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 next few sections of the chapter explore the topic of effectiveness and how effectiveness is measured in organizations.

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 operative—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. 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.

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. One regional fast food chain wanting to cut costs decided to reduce food waste by not cooking any food until it was ordered. The move reduced the chain's costs, but it also led to delayed service, irritated customers, and lower sales.

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. Managers determine what indicators to measure in order to gauge the effectiveness of their organizations. Studies and surveys have found that many managers have a difficult time with the concept of evaluating effectiveness based on characteristics that are not subject to hard, quantitative measurement. However, top executives at some of today's leading companies are finding new ways to measure effectiveness, including the use of such "soft" indications as customer loyalty and employee engagement.

First, we will discuss several traditional approaches to measuring effectiveness that focus on which indicators managers consider most important to track. Later, we will examine an approach that integrates concern for various parts of the organization.