TRADITIONAL EFFECTIVENESS APPROACHES

Organizations bring resources in from the environment, and those resources are transformed into outputs delivered back into the environment, as shown in Exhibit 2.7 Traditional approaches to measuring effectiveness look at different parts of the organization and measure indicators connected with outputs, inputs, or internal activities.

Goal Indicator

The goal approach to effectiveness consists of identifying an organization's output goals and assessing how well the organization has attained those goals. This is a logical approach because organizations do try to attain certain levels of output, profit, or client satisfaction. The goal approach measures progress toward attainment of those goals. For example, an important measure for the Women's National Basketball Association is number of tickets sold per game. During the league's first season, President Val Ackerman set a goal of 4,000 to 5,000 tickets per game. The organization actually averaged nearly 9,700 tickets per game, indicating that the WNBA was highly effective in meeting its goal for attendance.

The important goals to consider are operative goals, because official goals (mission) tend to be abstract and difficult to measure. 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
- 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

Resource-based Indicators

The resource-based approach looks at the input side of the transformation process shown in Exhibit 2.7. It assumes organizations must be successful in obtaining and managing valued resources in order to be effective. 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. 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.

In a broad sense, resource indicators of effectiveness encompass the following dimensions:

- Bargaining position—the ability of the organization to obtain from its environment scarce and valued resources, including financial resources, raw materials, human resources, knowledge, and technology

- The abilities of the organization's decision makers to perceive and correctly interpret the real properties of the external environment
- The abilities of managers to use tangible (e.g., supplies, people) and intangible (e.g., knowledge, corporate culture) resources in day-to-day organizational activities to achieve superior performance
- The ability of the organization to respond to changes in the environment

Internal Process Indicators

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. 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. 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 organizations.

Internal process indicators include:

- A strong, adaptive corporate culture and positive work climate
- Operational efficiency, such as using minimal resources to achieve outcomes
- Undistorted horizontal and vertical communication
- Growth and development of employees