

Preface

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Table of contents

PREFACE..... 1

A. EFFECTIVENESS AS A MEASURE OF SUCCESS 3

**B. WANT TO PASS YOUR EXAMS? FOLLOW A COURSE AT CAPITA
SELECTA! 8**

A. Effectiveness as a measure of success

This chapter addresses the problem that organizations might be efficient, but not effective. There is a lot of discussion about which organizations are successful, and on what successfulness is based. Many theorists actually refer to effectiveness, when we talk about successful organizations.

All departments within an organization influence an organization's effectiveness, such as marketing, by identifying market opportunities, finance, by identifying the best investments, or product & operations, by improving the supply chain, and accounting, by providing information for entrepreneurs about the best strategic decisions are best for the firm.

Highly significant in obtaining organizational effectiveness is deciding upon an appropriate organizational structure. Moreover, organization behavior, is important in maximizing organizational effectiveness. Another important factor influencing organizational effectiveness is its interaction with the environment and stakeholders, think of:

- Investor preferences;
- Government policies;
- Community pressures.

Formerly, organizational effectiveness was defined as whether a firm achieved its goals or not, also called the *goal attainment approach*. But goals can differ between employees, managers, shareholders and stakeholders, so who's goals should we try to achieve? Another approach is the *survival approach*. If companies do survive by merging, restarting, reorganize themselves, what does that say about the effectiveness? After the 1960's, a review of different researches on organizational effectiveness identified 30 criteria for which effectiveness can be measured, table with these criteria can be found on page 75 of the textbook. There are so many criteria because the type of organization also influences the appropriate measure of criterion. Nowadays, there is the ability to assess effectiveness of organizations, based on both means (processes) and ends (outcomes), but there is not one criteria that is suited for every organization.

During this literature we will measure **organizational effectiveness** by the following: *To what extent is an organization able to accomplish its short-term and long-term goals, the selection of which reflects strategic constituencies in the organization's environment, the self-interest of the evaluator and the life stage of the organization.*

This is different from efficiency, a company can be very efficient in the way it produces its products, but might not be effective in that the way that the products do not sell as they hoped it would. However, if an organization is effective, it is by definition efficient.

The goal-attainment approach

The **goal-attainment approach** believes that every organization sets goals it wishes to accomplish. Once it does accomplish these goals, it is logical to say the organization is effective. This approach uses the extent to which an organization attains its ends (outcomes) while measuring the means (processes) used to attain the ends, examples are: profit objectives, budgets, quality standards, reaching a certain minimum of customers, etc.

The goal-attainment approach assumes that organizations are deliberate, rational and goal-seeking entities. However, there are some qualifications to which these goals should satisfy:

1. The organization should have goals;
2. The goals should be publicly known and obvious;
3. There should be enough goals to be able to measure the company on and the goals should be appropriate for the organization to set;
4. The goals should be the same for every stakeholder;
5. Processes used to attain these goals need to be measurable;
6. The goals should have deadlines.

Problems that arise are the following:

- Different stakeholders have different goals, which' stakeholders goals should be set? Management might want to establish long-term relationships with customers, while shareholders want fast returns.
- Are the organization's stated goals really its goals? If the stated goal is "being social responsible", while the real goal is attracting a new customer group interested in sustainable companies, the stated goal is not the actual goal.
- What if the short-term goals are totally different from long-term goals? Different goals could counteract.
- When is a goal accomplished? Being socially responsible is subject to someone's opinion on being socially responsible.
- Goals should be classified on their importance, but how is that decided?

In some cases, organizations act and come with goals while they are already in the process of attaining that "goal", does this say anything about effectiveness?

The main issue in this approach is measurement and identification of goals, these issues can be reduced by:

- Include all stakeholders when identifying the goals;
- Including goals on the basis of behavior of organization members;
- Increase realignment of counterpart goals;
- Separate short-term from the long-term goals;
- Set practical and feasible goals;
- See goals as changeable rather than fixed.

The systems approach

The **systems approach** focuses merely on means (processes) than outcomes. Outcomes still matter but are not the only important factor anymore. Systems model focus on its ability to acquire resources, maintain itself internally as a social organization and interact with its external environment. With the resources is meant tacit knowledge such as ideas, inventions, patents, brand names etc. and the systems approach states the importance of instant investment in these resources.

This approach assumes that organizations can be divided into divisions, and those divisions should be measured independently as well as the interrelation between these decisions. Moreover, it assumes that the relationship with external environmental stakeholders such as consumers, suppliers, shareholders etc.

The systems approach, in contrast to the goal-attainment approach, its main focus is the survival of the organization. It measures the ability to survive on the following factors:

- How it will remain able to continuously transform inputs into outputs;
- The possibility to be able to react on environmental changes;
- Efficiency of the internal processes;
- Quality of internal communications;
- The level of innovation;
- Conflicts between groups within and outside the organization.

To make the systems approach feasible, the measurement instruments are converted into ratio's like output/input, transformations/input, transformations/output, changes in input/output. Many organizations benchmark these ratio's against competitors and standards.

Another feasible way of the systems approach is **added value**. This is a measurement for evaluating the amount of value difference between an organization's inputs and outputs. The difference in value between inputs and outputs is called the added value. An example is a company which purchases different elements, uses these elements to produce a car, and then sells the car with a cash surplus on top of the purchase price, which is called the added value. A company that is not able to add value to its inputs, will not be able to survive.

Problems with this approach are the following:

- Not all processes are (easily) measurable;
- The sole focus on means decreases the relevance of "organizational" effectiveness.

The strategic constituencies approach

The **strategic constituencies approach** focuses merely on its stakeholders (constituencies), on which an organization's survival is dependent partly. Using this approach, an organization's effectiveness is being measured as the level at which an organization is able to satisfy its most important stakeholders. One could state that the organization is being seen as a political playground (or *political arena*) on which different groups battle for the power and control over the resources of the organization. Those stakeholders are different depending on the organization, but examples are:

- Shareholders, want high returns and dividend payments;
- Employees, want high wages, holidays, a pleasant work environment;
- Managers, want a sustainable and successful organization;
- Governments, want organizations to comply to rules;
- Customers, want low prices, high quality;
- Interest groups, want a sustainable environment for instance;
- Suppliers, want high prices for the products they sell to the organization.

All above stakeholders have different interests and want different things from the organization, which can be contradictory. The strategic-constituencies approach assumes that managers define goals based on the interests of all these different interest groups, which is necessary in order for the organization to survive.

Setting the strategic constituencies approach consists of 4 steps:

1. Find out which are the most important stakeholders.
2. Put weights to the different groups. Which stakeholders are essential for the organization's survival? These stakeholder's interests are also more important for the organization to comply to.
3. Find out what are their wishes for and interests in the organization. One problem is that these interests often change.
4. Set goals for the most important stakeholders and make goals which satisfy each of these stakeholders in "the order of the preference", so based on which stakeholders are most important for the organization's survival. The organizational effectiveness will be measured based on the level of accomplishments of these goals.

The most important problem is the dynamic nature of stakeholders, what may have been important for the organization yesterday might not be of much importance tomorrow. Another problem can be subjectivity of managers about what they consider are the most important stakeholders and how to comply to their interests.

The balanced scorecard approach

The **balanced scorecard approach** (see page 92 in the textbook) integrates the goal-attainment approach, the systems approach and the strategic constituencies approach into one organizational effectiveness measurement tool. The balanced scorecard approach measures realignment between demands of an organization by stakeholders with its capabilities.

The balanced scorecard divides the organizational effectiveness in different components based on a certain perspective (strategic constituencies approach), it sets goals based on the certain perspective (goal-attainment approach) and defines measures which should assess attainment of the goals by looking at the processes (systems approach). There are four components in which the organization's effectiveness perspective is divided:

- Financial perspective (shareholders). Is the organization profitable?
- Customer perspective (customers). Time to delivery, price, product utility, service. Market share is a good estimate for measuring customer satisfaction.
- Internal perspective (organization). It evaluates internal processes such as quality, availability of equipment, costs of production, after-sales service, time to new products, product cycles.
- Innovation and Learning perspective. It assesses product improvement and development and production efficiencies.

Important for this approach is for the management to make a selection of the most important goals, because the amount of goals can be unlimited. The goals should be clear and easy measurable.

A benefit of the balanced scorecard is that it integrates all the important factors necessary for a total measurement of organizational effectiveness. It includes both short-term efficiency and long-term adaptability of the organization.

Also, it guards against overestimates of short-term performance for instance, because it also incorporates long-term factors necessary for an organization's survival.

Moreover, it incorporates stakeholders vision on the company and the need to satisfy their wishes.

A problem about the balanced scorecard is that it is still subject to what is ought to be important goals and measures. Identification and ranking of goals is still a human process and can be a wrong vision of the organization. Also, the approach is a backwards looking approach, which is based on past information, while it does not try to influence future processes for instance.

Also, goals which in the past was important is not necessarily important today, which can make the backward looking approach somewhat unreliable.

When to use what approach?

- When the goals are feasible, time-bound and easily assessable → goal attainment approach;
- When the relationship between inputs and outputs can easily be identified and measured → systems approach;
- When the organization is heavily dependent on stakeholders' interests and demands → strategic consistencies approach;
- When the organization is complex and the environment is demanding → balanced scorecard approach.

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On behalf of the complete Capita Selecta team, we wish you an successful academic year. We hope to see you at one of our Capita courses.

Kind regards,
Carlen Nieters
Business Unit Manager Capita Selecta