.com

Samsung once pursued sales of quantity-driven, low-end products as a primary goal. Managers emphasized stability, productivity, and efficiency. That all changed when Samsung Group chairman Kun-hee Lee visited a Los Angeles retailer in the early 1990s and found boxes of Samsung products gathering dust on back shelves while customers admired the cutting-edge products from other manufacturers.

Lee returned to Korea, ordered $50 million worth of inventory destroyed, and declared that quality and innovation would be the new guiding principles. The new approach, which emphasizes employee empowerment and training, creativity, flexibility, and innovative response to the external environment, has been highly successful. Today, Samsung is ranked among the world's most valuable brands and its smartphones challenge Apple's iPhone for style and innovativeness.

When Samsung flipped its focus from quantity to quality, it needed a new emphasis on people. "People Come First" and "A Company Is Its People" are mottos that guide the company, and talent management is emphasized to prepare a pool of next-generation leaders. New digital learning facilities and networking spaces have been created to foster creativity and innovation.[89]

The effectiveness values that guided Samsung in the past reflected a primarily internal process and rational goal emphasis. Managers valued stability, productivity, efficiency, and steady profits. However, chairman Kun-hee Lee saw that profitability would not continue for long unless things changed. He shifted the organization to effectiveness values that reflect a primarily human resource and open systems emphasis. Remember, all organizations are a mix of competing ideas, goals, and values. Goal emphasis and values change over time to meet new needs.

REMEMBER THIS

- The competing values model balances a concern with various parts of the organization rather than focusing on one part.
- This approach acknowledges different areas of focus (internal, external) and structure (flexibility, stability) and allows managers to choose the values to emphasize in their organization.

KEY CONCEPTS

analyzer
competing values model
competitive advantage
core competence
defender
differentiation strategy
focus
goal approach
human relations emphasis
internal process approach
internal process emphasis
low-cost leadership strategy
mission
official goals
open systems emphasis
operating goals
organizational goal
prospector
rational goal emphasis
reactor
resource-based approach
scenario planning
social construct
strategic constituents approach
strategic intent
strategy
structure
SWOT analysis

DISCUSSION QUESTIONS

1. How might the top management of an organization use SWOT analysis or scenario planning to set goals and strategy? Explain.
2. How might a company's goals for employee development be related to its goals for innovation and change? To goals for productivity? Can you discuss how these types of goals might conflict in an organization?
3. What is a goal for the class for which you are reading this text? Who established this goal? Discuss how the goal affects your direction and motivation.
4. What is the difference between a goal and a strategy as defined in the text? Identify both a goal and a strategy for a campus or community organization with which you are involved.
5. Discuss the similarities and differences in the strategies described in Porter's competitive strategies and Miles and Snow's typology.
6. Do you believe mission statements and official goal statements provide an organization with genuine legitimacy in the external environment? When a company such as CVS (discussed in the chapter) makes a decision to stop selling cigarettes because that action conflicts with its mission statement, what do you see as the impact on public opinion? On future business? Discuss.
7. Suppose you have been asked to evaluate the effectiveness of the police department in a medium-sized community. Where would you begin, and how would you proceed? What effectiveness approach would you prefer?
8. What are the advantages and disadvantages of the resource-based approach versus the goal approach for measuring organizational effectiveness?
9. What are the similarities and differences between assessing effectiveness on the basis of competing values versus the strategic constituents approach? Explain.
10. A noted organization theorist once said, "Organizational effectiveness can be whatever top management defines it to be." Discuss.

CHAPTER 2 WORKSHOP Identify Your Goal Preferences

Assume that you could design the perfect organization that reflected your values. What goals would receive priority in that organization?

Rank order the list of goals below from 1 to 10 to reflect the goals you consider most important to least important in your perfect organization.

Goal	Rank Order from 1 to 10
Employee Development	
Organization Stability	
Market Share Leader	
Creativity-Innovation	
Social Contribution	
High Morale/Satisfaction	
High Productivity	
Rapid Growth/Adaptability	
Profit Maximization	
Within the Law/Ethical	

Questions

1. Look at the integrated effectiveness model in Exhibit 2.11 and Exhibit 2.12. Allocate each goal above to the quadrant you think it fits. Which quadrant of the model reflects your highest goal values? Which quadrant ranks lowest?
2. Compare your ranking to other students and look for common themes. In what ways are your rankings different?
3. What organizational goals are important to you that are not on the list above? Where would you rank the missing goals?

CASE FOR ANALYSIS | The Addlington Gallery of Art

Locals referred to it—affectionately or sarcastically—as the "Adding Museum." Housed in the massive Romanesque-style former mansion of Horace and Margaret Addlington, the 100-year-old Addlington Gallery of Art had, by 2016, reached a tipping point of institutional and financial distress. Considered a point of civic and cultural pride, the home and its extensive collection of art had been the generous gift to the city's residents under terms of the legal wills of the childless industrial tycoon and his wife following their deaths in a 1910 motor-car accident.

The museum was established and controlled, as dictated in the will, by a Board of Directors comprised of old-moneyed families, friends of the Addlingtons, whose seats on the board historically passed from one generation to the next. In accordance with Horace and Margaret's desires to make their collections "accessible to all," the museum was, for several decades, free to the public. In its opening days and weeks, the rarefied opportunity for locals to "see inside the mansion," as much as to see the art, lured scores of visitors who endured long lines to enter the city's most palatial residence. Once the newness had worn off, however, the museum settled into a reputation as the cultural domain of the "la-de-dah art elite."

Over the decades, the cost of conserving the collection, and the mounting expenses of upkeep for the mansion and the gardens and grounds, spurred the Board to create an annual fund-raising gala that allowed society to admire the art and each other. Later, the necessity of admission fees to the museum added modestly to the overall financial situation, but visitor numbers remained stagnant and the majority of locals never ventured inside. *I always felt like, if I didn't drive up in a Mercedes, the staff didn't care whether or not I came. They were cold to the point of rudeness,* explained one long-time city resident.

Problems at the museum became public knowledge. Hirings and firings occurred at the whim of the Board, and on one occasion, the entire staff was fired without warning. The approaching 2010 centennial was marred by controversy and lawsuits over whether to sell a large portion of the collection in order to keep the museum afloat.

The media and legal commotion over *losing* a collection that a majority of the city's residents had never seen sparked a generous outpouring of private financial support. During the campaign to *Save the Admirable Addlington,* the Board, in an effort to impress potential donors, actively sought, and received, the support of an adjacent private university with promises to build a collaborative partnership.

By 2013, with improved financial means to move the museum into a second century, the venerable Board, composed of member names stretching five generations, faced an organizational culture shock and a new and emboldened set of stakeholders. Under pressure to define the future direction of the museum and in preparation for selecting a new director, the Board hired two business students to conduct person-to-person interviews of stakeholders about the future vision and goals for the museum and the relationship of the university to the museum.

Excerpts from some of the more powerful comments by interviewees are listed below:

A major new private donor: *The museum has a reputation as an elitist, unfriendly institution, contrary to the intent of Horace and Margaret Addlington. My wife and I gave money with the expectation that the museum would, at last, embrace the vision of its benefactors of bringing the art to everyone. In order to accomplish this, the museum must have an educational component and promote visits from public schools in the area, and particularly serve the inner-city children who don't have access to art and who live within a mile of the museum. The snobbish, elitist atmosphere that extends from the Board through the ranks of the museum staff must be changed.*

A board member: *I've heard rumors that some people want to open this museum to scores of public school tours and after-school programs. I realize that school children need access to art and I sympathize with that need. But this is not a typical museum structure, it's a house that was constructed almost 120 years ago and has a variety of delicate surfaces and structural refinements that must be preserved and treasured for future generations. The upkeep of this building is tremendous with our current level of visitation. When you add several thousand school kids each year, the traffic through the building, the noise level within the building, compromises the structure and takes away from the experience of viewing great art. I can see creating educational programs that go out to the schools, but not bringing huge school groups here; and certainly not serving as some sort of after-school day care. No. I cannot see that.*

A university administrator: *The important thing is to add lively contemporary exhibits that will attract both university students and community adults and provide new insight and dialogue about current events. We can bring attention to the museum and spur dialogue by having an occasional controversial exhibit, such as Islamic art, and exhibits that appeal to Hispanics and African Americans. This approach would entail bringing in traveling exhibitions from major museums and loaning out portions of the Addlington collection in exchange.*

Head of the art history department: *The key thing is that the museum will not have the artistic resources or the financial resources to serve the community at large. We have a wonderful opportunity to integrate the museum with the academic faculty and make it a teaching institution. It can be a major resource for both undergraduate and graduate students in art education and in art history. Using the collections inside and the structure itself as a classroom, we can also work with engineering students, architecture students, and students in the liberal arts. This is a unique opportunity that will distinguish our art history department's mission from others in the country.*

A faculty member of the art history department: *The best use of the museum's relationship with the university is to concentrate on training PhD level students in art history and to support scholarly research. I strongly urge the museum to focus on graduate education, which would increase the stature of the university nationally. Graduate students would be involved in the design of exhibits that would fit their research. Trying to make the museum popular on campus or in the community will waste our limited resources. Our PhD students will be sought after by art history departments throughout the country, adding also to the prestige of the Addlington Gallery of Art.*

Head of the university's new department of public history: *It is imperative, upon selection of the new museum director, that the Board relinquish some of its power in the rethinking of the current collection and the selection and design of future exhibits to trained museum professionals—not art history experts. The professional expertise of the director and the staff; their knowledge of best practices in the field; their cognizance of trends and innovations in the museum field, will ultimately determine the success or failure of this museum.*

You have been invited to interview for the position of museum director and must now consider how you would answer questions that might arise during the interview process and how you would move the museum forward if you took the job.

Questions

1. What are the possible purposes of the Addlington Gallery of Art? Which purpose would you choose for the museum?
2. Who are or should be the museum's customers?
3. What are the implications of the selected purpose and customers for the museum's structural design, the qualifications of its director, and its relationship to the university?

CASE FOR ANALYSIS | Millier Machine Parts & Services[90]

Larisa Harrison grimaced as she tossed her company's latest quarterly earnings onto the desk. When sales at Virginia-based Millier Machine Parts & Services surged past the $10 million mark some time back, Larisa was certain the company was well positioned for steady growth. Today Millier, which provides precision machine parts and service to the domestic corrugated box and paperboard industry, still enjoys a dominant market share, but sales and profits are showing clear signs of stagnation.

More than two decades ago, Larisa's grandfather loaned her the money to start the business and then handed over the barn on what had been the family's Shenandoah Valley farm to serve as her first factory. He had been a progressive thinker compared to many of his contemporaries who scoffed at the idea of a woman running a machine parts plant, and he saw no reason why a smart, ambitious 27-year-old woman couldn't run anything she wanted to. His old-fashioned friends no longer scoffed when Larisa became one of the major employers in the local area. Today, Millier operates from a 50,000 square-foot factory located near I-81 just a few miles from that old family barn. The business allowed Larisa to realize what had once seemed an almost impossible goal: She was making a good living without having to leave her close-knit extended family and rural roots. She also felt a sense of satisfaction at employing about 150 people, many of them neighbors. They were among the most hard-working, loyal workers you'd find anywhere. However, many of her original employees were now nearing retirement. Replacing those skilled workers was going to be difficult, she realized from experience. The area's brightest and best young people were much more likely to move away in search of employment than their parents had been. Those who remained behind just did not seem to have the work ethic Larisa had come to expect in her employees.

Other problems were looming as well. Millier's market share, once at a formidable 70 percent, was slipping fast, brought about not only by the emergence of new direct competitors but also by changes in the industry. The box and paperboard industry had never been particularly recession resistant, with demand fluctuating with manufacturing output. The rocky economy had hurt the whole industry, including Millier's largest customers. Added to that, alternative shipping products, such as flexible plastic films and reusable plastic containers, were becoming more prevalent. It remained to be seen how much of a dent they would make in the demand for boxes and paperboard. Even more worrying, consolidation in the industry had wiped out hundreds of the smaller U.S. plants that Millier once served, with many of the survivors either opening overseas facilities or entering into joint ventures abroad. On the bright side, the emergence of Internet retail sales at Amazon and Walmart was increasing demand for cardboard boxes among the survivors. The surviving manufacturers were investing in higher quality machines from Germany that broke down less frequently, thus requiring fewer of Millier's parts.

Millier was clearly at a crossroads, and its managers were arguing about which direction the company should take. If Millier wanted to grow, business as usual wasn't going to work. But no one could seem to agree on the best way to achieve growth. The marketing manager was pushing for moving into new products and services, perhaps even serving other industries, while the director of finance believed the plant needed to become more efficient, even lay off employees, and offer customers the lowest cost. Larisa cringed as she heard that statement because her focus was always on what was best for her employees. The finance director added that efficiency and profitability should be the key criteria by which Millier measured its performance, whereas the marketing manager vehemently argued that the company would be effective only if it focused on new customers and customer satisfaction in the changing industry environment, which would mean taking some financial risks. "We've already moved beyond corrugating machines to servicing other types of paperboard-making equipment. Why not become the all-round provider, serving any manufacturer that makes containers and packing materials, whether it's paper, plastic, or whatever?" It was truly an ambitious idea, but he was so fired up about it that he had investigated possible acquisitions and partnership opportunities. The finance director was livid. "If anyone is looking into mergers and acquisitions, it should be me, not the marketing manager," she had shouted at the most recent managers' meeting. Meanwhile, the vice president of manufacturing presented a plan for expanding market share by exporting parts globally, which set both the marketing manager and the finance director off. "Why haven't we even heard about this before now?" the marketing manager asked. "I'm not saying I disagree with it, but communication in this place is atrocious. I never even got a copy of the last finance report." The director of finance quickly shot back with a charge that the marketing manager didn't seem to care about profit and loss anyway so why should he need a copy of the report.

As Larisa considered the chaos into which the most recent meeting had degenerated, she thought back to her days in graduate school and realized that organization design was part of the problem. Millier had succeeded for two decades with a loose, even haphazard structure, because everyone seemed focused on building the business. People simply did what needed to be done. However, the company had never been under threat before. "Perhaps we just aren't as well organized as we need to be to handle the challenges Millier is facing," she thought. As she watched the last shift workers walk to their cars, Larisa pulled out a report that a consultant friend had developed for her a few months ago. The report emphasized:

- Millier rated very high on employee morale.
- Millier was rated low on innovation and change.
- The Millier culture emphasized production efficiency.
- The Millier culture was not intensely focused on developing new customers.
- Each department did its job well, but collaboration across departments was rated low to medium.
- Price competition would probably intensify as the customer base grew smaller.
- The industry would continue to change toward fewer paperboard machines and toward higher quality imported machines.

Larisa scribbled a few notes on a pad:

How should we decide what strategy to pursue?

Who should have authority and responsibility for what?

How do we improve communications?

What criteria should we use to measure performance and ensure accountability?

Larisa knew that as soon as she or her team could determine some answers, she would sleep at least a little better.

Questions

1. The managers seem to agree on the overall goal of growth. Which of their strategies would you recommend Millier take as the most likely way to achieve growth? Explain.
2. Using Exhibit 2.9, Four Approaches to Effectiveness, which emphasis would you say each manager is expressing?
3. How do you think the managers should go about resolving their difference with regard to their strategies?

ENDNOTES

1 Josh Constine, "Instagram Hits 1 Billion Monthly Users, Up from 800M in September," *TechCrunch*, June 20, 2018, https://techcrunch.com/2018/06/20/instagram-1-billion-users/ (accessed March 26, 2019); Chris Morris, "Queen Elizabeth Joins Instagram," *Fortune*, March 7, 2019, http://fortune.com/2019/03/07/queen-elizabeth-joins-instagram/ (accessed March 26, 2019); and Deepa Seetharaman, "Instagram Finds Focus Under 'Efficiency Guru,'" *The Wall Street Journal*, April 13, 2017, https://www.wsj.com/articles/instagram-finds-focus-under-efficiency-guru-1492075801 (accessed March 26, 2019).

2 Jack Nicas, "What Is Yahoo? Riddle Plagued CEOs for Two Decades," *The Wall Street Journal*, July 25, 2016; and Jack Nicas, "At Google, Steady Hands Prevail," *The Wall Street Journal*, July 26, 2016.

3 Amitai Etzioni, *Modern Organizations* (Englewood Cliffs, NJ: Prentice Hall, 1964), 6.

4 John P. Kotter, "What Effective General Managers Really Do," *Harvard Business Review,* November–December 1982, 156–167; Henry Mintzberg, *The Nature of Managerial Work* (New York: Harper & Row, 1973); and Henry Mintzberg, *Managing* (San Francisco: Berrett-Kohler Publishers, 2009).

5 Iason Dalavagas, "SWOT Analysis: The Kroger Company," *Value Line*, January 12, 2017, http://valueline.com/Stocks/Highlights/SWOT_Analysis__The_Kroger_Company.aspx#.XJo8WfZFyUk (accessed March 26, 2019); Keith Nunes, "Kroger in Transition," *Food Business News*, September 14, 2018, https://www.foodbusinessnews.net/articles/12508-kroger-in-transition (accessed April 9, 2019); Clark Howard Staff, "Kroger's 2018 Comeback Strategy," *Clark.com*, https://clark.com/shopping-retail/kroger-5-big-changes-stores/ (accessed April 9, 2019) and Heather Haddon, "Kroger's New Approach to Stocking Shelves Is Boosting Earnings," *The Wall Street Journal*, June 21, 2018.

6 This discussion is based on Rafael Ramirez, Steve Churchhouse, Alejandra Palermo, and Jonas Hoffmann, "Using Scenario Planning to Reshape Strategy," *MIT Sloan Management Review* 58, no. 4 (Summer 2017), 31ff; Steven Schnaars and Paschalina Ziamou, "The Essentials of Scenario Writing," Business Horizons (July–August 2001), 25–31; Peter Cornelius, Alexander Van de Putte, and Mattia Romani, "Three Decades of Scenario Planning in Shell," California Management Review 48, no. 1 (Fall 2005), 92–109; and Stephen M. Millett, "Four Decades of Business Scenarios: What Can Experience Teach?" *Strategy & Leadership* 41, no 1 (2013), 29–33.

7 Ramirez et al., "Using Scenario Planning to Reshape Strategy."

8 Reported in Claire Churchard, "Tales of the Unexpected," *People Management* (February 2012).

9 Sarah Kent, "Shell Prepares for 'Lower Forever' Oil Prices," *The Wall Street Journal*, July 27, 2017.

10 Based on A. G. Lafley and Roger Martin, "Instituting a Company-Wide Strategic Conversation at Procter & Gamble," *Strategy & Leadership* 41, no. 4 (2013), 4–9.

11 Miguel Bustillo, "Corporate News—Boss Talk: Wal-Mart's U.S. Chief Aims for Turnaround," *The Asian Wall Street Journal,* March 22, 2011, 22; and Miguel Bustillo, "Wal-Mart Tries to Recapture Mr. Sam's Winning Formula," *The Wall Street Journal Online,* February 22, 2011, http://online.wsj.com/article/SB10001424052748703803904576152753111788930.html (accessed July 17, 2012).
12 Gary Hamel and C. K. Prahalad, "Strategic Intent," *Harvard Business Review* July–August 2005, 148–161.
13 Ibid.
14 Barbara Bartkus, Myron Glassman, and R. Bruce McAfee, "Mission Statements: Are They Smoke and Mirrors?" *Business Horizons,* November–December 2000, 23–28; and Mark Suchman, "Managing Legitimacy: Strategic and Institutional Approaches," *Academy of Management Review* 20, no. 3 (1995), 571–610.
15 CVS Health, "Our New Name," http://www.cvshealth.com/research-insights/health-topics/our-new-name (accessed December 12, 2014).
16 Bill George, "The Company's Mission Is the Message," *Strategy + Business,* Issue 33 (Winter 2003), 13–14; and Jim Collins and Jerry Porras, *Built to Last: Successful Habits of Visionary Companies* (New York: Harper Business, 1994).
17 Hamel and Prahalad, "Strategic Intent."
18 Arthur A. Thompson, Jr. and A. J. Srickland III, *Strategic Management: Concepts and Cases,* 6th ed. (Homewood, IL: Irwin, 1992); and Briance Mascarenhas, Alok Baveja, and Mamnoon Jamil, "Dynamics of Core Competencies in Leading Multinational Companies," *California Management Review* 40, no. 4 (Summer 1998), 117–132.
19 Issie Lapowsky, "Logistics; No Time to Spare; Tackling Last-Minute Jobs," *Inc.,* July–August 2011, 106, 108.
20 Charles Perrow, "The Analysis of Goals in Complex Organizations," *American Sociological Review* 26 (1961), 854–866.
21 Johannes U. Stoelwinde and Martin P. Charns, "The Task Field Model of Organization Analysis and Design," *Human Relations* 34 (1981), 743–762; and Anthony Raia, *Managing by Objectives* (Glenview, IL: Scott Foresman, 1974).
22 Lauren Weber, "The Management Fix That Made Firefox Faster," *The Wall Street Journal*, August 22, 2017.
23 Paul Beckett, Vibhuti Agarwal, and Julie Jargon, "Starbucks Brews Plan to Enter India," *The Wall Street Journal Online,* January 14, 2011, http://online.wsj.com/article/SB10001424052748703583404576079593558838756.html (accessed July 16, 2011).
24 James Dao, "Wal-Mart Plans to Hire Any Veteran Who Wants a Job," *The New York Times,* January 14, 2013, http://www.nytimes.com/2013/01/15/us/wal-mart-to-announce-extensive-plan-to-hire-veterans.html?_r=0 (accessed February 19, 2014).
25 Christina Passariello, "To L'Oreal, Brazil's Women Need Fresh Style of Shopping," *The Wall Street Journal,* January 21, 2011, B1.
26 Reed Abelson, "Managing Outcomes Helps a Children's Hospital Climb in Renown," *The New York Times,* September 15, 2007, C1.
27 Robert L. Porter and Gary P. Latham, "The Effect of Employee Learning Goals and Goal Commitment on Departmental Performance," *Journal of Leadership & Organizational Studies* 20, no. 1 (2013), 62–68.
28 William Alden and Sydney Ember, "Wall St. Shock: Take a Day Off, Even a Sunday," *The New York Times,* January 11, 2014, A1.
29 Brooks Barnes, "Animation Meets Economic Reality," *The New York Times,* April 4, 2011, B1.
30 Aaron Buck, "How Kraft Heinz Ate Its Seed Corn," *The Wall Street Journal*, March 11, 2019, https://www.wsj.com/articles/how-kraft-heinz-ate-its-seed-corn-11552303800 (accessed March 27, 2019).
31 Medhanie Gaim, Nils Wåhlin, Miguel Pina e Cunha, and Stewart Clegg, "Analyzing Competing Demands in Organizations: A Systematic Comparison," *Journal of Organization Design* 7, no. 6 (2018), https://doi.org/10.1186/s41469-018-0030-9 (accessed March 27, 2019).
32 Kevin Roose, "Facebook Emails Show Its Real Mission: Making Money and Crushing Competition," *The New York Times*, December 5, 2018, https://www.nytimes.com/2018/12/05/technology/facebook-emails-privacy-data.html (accessed March 27, 2019); Will Oremus, "Facebook Never Really Cared About Connecting the World," *Slate*, December 6, 2018, https://slate.com/business/2018/12/facebook-emails-lawsuit-embarrassing-mark-zuckerberg.html (accessed March 27, 2019); Deepa Seetharaman and Kirsten Grind, "Facebook's Lax Data Policies Led to Cambridge Analytica Crisis," *The Wall Street Journal*, March 20, 2018, https://www.wsj.com/articles/facebooks-lax-data-policies-led-to-cambridge-analytica-crisis-1521590720 (accessed March 27, 2019) and Kirsten Grind and Deepa Seetharaman, "Behind the Messy, Expensive Split Between Facebook and Whats App's Founders," *The Wall Street Journal*, June 5, 2018, https://www.wsj.com/articles/behind-the-messy-expensive-split-between-facebook-and-whatsapps-founders-1528208641 (accessed March 27, 2019).
33 Anne-Claire Pache and Filipe Santos, "Inside the Hybrid Organization: Selective Coupling as a Response to Competing Institutional Logics," *Academy of Management Journal* 56, no. 4 (2013), 972–1011.
34 See studies reported in Gary P. Latham and Edwin A. Locke, "Enhancing the Benefits and Overcoming the Pitfalls of Goal Setting," *Organizational Dynamics* 35, no. 4 (2006), 332–340.
35 Porter and Latham, "The Effect of Employee Learning Goals and Goal Commitment on Departmental Performance."
36 Adam Bryant, "Tell Me the Problem and 3 Ways to Solve It" (an interview with Jennifer Dulski, Corner Office column), *The New York Times,* December 1, 2013, BU2.
37 Emily Flitter, "Wells Fargo CEO Is Grilled on Capitol Hill," *The New York Times*, March 12, 2019, https://www.nytimes.com/2019/03/12/business/wells-fargo-ceo-sloan.html (accessed March 27, 2019); Michael Corkery and Stacy Cowley, "Wells Fargo Warned Workers Against Sham Accounts, But 'They Needed a Paycheck,'" *The New York Times*, September 15, 2016, https://www.nytimes.com/2016/09/17/business/dealbook/wells-fargo-warned-workers-against-fake-accounts-but-they-needed-a-paycheck.html (accessed March 27, 2019); and

Katherine W. Phillips, "A Primer on Organizational Culture," *Harvard Business Review,* October 10, 2018, available at https://hbr.org/product/a-primer-on-organizational-culture/CU231-PDF-ENG.

38 James D. Thompson, *Organizations in Action* (New York: McGraw Hill, 1967), 83–98.

39 Michael E. Porter, "What Is Strategy?" *Harvard Business Review,* November–December 1996, 61–78.

40 This discussion is based on Michael E. Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (New York: Free Press, 1980).

41 Trader Joe's Website, https://www.traderjoes.com/our-story (accessed March 27, 2019); Scott Sloan, "Lexington's Trader Joe's Opens Friday," *Kentucky.com,* June 28, 2012, http://www.kentucky.com/2012/06/28/2241801/lexingtons-trader-joes-opens-friday.html (accessed July 17, 2012); Mark Mallinger, "The Trader Joe's Experience: The Impact of Corporate Culture on Business Strategy," *Graziadio Business Review,* Graziadio School of Business and Management, Pepperdine University, 10, no. 2 (2007), http://www.gbr.pepperdine.edu/2010/08/the-trader-joes-experienc/ (accessed July 17, 2012); Shan Li, "Can Trader Joe's Stay 'Homey' as It Grows?"; and Beth Kowitt, "Inside Trader Joe's," *Fortune* (September 6, 2010), 86ff.

42 Alan Ruddock, "Keeping Up with O'Leary," *Management Today,* September 2003, 48–55; and Jane Engle, "Flying High for Pocket Change; Regional Carriers Offer Inexpensive Travel Alternative," *South Florida Sun Sentinel,* February 13, 2005, 5.

43 Michael E. Porter, "Strategy and the Internet," *Harvard Business Review,* March 2001, 63–78; and John Magretta, "Why Business Models Matter," *Harvard Business Review,* May 2002, 86.

44 Ben Mutzabaugh, "Allegiant Announces 19 New Routes; Big Winners are Florida Panhandle and Nashville," *USA TODAY*, February 12, 2019, https://www.usatoday.com/story/travel/flights/todayinthesky/2019/02/12/allegiant-air-19-new-seasonal-routes-focus-florida-and-tennessee/2842600002/ (accessed March 29, 2019); and Jack Nicas, "Allegiant Air: The Tardy, Gas-Guzzling, Most Profitable Airline in America," *The Wall Street Journal,* June 4, 2013, http://online.wsj.com/article/SB10001424127887324423904578525310460541592.html (accessed September 16, 2013).

45 Richard Teitelbaum, "The Wal-Mart of Wall Street," *Fortune,* October 13, 1997, 128–130.

46 Raymond E. Miles and Charles C. Snow, *Organizational Strategy, Structure, and Process* (New York: McGraw-Hill, 1978).

47 Nicholas Casey, "New Nike Sneaker Targets Jocks, Greens, Wall Street," *The Wall Street Journal,* February 15, 2008, B1.

48 Mike Colias, "The 10-Year Plan to Make Cadillac Cool Again," *The Wall Street Journal*, October 25, 2017; Andrew Connor, "A Brief History of Cadillac's Best Automotive Innovations," *Gear Patrol*, August 19, 2015, https://gearpatrol.com/2015/08/19/history-of-cadillac-automotive-innovations/ (accessed March 28, 2019); Don Sherman, "If It Was a First, It Might Very Well Have Come from Cadillac," *Automotive News*, September 14, 2008, https://www.autonews.com/article/20080914/OEM06/309149967/if-it-was-a-first-it-might-very-well-have-come-from-cadillac (accessed March 28, 2019); and "Cadillac Innovation," https://www.cadillac.com/world-of-cadillac/innovation (accessed March 28, 2019).

49 Geraldine Fabrikant, "The Paramount Team Puts Profit Over Splash," *The New York Times,* June 30, 2002, Section 3, 1, 15.

50 Shalini Ramachandran, "Netflix, Amazon Take Divergent Paths to Reach Indian Audience," *The Wall Street Journal*, November 1, 2016; Esther Fung, "Amazon to Shut All U.S. Pop-Up Stores as It Rethinks Physical Retail Strategy," *The Wall Street Journal*, March 6, 2019; Greg Bensinger, "Amazon Revenue, Spending Grow Apace," *The Wall Street Journal,* April 26, 2013, B4; and Mylene Mangalindan, "Slow Slog for Amazon's Digital Media—Earnings Today May Provide Data on What Works," *The Wall Street Journal,* April 23, 2008, B1.

51 "On the Staying Power of Defenders, Analyzers, and Prospectors: Academic Commentary by Donald C. Hambrick," *Academy of Management Executive* 17, no. 4 (2003), 115–118.

52 Etzioni, *Modern Organizations,* 8; and Gary D. Sandefur, "Efficiency in Social Service Organizations," *Administration and Society* 14 (1983), 449–468.

53 Richard M. Steers, *Organizational Effectiveness: A Behavioral View* (Santa Monica, CA: Goodyear, 1977), 51.

54 Michael Hammer, "The 7 Deadly Sins of Performance Measurement (and How to Avoid Them)," *MIT Sloan Management Review* 48, no. 3 (Spring 2007), 19–28.

55 Karl E. Weick and Richard L. Daft, "The Effectiveness of Interpretation Systems," in Kim S. Cameron and David A. Whetten, eds., *Organizational Effectiveness: A Comparison of Multiple Models* (New York: Academic Press, 1982); and Gaim, et al., "Analyzing Competing Demands in Organizations."

56 This discussion is based on Robert D. Herman and David O. Renz, "Advancing Nonprofit Organizational Effectiveness Research and Theory," *Nonprofit Management and Leadership* 18, no. 4 (Summer 2008), 399–415; Eric J. Walton and Sarah Dawson, "Managers' Perceptions of Criteria of Organizational Effectiveness," *Journal of Management Studies* 38, no. 2 (March 2001), 173–199; and K. S. Cameron and D. A. Whetton, "Organizational Effectiveness: One Model or Several?" in *Organizational Effectiveness: A Comparison of Multiple Models,* K. S. Cameron and D. A. Whetton, eds., (New York: Academic Press, 1983), 1–24.

57 Graham Kenny, "From the Stakeholder Viewpoint: Designing Measurable Objectives," *Journal of Business Strategy* 33, no. 6 (2012), 40–46.

58 Kim S. Cameron, "A Study of Organizational Effectiveness and Its Predictors," *Management Science* 32 (1986), 87–112; and Joseph R. Matthews, "Assessing Organizational Effectiveness: The Role of Performance Measures," *The Library Quarterly* 81, no. 1 (2011), 83–110.

59 Most of these indicators are from Cristina B. Gibson, Mary E. Zellmer-Bruhn, and Donald P. Schwab, "Team Effectiveness in Multinational Organizations: Evaluation Across Contexts,"

Group & Organizational Management 28, no. 4 (December 2003), 444–474.

60 Herman and Renz, "Advancing Nonprofit Organizational Effectiveness Research and Theory"; Y. Baruch and N. Ramalho, "Communalities and Distinctions in the Measurement of Organizational Performance and Effectiveness Across For-Profit and Nonprofit Sectors," *Nonprofit and Voluntary Sector Quarterly* 35, no. 1 (2006), 39–65; A. M. Parhizgari and G. Ronald Gilbert, "Measures of Organizational Effectiveness: Private and Public Sector Performance," *Omega; The International Journal of Management Science* 32 (2004), 221–229; David L. Blenkhorn and Brian Gaber, "The Use of 'Warm Fuzzies' to Assess Organizational Effectiveness," *Journal of General Management,* 21, no. 2 (Winter 1995), 40–51; and Scott Leibs, "Measuring Up," *CFO* (June 2007), 63–66.

61 Reported in David H. Freedman, "What's Next: The Dashboard Dilemma," *Inc.,* November 1, 2006, http://www.inc.com/magazine/20061101/column-freedman.html (accessed July 14, 2011).

62 James L. Price, "The Study of Organizational Effectiveness," *Sociological Quarterly* 13 (1972), 3–15; and Steven Strasser, J. D. Eveland, Gaylord Cummins, O. Lynn Deniston, and John H. Romani, "Conceptualizing the Goal and Systems Models of Organizational Effectiveness—Implications for Comparative Evaluation Research," *Journal of Management Studies* 18 (1981), 321–340.

63 Adam Satariano, "Uber Regains Its License to Operate in London, a Win for Its New CEO," *The New York Times*, June 26, 2018.

64 Richard H. Hall and John P. Clark, "An Ineffective Effectiveness Study and Some Suggestions for Future Research," *Sociological Quarterly* 21 (1980), 119–134; Price, "The Study of Organizational Effectiveness"; and Perrow, "The Analysis of Goals in Complex Organizations."

65 Gautam Naik, "Poverty: The New Search for Solutions; Baby Steps: Cincinnati Applies a Corporate Model to Saving Infants," (Third in a Series), *The Wall Street Journal,* June 20, 2006, A1.

66 Jonathan A. Jensen, Job B. Cobbs, and Brian A. Turner, "Evaluating Sponsorship through the Lens of the Resource-Based View: The Potential for Sustained Competitive Advantage," *Business Horizons* 59 (2018), 163–173; and David J. Collis and Cynthia A. Montgomery, "Competing on Resources," *Harvard Business Review*, July–August 2008, 140–150.

67 The discussion of the resource-based approach is based in part on Michael V. Russo and Paul A. Fouts, "A Resource-Based Perspective on Corporate Environmental Performance and Profitability," *Academy of Management Journal* 40, no. 3 (June 1997), 534–559; and Jay B. Barney, J. L. "Larry" Stempert, Loren T. Gustafson, and Yolanda Sarason, "Organizational Identity within the Strategic Management Conversation: Contributions and Assumptions," in David A. Whetten and Paul C. Godfrey, eds., *Identity in Organizations: Building Theory through Conversations* (Thousand Oaks, CA: Sage Publications, 1998), 83–98.

68 These are based on David J. Collis and Cynthia A. Montgomery, "Competing on Resources," *Harvard Business Review,* July–August 2008, 140–150; J. Barton Cunningham, "A Systems-Resource Approach for Evaluating Organizational Effectiveness," *Human Relations* 31 (1978), 631–656; and Ephraim Yuchtman and Stanley E. Seashore, "A System Resource Approach to Organizational Effectiveness," *Administrative Science Quarterly* 12 (1967), 377–395.

69 Roger Noble, "How Shriners Hospitals for Children Found the Formula for Performance Excellence," *Global Business and Organizational Excellence,* July–August 2009, 7–15.

70 Based on Collis and Montgomery, "Competing on Resources."

71 Richard I. Priem, "Is the Resource-Based 'View' a Useful Perspective for Strategic Management Research?" *Academy of Management Review* 26, no. 1 (2001), 22–40.

72 Chris Argyris, *Integrating the Individual and the Organization* (New York: Wiley, 1964); Warren G. Bennis, *Changing Organizations* (New York: McGraw-Hill, 1966); Rensis Likert, *The Human Organization* (New York: McGraw-Hill, 1967); and Richard Beckhard, *Organization Development Strategies and Models* (Reading, MA: Addison-Wesley, 1969).

73 Cheri Ostroff and Neal Schmitt, "Configurations of Organizational Effectiveness and Efficiency," *Academy of Management Journal* 36 (1993), 1345–1361.

74 J. Barton Cunningham, "Approaches to the Evaluation of Organizational Effectiveness," *Academy of Management Review* 2 (1977), 463–474; and Beckhard, *Organization Development.*

75 Craig Torres and Anthony Feld, "Campbell's Quest for Productivity," *Businessweek,* November 24, 2010, 15–16.

76 Jeanne Michalski, "BNSF's Leadership Engine," *Organizational Dynamics* 42 (2013), 35–45.

77 Anne S. Tusi, "A Multiple Constituency Model of Effectiveness: An Empirical Examination at the Human Resource Subunit Level," *Administrative Science Quarterly* 35 (1990), 458–483; Charles Fombrun and Mark Shanley, "What's In a Name? Reputation Building and Corporate Strategy," *Academy of Management Journal* 33 (1990), 233–258; and Terry Connolly, Edward J. Conlon, and Stuart Jay Deutsch, "Organizational Effectiveness: A Multiple Constituency Approach," *Academy of Management Review* 5 (1980), 211–217.

78 Frank Friedlander and Hal Pickle, "Components of Effectiveness in Small Organizations," *Administrative Science Quarterly* 13 (1968), 289–304.

79 Tusi, "A Multiple Constituency Model of Effectiveness."

80 Fombrun and Shanley, "What's In a Name?"

81 Kim S. Cameron, "The Effectiveness of Ineffectiveness," in Barry M. Staw and L. L. Cummings, eds., *Research in Organizational Behavior* (Greenwich, CT: JAI Press, 1984), 235–286; and Rosabeth Moss Kanter and Derick Brinkerhoff, "Organizational Performance: Recent Developments in Measurement," *Annual Review of Sociology* 7 (1981), 321–349.

82 Eric J. Walton and Sarah Dawson, "Managers' Perceptions of Criteria of Organizational Effectiveness," *Journal of Management Studies* 38, no. 2 (2001), 173–199.
83 Beth Dickey, "NASA's Next Step," *Government Executive,* April 15, 2004, http://www.govexec.com/features/0404-15/0404-15s1.htm 34 (accessed July 19, 2011).
84 Neil King Jr. and Russell Gold, "BP Crew Focused on Costs: Congress," *The Wall Street Journal Online,* June 15, 2010, http://online.wsj.com/article/SB10001424052748704324304575306800201158346.html (accessed July 19, 2011).
85 Robert E. Quinn and John Rohrbaugh, "A Spatial Model of Effectiveness Criteria: Towards a Competing Values Approach to Organizational Analysis," *Management Science* 29, no. 3 (1983), 363–377; and Walton and Dawson, "Managers' Perceptions of Criteria of Organizational Effectiveness."
86 Regina M. O'Neill and Robert E. Quinn, "Editor's Note: Applications of the Competing Values Framework," *Human Resource Management* 32 (Spring 1993), 1–7.
87 Gary Morton, "Book Highlight—Purpose-Driven Creativity at Stryker," *Global Business and Organizational Excellence* 37, no. 3 (2018), 60–66.
88 Robert E. Quinn and Kim Cameron, "Organizational Life Cycles and Shifting Criteria of Effectiveness: Some Preliminary Evidence," *Management Science* 29 (1983), 33–51.
89 Dongwook Chung, "A Management 180," *T + D*, July 2013, 56–59.
90 Based on Ron Stodghill, "Boxed Out," *FSB,* April 2005, 69–72; "SIC 2653 Corrugated and Solid Fiber Boxes," *Reference for Business, Encyclopedia of Business,* 2nd ed., http://www.referenceforbusiness.com/industries/Paper-Allied/Corrugated-Solid-Fiber-Boxes.html (accessed November 11, 2011); "Paper and Allied Products," *U.S. Trade and Industry Outlook 2000*, 10–12 to 10–15; "Smurfit-Stone Container: Market Summary," *BusinessWeek Online*, May 4, 2006; and Bernard A. Deitzer and Karl A. Shilliff, "Incident 15," *Contemporary Management Incidents* (Columbus, OH: Grid, Inc., 1977), 43–46.