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.

Definition

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.[42] 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.[43]

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. For example, one regional fast food chain wanting to increase efficiency 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.[44]

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.[45] Managers determine what indicators to measure in order to gauge the effectiveness of their organizations. Four possible approaches to measuring effectiveness are:

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

Who Decides?

Key people in charge of the organization, such as top managers or board members, have to make a conscious decision about how they will determine the organization's effectiveness. 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.[46] An analogy from baseball that clarifies the concept is the story of three umpires explaining how they call balls and strikes. The first says, "I call 'em as they are." The second says, "I call 'em as I see 'em." The third takes a social construct approach and says, "They ain't nothin' 'til I call 'em."[47] Similarly, organizational effectiveness is nothing until managers or stakeholders "call it."

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 or customer loyalty.

Managers often use indicators from more than one of the four approaches (goal, resource, internal process, strategic constituents) when measuring effectiveness. Exhibit 3.8 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.[48]

As the items in Exhibit 3.8 reveal, indicators of effectiveness are both quantitative and qualitative, tangible and intangible. An indicator such as achieving sales

EXHIBIT 3.8
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/etc. 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.

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 have to be measured qualitatively.[49] Relying solely on quantitative measurements can give managers a limited or distorted view of effectiveness. Albert Einstein is 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."[50]

Four Effectiveness Approaches

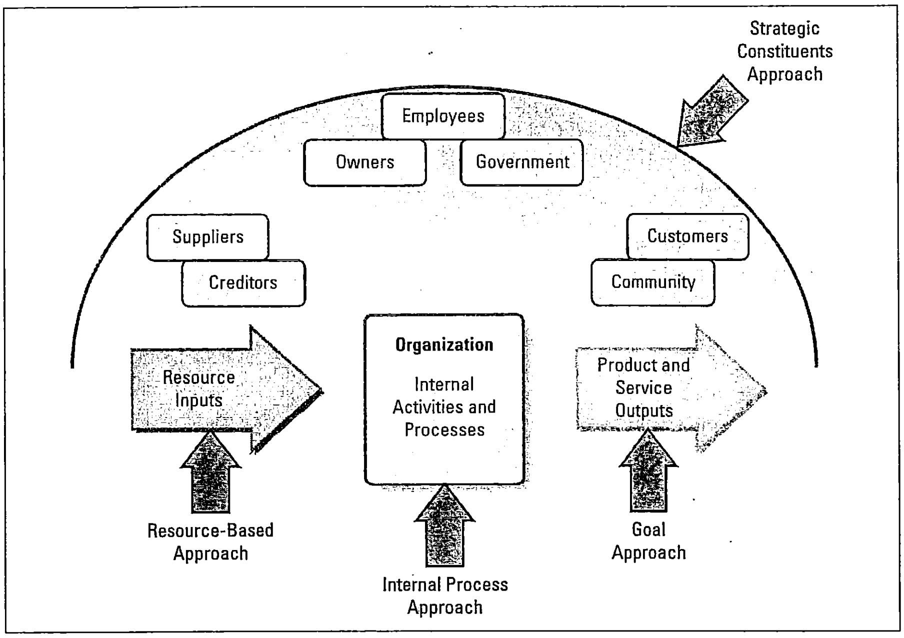
As open systems, organizations bring in resources from the environment, and those resources are transformed into outputs delivered back into the environment, as shown in Exhibit 3.9. In addition, recall from Chapter 1 that organizations interact with a number of stakeholder groups inside and outside 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.[51]

Goal Approach

The **goal approach** to effectiveness consists of identifying an organization's output goals and assessing how well the organization has attained those goals.[52] 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 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.[53]

EXHIBIT 3.9
Four Approaches to Measuring Organizational Effectiveness



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

Usefulness. The goal approach is used in business organizations because output goals can be readily measured. As illustrated by the following example, however, some nonprofit organizations that aim to solve social problems also find the goal approach useful.

Every Child Succeeds

IN PRACTICE

Using a rigorous model of performance measurement based on some of the management practices at Procter & Gamble, 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.

Social workers and nurses from 15 participating organizations, including two Cincinnati hospitals and several social service agencies, visit at-risk mothers in their homes and help them stop smoking, learn to eat better, 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. The program limits its reach to first time mothers and works with the client from pregnancy until the child's third birthday.

Managers collect reams of data that enable them to measure what is working and fix what is not. A chart hangs in the agency offices that lists 17 indicators, such as immunization rates, rate of breast feeding, and client satisfaction, and shows how well each of the participating agencies is doing on meeting targets. When the Cincinnati Home for Children failed to meet the immunization target of 80 percent, managers created an action plan that quickly improved performance on that indicator.[54]

Usefulness. 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.

Resource-Based Approach

The **resource-based approach** looks at the input side of the transformation process shown in Exhibit 3.9. 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.[55] 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.[56]

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:[57]

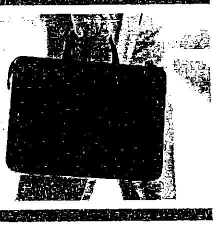
- Bargaining position—the ability of the organization to obtain from its environment scarce and valued resources, including tangible resources such as a prime

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 orthopedic 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, 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.[58] Many 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.[59]

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.[60]

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.

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.[61] 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.[62]

Internal process indicators include:[63]

- 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. In the wake of the economic recession, companies such as DuPont, Campbell Soup, and UPS are looking for ways to be more efficient, such as using existing technology to accomplish more with less. At Campbell's Maxton, North Carolina-based factory, hundreds of small changes and improvements, many suggested by employees, have increased operating efficiency to 85 percent of what managers believe is the maximum possible. UPS trucks carry devices that 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.[64]

Today, most managers believe that committed, actively involved employees and a positive corporate culture are also important internal measures of effectiveness. A good example of an internal process approach focused on employees is the Ritz-Carlton hotel chain. Managers carefully track performance data related to employee engagement, customer engagement, and "maintaining the Ritz-Carlton Mystique." If employees aren't engaged, customers can't be satisfied and engaged, the mystique of the brand suffers, and thus financial performance will decline. Employee training is ongoing, and employees have access to data that let them see how well they are doing on meeting performance targets. The culture encourages employees to do whatever it takes to make customers happy. Every employee takes part in a daily pre-shift meeting to discuss actions, events, issues, and the Ritz-Carlton philosophy. The learning environment at Ritz-Carlton, said John Timmerman, vice president of operations, "is how we stay agile in an ever-changing world."[65]

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.

Strategic Constituents Approach

The strategic constituents approach is related to the stakeholder approach described in Chapter 1. Recall from Exhibit 1.5 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 3.9.

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.[66]

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.[67] 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 *Facebook* even though they are not necessarily customers, suppliers, or owners. CEO Mark Zuckerberg works hard to win over developers. At a developer's conference, he unveiled a new technology that lets websites install a Facebook "Like" button for free. Users can click on it to signal their interest in a piece of content. The user's approval then shows up on his or her Facebook page with a link back to the site. The technology will drive traffic from Facebook to other websites, and in turn drive traffic back to Facebook.[68]

Usefulness. Research has shown that the assessment of multiple constituents is an accurate reflection of organizational effectiveness, especially with respect to organizational adaptability.[69] Moreover, both profit and nonprofit organizations care about their reputations and attempt to shape perceptions of their performance.[70] The strategic constituents approach takes a broader 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.[71] In the following section, we look at another popular approach that takes a multidimensional, integrated approach to measuring effectiveness.

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.[72] 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.[73] 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.[74] 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.[75] 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.

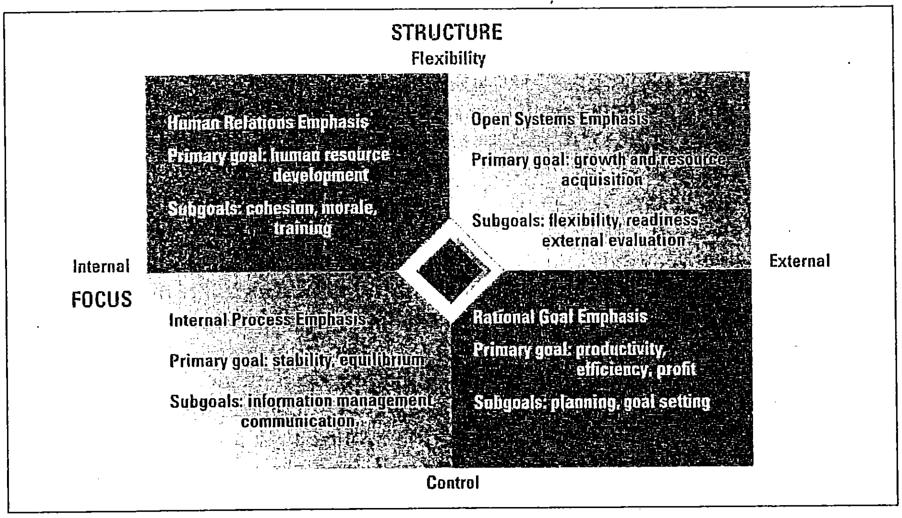
The value dimensions of structure and focus are illustrated in Exhibit 3.10. The combination of dimensions provides four approaches to organizational effectiveness, which, though seemingly different, are closely related. In real organizations, these competing values can and often do exist together. Each approach reflects a different management emphasis with respect to structure and focus.[76]

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 3.10; 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

EXHIBIT 3.10
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.

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 3.10 represent opposing organizational values. Managers decide which values will take priority in the organization. The way two organizations are mapped onto the four approaches is shown in Exhibit 3.11.[77] 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.

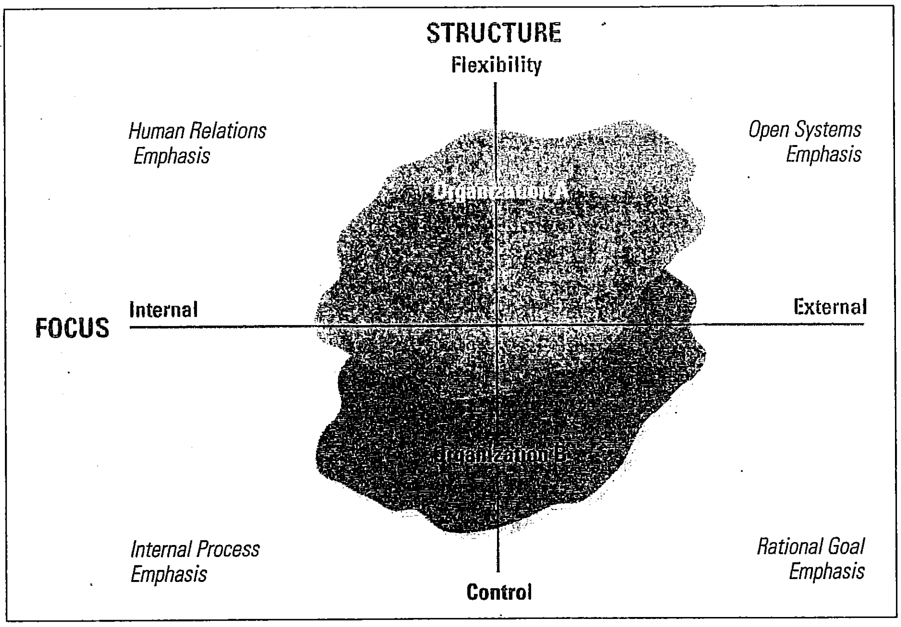


EXHIBIT 3.11
Effectiveness Values for Two Organizations

3 The best measures of business performance are financial.

ASSESS YOUR ANSWER

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.

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, the Walt Disney Company's acquisition of Pixar Animation Studios has been relatively smooth, and Disney/Pixar has had a string of critical and commercial hits like "Ratatouille" and "Toy Story 3." However, managers at Disney and those at Pixar are currently struggling with the question of which values they want to pursue—risky creativity and openness or guaranteed financial success and stability.