CHAPTER 3

Organisational effectiveness

After reading this chapter you should be able to:

- explain four approaches to organisational effectiveness
- list the assumptions of each of the organisational effectiveness approaches
- describe how managers can operationalise each approach
- identify key problems with each approach
- explain the value of each approach to practising managers
- compare the conditions under which each is useful for managers.

Introduction

Are you sure you know what effectiveness is?

Take any group of people and ask them to name an organisation they 'like'. Many may associate their choice with pleasant things, organisations which take you on holidays perhaps, their local hospital for giving them a sense of security, maybe a favourite restaurant or recreation club. Now ask them to suggest an organisation they think does its job well. A different set of answers is likely to emerge. Maybe the supermarket they patronise, a favourite clothing boutique, perhaps a charity such as the Salvation Army or an environmental group such as Greenpeace.

What about those organisations which they really don't like? The taxation department would hardly rank highly on most people's list of great organisations; nor would most government departments. Some may not like McDonald's because of health concerns; others love it because it gives great children's parties. Anti-globalisers probably don't like Nike and greenies don't like oil companies.

If we asked for a list of organisations that are well managed we may get blank looks, but those familiar with business may come up with Toyota, General Electric or perhaps a food company such as Nestlé. If we asked if BHP Billiton's profit meant that it was efficient, well managed or exploitative we would find that we would be offered a variety of conflicting answers.

This imaginary discussion highlights the difficulties faced in suggesting ways to improve organisations. We may make them efficient, but they still may not do their job well, or they may be doing things which are not socially acceptable to many people. On the other hand, organisations which do things that really no one can criticise because they contribute to the greater good—charities spring to mind—may in actual fact not be efficient and in some cases may make no impression on situations they are trying to improve.

Addressing this problem lies at the heart of this book. Using terminology relevant to organisational theory we are trying to create effective organisations. But what is an effective organisation? We will attempt to answer this question as the chapter progresses.

Organisations exist! People have formed formal organisations for as long as they have led settled lives. The earliest formal organisations were armies and the bureaucracies of kings and monarchs, closely followed by religious organisations. We could immediately identify many of the features of the organisations of antiquity: a hierarchy of management, symbols of rank and position, functional areas charged with undertaking specialised tasks and, on the behavioural side, often the development of a common culture associated with the sharing of values and goals. No civilisation ever became great without being organised: the Roman Empire and China provide good examples. As industrialisation advanced in the 19th and 20th centuries we became a far more organised society. Instead of production taking place in owner operated workshops or peasant farmed land, production increasingly moved to factories. Many of these factories grew in size to become the large industrial firms and multinationals which we are so familiar with today. But organisations exist for doing far more than producing goods and services for the marketplaces of the world. Government departments, charities, lobby groups, educational institutions, sporting clubs and multilateral bodies such as the United Nations are all organisations. Further, we generally accept that organisations in our society take a legal form, that is, they are incorporated under law and may take different forms of ownership. A business organisation, for example, has a different form of ownership and control to a religious body. The law also facilitates the extinguishment of organisations, particularly business organisations which are legally structured as shareholder owned companies. Every year thousands of organisations cease to exist as they merge with other organisations or fail, with their assets being liquidated.

This discussion leads us to the dilemma of how to identify a 'successful' organisation. Given the wide range of organisations we are likely to have to evaluate, this is no easy task; and the broader the areas that organisations exist in, the more difficult it becomes. For organisational theorists, issues such as these are considered under the general heading of *organisational effectiveness*. As you will see, researchers have had considerable difficulty in trying to agree on what this term means and how to apply it across a wide range of organisations. Yet almost all these same researchers are quick to acknowledge that this term is the central theme in organisational theory: what we are trying to do is expand our knowledge of organisations in order to generate more effective ones. In fact, it is difficult to conceive of a theory of organisations that does not include the concept of effectiveness.[1]

Importance of organisational effectiveness

Every discipline in the administrative sciences contributes in some way to helping managers make organisations more effective. Marketing, for instance, guides managers in identifying market needs and promoting and selling products. Financial concepts assist managers in making the optimum use of funds invested in the organisation. Production and operations management concepts offer guidance in designing efficient production processes and controlling supply chains. Accounting principles assist managers by providing information that can enhance the quality of the decisions they make.

Organisation theory presents another answer to the question of what makes an organisation effective. That answer is: an appropriate organisation structure! This book will demonstrate that the way we put people and jobs together and define their roles and relationships is an important determinant in whether an organisation is successful. As we will demonstrate in later chapters, some structures work better under certain conditions than do others. Importantly, those managers who understand their structural options and the conditions under which each is preferred will have a definite advantage over their less informed counterparts. Organisation theory, as a discipline, clarifies which organisation structure will lead to, or improve, organisational effectiveness.

In addition to studying the structure of an organisation, organisation theory also studies issues that arise when we view the organisation as a collective of people. Organisation behaviour examines the actions of individuals through such fields of study as leadership, motivation and teamwork. In contrast, organisation theory is concerned with such organisation-wide features as culture and organisational change.

We also consider the interaction of the organisation with its environment, and how organisations transform themselves over time in response to environmental and technological change and the process of growth and decline.

Ideas as to effectiveness have changed over time in response to changes in investor preferences, government policy, community expectations and management paradigms. Funds managers looking to invest large amounts of savings are seeking sound investments with good growth prospects. Those companies that can provide this need never be short of capital. However, the opposite is also true. Many organisations have found that their lack of access to funds has crimped growth prospects and in some cases forced them into liquidation. Major shifts in government policy over the past 20 years, including deregulation and privatisation, have led to new demands being placed on organisations to respond to emerging environmental pressures. Improving quality has led to a reappraisal of many established practices and technological innovation has been rapid, altering the way organisations relate to their environment. As well, globalisation has greatly increased the level of competition under which companies operate. Finally, all organisations, from churches and the taxation department through to consumer products firms, are under close scrutiny from a community concerned about breaches of trust and ethical standards.

All this has meant that issues relating to organisational effectiveness are very much of concern to the community. But what is effectiveness, and how do we go about assessing it?

In search of a definition

If you had been a student of organisational theory in the 1950s you would have had a deceptively simple way of assessing organisational effectiveness. At that time effectiveness was considered to be related to whether an organisation achieved its goals or not.[2] Although simple in concept and straightforward to understand, when it came to putting the *goal attainment approach* into practice, many difficulties emerged that limited research into the topic, as well as its application by managers. For example: Whose goals? Short-term goals or long-term goals? The organisation's stated goals or the goals which inform the actions of managers?

Another simple approach to measuring effectiveness is to consider *survival* a necessary precondition for success.[3] If there is anything an organisation seeks to do, it is to survive. But the use of survival as a criterion presumes the ability to identify when an organisation ceases to exist. Unfortunately, the death of an organisation is nowhere as clear as a biological death. Some organisations clearly do die. They become insolvent; assets, if any, are sold; and employees are paid off. But, in fact, most organisations don't die—they're remade. They merge, reorganise, sell off major parts or move into totally new areas of endeavour. The business pages of newspapers carry daily reports of mergers, acquisitions and takeovers, which often occur in the name of organisational effectiveness. Although it is less common, even churches merge. Charities evolve from catering to one sector of the community to another as needs change. For example Legacy, which was set up to cater for the needs of the children and widows of deceased servicemen who had served overseas, now sees itself as promoting the interests of youth generally. The RSL has moved from an almost exclusive emphasis on ex-servicemen and women to include a community service obligation. Other organisations can survive long periods of time while not being considered effective. For some organisations—and common targets for most people include government departments and large corporations—death practically never occurs.[4] They seem to have a life beyond any evaluation as to whether they are doing a good job. The airline industry is notorious for consuming large amounts of capital while making remarkably little profit. But somehow airlines are still in business. Other companies are started by entrepreneurs with the intention of building them to a certain size in order to 'flip' them to someone else (i.e. sell them to another buyer). So survival, and indeed corporate death, is a far more difficult concept to operationalise than appears at first glance.

The 1960s and early 70s saw a proliferation of organisational effectiveness studies. A review of these studies identified 30 different criteria—all purporting to measure 'organisational effectiveness'. These are listed in Table 3.1. The fact that few studies used multiple criteria, and that the criteria themselves ranged from general measures such as quality and morale to more specific factors such as accident rates and absenteeism, certainly leads to the conclusion that organisational effectiveness means different things to different people. Some of the items in Table 3.1 are even contradictory. Efficiency, for instance, is achieved by using resources to their maximum. It is characterised by an *absence* of slack. In contrast, flexibility/adaptation can be achieved only by having a surplus: that is, by the *availability* of slack. If absence of slack is a measure of effectiveness, how can a surplus of slack also be a measure of effectiveness?

No doubt the large number of items in Table 3.1 is partly due to the diversity of organisations being evaluated. It also reflects the different interests of the evaluators. It is difficult to use the same criteria to compare General Motors and the World Health Organization. As we argue later in this chapter, when we consider more specifically how values affect organisational effectiveness, the criteria chosen to define effectiveness may tell us more about the person doing the evaluation than about the organisation being evaluated. Investors would assess the effectiveness of the Commonwealth Bank differently to a lower level employee. But all 30 criteria cannot

TABLE 3.1 Organisational effectiveness criteria

1	Overall effectiveness	16	Planning and goal setting
2	Productivity	17	Goal consensus
3	Efficiency	18	Internalisation of organisational goals
4	Profit	19	Role and norm congruence
5	Quality	20	Managerial interpersonal skills
6	Accidents	21	Managerial task skills
7	Growth	22	Information management and communication
8	Absenteeism	23	Readiness
9	Turnover	24	Utilisation of environment
10	Job satisfaction	25	Evaluations by external entities
11	Motivation	26	Stability
12	Morale	27	Value of human resources
13	Control	28	Participation and shared influence
14	Conflict/cohesion	29	Training and development emphasis
15	Flexibility/adaptation	30	Achievement emphasis

Source: Adapted from John P. Campbell, 'On the Nature of Organizational Effectiveness', in P.S. Goodman, J.M. Pennings & Associates, eds, *New Perspectives on Organizational Effectiveness*, San Francisco: Jossey-Bass, 1977, pp. 36–41.

be relevant to every organisation, and certainly some are more important than others. The researcher who tabulated these 30 criteria concluded that as an organisation can be effective or ineffective on the basis of a number of different dimensions that may be relatively independent of one another, organisational effectiveness has no 'operational definition'.[5]

Researchers tend to the belief that organisational effectiveness cannot be defined, certainly not in a way which can guide research. On the other hand, a close look at the effectiveness literature does indicate a convergence towards general agreement.[6] Even more importantly, from a practical standpoint, we make informal assessments of organisational effectiveness all the time, even if we can't readily articulate what the basis is for our assessment.

A close examination of the organisational effectiveness literature indicates that there are some commonalities that may have been overlooked.[7] As will become evident by the time you finish reading this chapter, there is almost unanimous agreement today that assessment of organisational effectiveness requires multiple criteria, that different types of organisations have to be evaluated using different characteristics, and that effectiveness must consider both means (processes) and ends (outcomes). The implication is that it is difficult for us to develop a single and universal criterion of effectiveness. In addition, because organisations do many things and their success depends on adequate performance in a number of areas, the definition of effectiveness must reflect this complexity. It also means of course that organisations may be effective in some things they do but not effective in others.

While researchers may debate whether organisational effectiveness can be defined, the fact is that all of us have a concept of it which guides our decision making. We all make effectiveness judgements regularly, whenever we make investments, choose a university, select a bank or garage, evaluate job offers, decide which charities will get our donations, or decide which newspapers or magazines we buy. Managers and administrators, of course, also evaluate effectiveness when they assess and compare units or allocate budgets to departments. The point is that evaluating the effectiveness of an organisation is a widespread and ongoing activity which people engage in all the time. Effectiveness judgements are going to be made with or without agreement on a formal definition.

organisational effectiveness the degree to which an organisation attains its short- and long-term goals, the selection of which reflects strategic constituencies, the self-interest of the evaluator and the life stage of the organisation

Although a definition is difficult to arrive at we do need one to assist in understanding the material discussed in this chapter. Based upon the various approaches to organisational effectiveness, the following definition is proposed: **organisational effectiveness** is the degree to which an organisation attains its short-term (ends) and long-term (means) goals, the selection of which reflects strategic constituencies in the organisation's environment, the self-interest of the evaluator and the life stage of the organisation.

The definition highlights the difference between effectiveness and efficiency. An organisation may produce goods or services very efficiently, that is with the minimum use of resources, but may still not be effective. There are many reasons for this; it may be the product is technologically obsolete, such as steam locomotives or film cameras, questions may arise as to the ethicality of the product, as with tobacco, or maybe the demand for the company's goods is faltering because of changes in fashion or taste. In other words, it may be efficient but not effective. Alternatively, it is difficult to conceive of a company which is effective but not efficient. Using resources efficiently is a subset of effectiveness; one of the organisation's goals may be to achieve a certain level of efficiency in resources usage. But this is only one part of the multi-

dimensional nature of effectiveness. So efficiency in resource usage is not a substitute for the wider measure of effectiveness.

The remainder of this chapter is devoted to presenting the diverse approaches to the study of organisational effectiveness. It concludes with an integrative framework that acknowledges the earlier approaches, deals explicitly with their differences, and proposes a complex but clear definition of organisational effectiveness.

OT CLOSEUP

The effectiveness of Amnesty International

While academics debate issues of effectiveness, for business organisations effectiveness is often fairly straightforward to determine: normally, assessment concentrates on whether the organisation is satisfying the owner's needs. For shareholders, this means profitability and rising share prices. For private companies—those owned by individuals or families for instance—it may be employment for family members or lifestyle issues. Greater difficulties arise in assessing the effectiveness of not-for-profit and charitable organisations. Often these undertake work that has political implications and may involve value judgements as to what poverty is or what constitutes a good education.

One organisation which on the surface would seem to have an unassailable claim to effectiveness is Amnesty International. Established just over 40 years ago in the shadow of the Berlin Wall, its aims were ending torture and the death penalty, prompt and fair trial for political prisoners, and the release of all prisoners of conscience who had not condoned violence. It works through publicity, 'naming and shaming', and various reports, including its annual report.

Over the past few years, however, Amnesty has been the subject of a number of adverse comments. For instance, the nations that attract the most criticism are Western democracies, such as Australia and the USA. Indeed, the more democratic a country, the more likely it is to be criticised by Amnesty. South Korea gets more mention as a transgressor than North Korea, Saddam Hussein's Iraq received little criticism, and Syria and Vietnam virtually none. Any number of African countries where strongmen rule by the gun receive no mention. In particular, critics point to Amnesty's continuous criticism of Israel whilst making few criticisms of the human rights record of Arab countries. Another criticism is that after the US invasion of Iraq it immediately started issuing notices of violations of human rights, at the same time taking little notice of rights while Sadam Hussein was in power. Amnesty also has been criticised for the size of its bureaucracy, with the London head office having over 325 employees.

Amnesty justifies its bias towards naming Western countries as transgressors by saying that it relies only on independent and verifiable information. Hence the lack of criticism of countries that are oppressive: the more tightly controlled a country is, the less likely it is to be criticised. Critics have claimed that it has strayed from its original charter and is now keen to play to Western audiences, particularly those with a left-wing tendency, in order to expand its membership base and fee income.

Amnesty rejects such criticism. But the market for ideas and commitment is fundamentally different from the market for cars. The market soon punishes an ineffective car manufacturer. For not-for-profit organisations, such as Amnesty, there is no similar market, and the challenge of maintaining integrity in an environment of heightened political opinion and emotion is a major one.

Source: Much of this Closeup was drawn from Peter Phelps, 'Bloated Amnesty a Travesty of its Charter', *The Australian Financial Review*, 6 January 2001.

goal-attainment approach an organisation's effectiveness is judged in terms of whether it achieves its goals

The goal-attainment approach

An organisation, by definition, exists to achieve one or more specific goals.[8] It should come as no surprise then to find that goal attainment is probably the most widely used criterion of effectiveness.

The **goal-attainment approach** states that an organisation's effectiveness should be judged by whether it has achieved what it sets out to achieve. Applying the terms used in open systems theory, effectiveness is assessed on whether the organisation accomplishes its *ends* while tending to downplay the *means* of getting there. Popular goal-attainment criteria include achieving profit objectives or meeting budgets, achieving certain quality outcomes, helping a certain number of disadvantaged people, attaining health objectives or winning a sports competition. Their common denominator is that they consider the ends that the organisation was created to achieve. This approach has a wide applicability because it may be applied to a broad range of radically different organisations.

OT CLOSEUP

The effectiveness of the 'green' movement

It seems churlish to even think about criticising the green movement. International organisations such as Greenpeace and locally based environmental groups such as the Wilderness Society and the Nature Conservation Council have long been at the forefront of attempting to raise environmental awareness. In doing this they have generally concentrated on a few high-profile issues, such as mining at Kakadu and logging in various state forests, particularly in Tasmania and northern New South Wales.

These programs have been successful in putting green issues on the public agenda, and in most cases legislation has been passed that went some way towards meeting the environmentalists' demands. However, some in the movement are re-evaluating the effectiveness of this type of approach. Their main concern is that concentrating on a few high-profile issues does not address the most significant environmental issues facing Australia. These are the clearing of privately owned land, the build-up of salinity in the Murray–Darling basin and the increase in the number of feral pests, such as rabbits, foxes, cane toads and fire ants. The problem for organisations active in the green movement is that these issues do not have the headline-grabbing attention of rainforests or wetlands. But compared to a very small mine in Kakadu, or the insignificant amount of logging in national forests, they are of infinitely great importance.

One of the difficulties for the green movement has been that it has been slow to identify the use of economic incentives in eliciting environmentally sound practices. In part this is ideological: many in the green movement are anti-economics, and fail to grasp the role that pricing and incentives have on conservation. Certainly governments provided economic disincentives to conserve natural resources. For instance, governments provided water to irrigators at almost no cost, leading to overuse and rising water tables. Farmers received major tax concessions to clear land, not conserve it. The greens now realise that economic incentives will need to play a major role in future environmental efforts.

Further pressure from the green movement influenced the government in New South Wales to take a 'hands off' approach to its national parks; nature would take its own course. However, over time, the parks became hazards to those who lived around them. Feral animals multiplied and weeds and other infestations became rampant and started to spread to adjoining properties. The fire potential of the parks built up so that in the right conditions unstoppable fires broke out, the fires in Canberra in 2003 being the most destructive example. Subsequently the government accepted that national parks need to be managed.

So could we say that the various green movements have been effective? Answering this question highlights the difficulties of the goal-attainment approach. They have met their goals on a few high-profile issues such as rainforest logging. But these goals neglected what were far more significant environmental problems. Additionally, measuring goal attainment is difficult in relation to issues such as salinity, feral pests and raising general environmental awareness. The political nature of the conservation movement is also an issue. The anti-growth and pro-growth segments of the movement would set themselves different goals in relation to what they were trying to achieve.

Source: Partly drawn from James Woodford, 'A Load of Hot Air', *Sydney Morning Herald*, 29 September 2001, Spectrum, pp. 4–5.

Assumptions

The goal-attainment approach assumes that organisations are deliberate, rational, goal-seeking entities. Therefore, successful goal accomplishment becomes an appropriate measure of effectiveness. But the use of goals implies other assumptions that must be valid if goal attainment is to be a viable measure of effectiveness. First, organisations must have goals. Second, these goals must be explicit, sufficiently clear to be understood, and widely known. Third, the goals should be of a manageable number and should reflect areas important to the organisation. Fourth, there must be general consensus or agreement on these goals. Finally, progress towards goals must be measurable and there should be a time limit attached to them.

Making goals operative

Given that the assumptions of the goal-attainment approach are valid, how would managers operationalise the goal-attainment approach? The key decision makers would be the group from which the goals were obtained. This group would be asked to identify the organisation's goals. Once they had been identified, it would be necessary to develop measures to determine the extent to which they were being met. If, for instance, the consensus goal was profit maximisation, accounting measures to determine profit could be identified.

Problems

The goal-attainment approach has a number of problems that limit its widespread use. Many of these problems relate directly to the assumptions that we noted earlier. At first glance the process looks straightforward enough, but it assumes rationality in goal setting and evaluation that is rarely met in practice. Most organisations, and organisational processes, are far too fuzzy for the goal-attainment approach to displace other measures of effectiveness.

The first difficulty is 'Whose goals do you apply'? We noted above that key decision makers are used but membership of this group is hard to define. Take Shell, the oil company as an example. Is the key group shareholders, the board of directors, top management, environmental activists or governments of various types? The list could be a lot longer. All of them have goals for Shell. Certainly many, but not all, may be subsumed under the general goal of making a profit. But there is a trade-off between short-term and long-term profitability; companies can always boost short-term profits by running down maintenance, reducing training, not replacing staff who resign and deferring expenditure on capital equipment. Whilst short-term profits would rise, the impact on long-term profit would be devastating. But a company the size of Shell has many other equally valid goals such as oil exploration success, creating a positive public relations image, seeking suitable merger partners and so on. The importance of these varies depending upon who is setting the goals for the organisation. Even within an organisation, groups would differ in which goals were important. Within the senior management ranks, no doubt different schools of thought exist, and different levels of the organisation would have varying priorities. Middle managers may be concerned with budgets and access to resources and lower level workers may be more concerned with their pay and benefits.

Another complication arises from the difference between what an organisation states officially are its goals and what the actual goals of the organisation are.[9] Official goals tend to be influenced strongly by standards of social desirability. These include responding to fashions and fads in management and politically active social groups. Representative statements such as 'to produce quality products at competitive prices', 'to be a responsible member of the community', 'to ensure that our productive efforts do nothing to damage the environment', 'to maintain our reputation for integrity', and 'to be the employer of choice' are common organisational goals. These vague 'motherhood' official statements may sound desirable, but they rarely make any contribution to an understanding of what the organisation is actually trying to accomplish. Further, many organisational goals, particularly for businesses, are confidential in order not to become known to competitors. Given the likelihood that official and actual goals will be different, an assessment of an organisation's actual goals should probably include the statements made by the dominant coalition of managers plus an additional listing derived from observations of what members in the organisation are actually doing.

An organisation's short-term goals are often different from its long-term goals. For instance, a firm's primary short-term goal may be financial—for example, to raise \$20 million in working capital within the next 12 months. Its five-year goal, however, may be to increase its market share from 4% to 10%. It may even have a longer term goal of selling itself to someone else at a profit to existing shareholders. In applying the goal-attainment approach, which goals—short-term or long-term—should be used?

The fact that organisations have multiple goals also creates difficulties. They can compete with each other and sometimes are even incompatible. The aims of 'high product quality' and 'low unit cost', for example, may be directly at odds with each other. The goal-attainment approach assumes ideally that there is a consensus on goals, or at minimum, that goals are compatible with each other. Given that there are multiple goals and diverse interests within organisations, consensus may not be possible unless goals are stated in such ambiguous and vague terms as to allow the varying interest groups to interpret them in a way favourable to their self-interests. This may, in fact, explain why most official goals in large organisations are traditionally broad and intangible. They act to placate the many different interest groups within and outside the organisation.

The assessment as to whether a goal has been achieved may not be easy. Being environmentally responsible, for instance, means different things to different people, depending on their attitudes and orientation. The best way to render assistance to various disadvantaged groups may be highly politicised, particularly if outcomes are not clear. Even providing employment may create disputes over goals. McDonald's has continual conflict with its critics over the type of work it offers its young restaurant staff. McDonald's promotes the job opportunities offered to young people and the fact that it provides a valuable mode of entry into the world of work. Its critics dismiss the work as mere 'hamburger flipping', and the word 'McJobs' has been coined to describe work lacking challenge and interest.

Where multiple goals exist, they must be ordered according to importance if they are to have meaning for assessing effectiveness. But how do you allocate relative importance to goals that may be incompatible and represent diverse interests? Additionally, one of the main sources of disagreement within the top management team of an organisation arises from the determination of which goals should be important for the organisation. This may be particularly so in charitable and not-for-profit organisations, where the goals may be intangible statements of purpose. Also, the goals for other organisations will never be achieved because they are constantly being restated. Greenpeace, for instance, moves seamlessly from campaigns on climate change to those on whale hunting and chlorine-free environments. In ten years time it will probably be campaigning for something which attracts little attention at the present time.

A final insight should be mentioned before we conclude this section on problems. It may be that for many organisations, goals do not direct behaviour: 'The common assertion that goal consensus must occur prior to action obscures the fact that consensus is impossible unless there is something tangible around which it can occur. And this "something tangible" may well turn out to be actions *already completed*.'[10] In some cases, official goals may be merely statements of past actions rather than guides to future attainment. Organisations may act first, and then later create a 'goal' to justify what has happened. If this is true, measuring organisational effectiveness by surveying the dominant coalition should result not in benchmarks against which actual performance can be compared but rather in formal descriptions of the dominant coalition's perceptions of prior performance.

Where does all this lead us? It would appear that we should treat goals identified by senior management as guiding the organisation with caution. Only the naive would accept the formal statements made by senior management as representing the organisation's goals. As one author concluded after finding that corporations issue one set

OT CLOSEUP

The triple bottom line

Critics of modern corporate reporting have popularised the concept of the triple bottom line. It is based upon the belief that businesses have wider responsibilities than just to shareholders, and that these should be reported in a manner similar to the familiar profit and loss statement and balance sheet found in annual reports. The additional areas, social and environmental responsibility, are taken seriously by most businesses and most have a range of goals covering them. But while few people are prepared to argue that being socially and environmentally responsible is not desirable, there are few examples of firms actually releasing a meaningful triple bottom line statement. The main reason is because of measurement difficulties. Using traditional monetary measures, it is relatively easy to take costs away from revenue and arrive at profit. But attempting to determine a unit of measure for a social responsibility statement is much more difficult. For instance, how may the cost of a workplace harassment suit be measured or the benefits of hiring a disabled person accounted for?

Similarly, determining environmental impact creates difficulties. Certain goals may be established, such as reducing the use of paper or the amount of carbon dioxide produced, but comprehensive accounting for environmental impact eludes companies. Until these difficulties are overcome, the triple bottom line remains a theoretical construct rather than something of practical application.

of goals to shareholders, another to customers, a third set to employees, a fourth to the public and a fifth to management itself, formal statements of goals should be treated 'as fiction produced by an organization to account for, explain, or rationalize its existence to particular audiences rather than as valid and reliable indications of purpose'.[11]

Value to managers

These problems should not be construed as a blanket indictment of goals. Some goals are clearly measurable and relevant to an organisation. Examples of such goals may be to remain independent, to attain certain returns on capital, to bring a project on stream within a certain time frame and budget, or to attain certain medical or charitable goals.

This reminds us that organisations exist to achieve goals—the problems lie in their identification and measurement. The validity of those goals identified can probably be increased significantly by:

- ensuring that input is received from all those who have a major influence on formulating and implementing the official goals, even if they are not part of senior management
- including actual goals obtained by observing the behaviour of organisation members
- reducing the degree of incompatibility between goals
- recognising that organisations pursue both short- and long-term goals
- insisting on tangible, verifiable and measurable goals rather than relying on vague statements that merely mirror societal expectations
- viewing goals as dynamic entities that change over time rather than as rigid or fixed statements of purpose.

If managers are willing to accept the complexities inherent in the goal-attainment approach, they *can* obtain reasonably valid information for assessing an organisation's effectiveness. But there are other dimensions to organisational effectiveness than identifying and measuring specific ends.

The systems approach

In Chapter 1, we used a systems framework to describe organisations. Organisations exist to do certain things—acquiring inputs, and transforming them in some way to produce outputs. It has been argued that defining effectiveness solely in terms of goal attainment results in only a partial measure of effectiveness. Goals focus on outputs. But an organisation should also be judged on its ability to acquire inputs, process them efficiently, distribute the outputs, and maintain stability and balance between the various subsystems of the organisation. This means that the organisation can maintain itself through a repetitive cycle of activities. Another way to look at organisational effectiveness, therefore, is through a **systems approach**.[12]

systems approach evaluating an organisation's effectiveness by its ability to acquire inputs, process the inputs, channel the outputs and maintain stability and balance

In the systems approach, end goals are not ignored, but they are only one element in a more complex set of criteria. Systems models emphasise criteria that will increase the long-term survival of the organisation, such as the organisation's ability to *acquire* resources, *maintain* itself internally as a social organisation and *interact* successfully with its external environment. So the systems approach focuses not so much on specific ends, or goals, as on the way that those ends or goals are achieved.

Assumptions

The assumptions underlying a systems approach to organisational effectiveness are much the same as those discussed in Chapter 1. A systems approach to effectiveness implies that organisations are made up of interrelated subparts. If any one of these subparts performs poorly, it will negatively affect the performance of the whole system. Effectiveness also requires awareness of, and successful interaction with, important environmental constituencies. It highlights that management should maintain good relations with customers, suppliers, government agencies, shareholders, the community and other constituencies that have the power to disrupt the stable operation of the organisation.

Survival requires a steady replenishment of resources consumed in production. Raw materials and other inputs must be secured, vacancies created by employee resignations and retirements must be filled, depreciated plant and outdated technology requires replacement, declining product lines must be revamped, changes in the economy and the tastes of customers or clients need to be anticipated and reacted to, and so on. The resources of the system are not just productive machinery and physical assets. They include such intangibles as ideas, inventions and patents, brand names, customer goodwill and the skills of the management team. Failure to replenish these as they decay, either because of management neglect or lack of resources in the environment, will result in the organisation's decline and, possibly, death.

Making systems operative

Let us turn now to the issue of how the systems approach to effectiveness may be applied. First, we look at a sampling of criteria that systems advocates consider relevant; then we consider the various ways in which managers measure these criteria.

The systems view looks at factors such as the ability to ensure continued receipt of inputs into the system and the distribution of outputs, flexibility of response to environmental changes, the efficiency with which the organisation transforms inputs to outputs, the clarity of internal communications, the level of conflict among groups and rates of innovation. These measures may be benchmarked against other organisations doing similar things. In contrast to the goal-attainment approach, the systems approach focuses on the means necessary to ensure the organisation's continued survival. And it should be noted that systems advocates do not neglect the importance of specific end goals as a determinant of organisational effectiveness. Rather, they question the validity of the goals selected and the measures used for assessing the progress towards these goals.

In operationalising the systems approach, it has been suggested that important systems interrelationships can be converted into organisational effectiveness variables or ratios.[13] These could include output/input, transformations/input, transformations/output, changes in input/input, and so on. Table 3.2 gives some examples of measurement criteria that could be used, together with these variables in a business firm, a hospital and a university.

Operations managers and management accountants use many of these measures when they assess the effectiveness of the transformation process. In keeping with the systems idea of environmental interaction, many organisations, including charities and government departments, benchmark many of their measures, often called critical ratios, against their competitors and industry standards.

Yet another systems application of organisational effectiveness is the concept of added value, popularised by a professor at the London Business School, John Kay.[14]

TABLE 3.2 Examples of effectiveness measures of systems for different types of organisations

System variables	Business firm	Hospital	University
Output/input	Return on investment	Average length of patient stay	Number of publications per staff member
Transformations/ input	Inventory turnover	Staff per patient	Staff/student ratio
Transformations/ output	Sales volume	Total number of patients treated	Number of students graduated
Changes input/ input	Change in working capital	Change in number of patients treated	Change in student enrolment

Source: Adapted from William M. Evan, 'Organization Theory and Organizational Effectiveness: An Exploratory Analysis', in S. Lee Spray, ed., *Organizational Effectiveness: Theory, Research, Utilization*, Kent, OH: Kent State University Press, 1976, pp. 22–3. Reproduced with permission.

The cycle of absorbing inputs from the environment, turning them into usable products and services and then marketing these should leave a surplus of cash over and above that needed to maintain the system in its repetitive cycle. This surplus is called the value added, and Kay suggests that the larger it is the more successful the company. Kay considers that a commercial organisation that does not add value (i.e. one that contributes no more than the value of its inputs) cannot justify its existence in the long run.

The determination of added value starts with money received from sales to customers. From this are deducted salaries and wages, capital costs and payments to suppliers. These groups are called stakeholders, and payment to them ensures their future cooperation. What is left is the added value. This is less than the operating profit of the firm, because return to shareholders is included in the capital costs. But it represents the effectiveness with which resources are used in the organisation, including shareholders' funds. This approach has a finance orientation and concentrates on profit-making organisations, so it has little applicability to government or charitable organisations.

Problems

The two most telling shortcomings of the systems approach relate to measurement and the issue of whether means really matter.

While some process variables may be specific and easy to measure, such as hours to build a motor vehicle, or expense to income ratios, other critical ratios are not so easy to quantify. Rates of innovation, quality of the management team and community goodwill, all necessary for organisational strength, defy easy measurement. Environments may also change very quickly, rendering one set of measures superfluous and raising the importance of what previously was not considered significant. The entry of low-cost airlines into Australia, for instance, very quickly changed the environmental landscape for the established airlines, leading Qantas to establish its own low-cost subsidiary.

A second problem derives from the emphasis on processes rather than end goals. It makes little sense to be a great producer of steam locomotives if they are technologically obsolescent, or a cost-effective microchip producer if there is a glut of product. The problem with the systems approach, at least according to its critics, is that its focus is on the means necessary to achieve effectiveness rather than on organisational effectiveness itself.

This criticism may take on more substance if we conceptualise both goal-attainment and systems approaches as goal-oriented. The first uses *end* goals; the second uses *means* goals. If we do not reach our *end* goals, such as certain levels of market share or profitability ratios, then management should establish a process to find out why this may be so. In this they would be focusing on *means* goals. So, in a sense, both measures of effectiveness complement each other.

However, the systems approach leaves us with the impression that it is better at measuring the efficiency of the system rather than the effectiveness of the organisation. We will take up this point later in the chapter.

Value to managers

Managers who use a systems approach to organisational effectiveness are less inclined to look for immediate results. They are less likely to make decisions that trade off the organisation's long-term health and survival for ones that will make them look good in the near term. They are aware of the need for continuous improvement and that such improvement takes time. Moreover, the systems approach increases the managers' awareness of the interdependence of organisational activities. For instance, if management fails to have inputs on hand when they are needed or if the quality of those inputs is poor, this will restrict the organisation's ability to achieve its end goals.

Another plus for the systems approach is its applicability where end goals either are very vague or defy measurement. Managers of public organisations, for example, often use 'ability to acquire budget increases' as a measure of effectiveness thus substituting an input criterion for an output criterion. Charities also emphasise inputs—donations and the labour of volunteers—as important systems criteria. The demand for the outputs of charities is almost unlimited; what limits their operations is the availability of funds. So charities and not-for-profit organisations elevate access to inputs to be their most important effectiveness criteria.

Finally, occasionally environments present sudden and unexpected threats to organisations. For instance, a major technological breakthrough by a competitor, a product that is revealed as causing illness or accident, a fire or flood, or a poorly handled public relations issue can all suddenly threaten the organisation and render elegant and well-devised system ratios redundant. In such cases, survival becomes the most important goal of the organisation and almost the sole effectiveness criterion.

The strategic-constituencies approach

strategic-constituencies approach an organisation's effectiveness is determined by how successfully it satisfies the demands of those constituencies in its environment from which it requires support for its continued existence

A more recent perspective on organisational effectiveness—the **strategic-constituencies approach**—proposes that an effective organisation is one that satisfies the demands of those important parts of the environment, the constituencies, from which it requires support for its continued existence.[15] Thus it seeks to appease only those in the environment who can threaten the organisation's survival—that is, the strategic constituencies. As an example, let's take the case of three motor vehicle companies: one a public company listed on the stock exchange, the second a family-owned company, and the third owned by the government. Although undertaking the same task, the strategic constituencies of each are radically different. The first must concentrate on satisfying shareholders who desire a return on their assets. The second may be more concerned with such issues as family succession and the relationship with bankers, who provide most of the working capital. The last has government as a critical constituency, so maintaining good relationships with politicians is very important. What is critical varies with the circumstances of the organisation.

This approach is not necessarily at variance with the systems view discussed previously; the emphases are different rather than incompatible. The systems approach places greater emphasis on the transformation of inputs into outputs whilst the strategic-constituencies approach emphasises the importance of significant groups in the environment.

Assumptions

The goal-attainment approach views organisations as deliberate, rational and goal-seeking entities. The systems approach views them as mechanisms which produce goods and services in a repetitive cycle. The strategic-constituencies approach views organisations very differently. They are assumed to exist within an environment where demands are placed on the organisation by various important groups, or constituencies. In such a context, organisational effectiveness becomes an assessment of how successful the organisation has been in satisfying those strategic constituencies on which the survival of the organisation depends. This in turn is a major contributor to political tensions within the organisation itself and, as a result, the organisation becomes a political arena in which vested interests compete for control over resources in order to satisfy the environmental demands.

The 'political arena' metaphor highlights that the organisation has a number of important constituencies, each with different degrees of power and each trying to have its demands satisfied. But as each constituency also has a unique set of values, it is unlikely that their preferences will be in agreement. Tobacco companies provide an extreme example. There are three important constituencies that can directly impact the organisation: shareholders, smokers and government. Not surprisingly each has a different view of tobacco companies' effectiveness. Shareholders may be pleased with the returns they receive, while smokers may be happy with the product. But governments literally can put tobacco companies out of business or, at minimum, make life extremely difficult for them. The general community as well can pressure governments to act in ways detrimental to tobacco companies' interests.[16] Not surprisingly, each of these constituencies rates the effectiveness of tobacco companies in different ways and tobacco companies need to respond differently to each environmental sector. The effectiveness of a tobacco company, therefore, can be said to be influenced by its ability to identify its critical constituencies, assess the pressures they can place upon the company and respond effectively to their demands. Shareholders and smokers might be satisfied with the tobacco company's performance, but if the public, through its legislative representatives, outlaws the sale of cigarettes, then the companies face large losses.

Finally, the strategic-constituencies approach assumes that managers pursue a number of goals and that those selected represent a response to those interest groups that control the resources necessary for the organisation to survive. No goal or set of goals that management selects is value free. Each carries within it acknowledgement of what is important for the organisation. The strategic-constituencies approach

OT CLOSEUP

How effective is the United Nations?

Researchers and theorists have expended large amounts of time attempting to develop ways of assessing organisational effectiveness. The main thrust of their efforts has been directed towards profit-seeking organisations, making the task of measuring effectiveness a little easier as profitability is often included as an assessment criterion. But some organisations seem to defy any means of assessing their effectiveness. A prime example of such an organisation is the United Nations. Now over 50 years old, it reflects the power balances existing at the conclusion of the Second World War. Its shortcomings, from failing to stop genocide to the corruption associated with the oil for food program in Iraq, are widely publicised. The squabbles of its members are such that there is little agreement on reform.

The main powerbrokers in the Security Council regard the UN as politically useful at times but capable of being ignored at others. Some members use the body only for political grandstanding. It is famous for passing resolutions which are ignored and never enforced. Areas of concern to the modern world, such as terrorism and rebuilding countries after civil war, are not covered by its charter and therefore no efforts are made to address these issues. It would be easy to say that the UN is a fairly ineffective organisation. Certainly if it was a business it would have ceased to exist years ago.

But many of its constituent bodies, such as the World Health Organization, do considerable good and economic institutions like the IMF help to maintain economic stability. Also, who could imagine the world without the UN? It therefore may be possible to say that the UN is fairly effective because, even though it has such significant problems, nations—its most important strategic constituency—still want it to exist.

would argue that effective organisations align their goals with important areas of the environment. When management give profits highest priority, for instance, they make the interests of owners paramount. Similarly, adaptability to the environment, customer satisfaction and a supportive work climate favour the interests of society, clients and employees, respectively.

Making strategic constituencies operative

The management of most organisations would intuitively know what groups are important to the organisation in the environment, and what is needed to satisfy these groups. However, these groups, as in all things political, are constantly changing. Intuitive managers read their environment well and respond accordingly. However, very large organisations with multiple environments may need to conduct a more formal review of the importance of each strategic group. Management wishing to apply this perspective might begin by asking key members of the management team to identify the constituencies they consider to be critical to the organisation's survival. This input can be combined and synthesised to arrive at a list of strategic constituencies.

As an example, Caltex, which refines and markets petroleum products, may have as its strategic constituencies the suppliers of crude oil, state and local governments concerned with pollution and safety issues, and unions representing workers at the plant. It would also include shareholders, who provide capital, and banks through which the company might have short-term loans. Finally, wholesalers and retailers who distribute the product would be critical to the company's success.

The above list could then be evaluated to determine the relative power of each constituency. Basically, this means looking at each one in terms of how dependent on it the organisation is. Does it have considerable power over the organisation? Are there alternatives to what this constituency provides? How do these constituencies compare in the impact they have on the organisation's operations?

The third step requires identifying the expectations that these constituencies hold for the organisation. What do they want of it? Given that each constituency has its own set of special interests, what goals does each seek to impose on the organisation? Shareholders' goals may be in terms of profit or appreciation in share prices, and the union's may be in terms of acquiring job security and high wages for its members, whereas the Environmental Protection Authority will want the firm's manufacturing plants to meet all minimum air-, water- and noise-pollution requirements. Table 3.3 contains a list of strategic constituencies which a business firm might confront and the typical organisational-effectiveness criteria each is likely to use.

The strategic-constituencies approach would conclude by comparing the various expectations, determining common expectations and those that are incompatible, assigning relative weights to the various constituencies and formulating a preference ordering of these various goals for the organisation as a whole. This preference order, in effect, represents the relative power of the various strategic constituencies. The organisation's effectiveness would then be assessed in terms of its ability to satisfy these goals.

The stakeholder approach to effectiveness

As we have seen, the strategic-constituencies approach is an overtly political way of assessing effectiveness. The stakeholder approach recognises not only the importance of strategic constituencies but also those who may not have the political power to influence the existence of the organisation or even its direction. To the list in Table 3.3 we could add such groups as families of workers, environmentalists, residents near the plant and those generally concerned to see that ethical decision making is maintained. All of these groups, even though they may not be formally organised as a pressure group, are considered to be affected by the organisation and should therefore be considered when important decisions are made. Sometimes the aims of these groups are not all that obvious and the pressures they can bring are difficult to predict; McDonald's responding to health activists is a case in point.

The stakeholder approach has been developed by theorists such as Archie Carroll[17] as a counterpoint to the view that business organisations exist only to maximise profits for their shareholders. Carroll considers that this not only leads to a narrow focus in decision making but also neglects the community of which the organisation is a part. The stakeholder approach considers that an organisation is effective only if it takes into account the wider community that has an interest in the decisions of the organisation, even if this is at the cost of profits.

The advocates of the stakeholder approach see its advantage as taking the harsh edge from organisational decision making and civilising what may seem to be a system purely focused on profit. However, most organisations are aware of at least some of their wider responsibilities. And the interests of shareholders and other stakeholders may coincide when profits are increased because customers are satisfied, or when superior employment conditions attract the best staff.

TABLE 3.3 Typical organisational effectiveness criteria of selected strategic constituencies

Constituency	Typical OE criteria
Owners	Return on investment; growth in earnings
Employees	Pay; benefits; satisfaction with working conditions and career prospects
Customers	Satisfaction with price; quality; service
Suppliers	Satisfaction with payments; future sales potential
Creditors	Ability to pay debts
Unions	Competitive wages and benefits; satisfactory working conditions; willingness to bargain fairly
Local community officials	Involvement of organisation's members in local affairs; lack of damage to the community's environment; provision of employment
Government agencies	Compliance with laws; avoidance of penalties and reprimands

Problems

As with the previous approaches, strategic constituencies is not without problems. The task of separating the strategic constituencies from the larger environment is easy to talk about but difficult to do. Because the environment changes rapidly, what was critical to the organisation yesterday may not be so today and may be entirely different tomorrow. For example, the privatisation of government enterprises introduced a whole new set of constituencies for organisations. An example of an even quicker change in strategic constituencies is provided by banks, which exist on the goodwill and confidence of their depositors. If word is spread that a bank is insolvent, the resulting run on the bank by depositors can put it out of business in an afternoon. This highlights that strategic constituencies are not static but are constantly shifting as circumstances change.

Even if the constituencies in the environment can be identified and are assumed to be relatively stable, what separates the strategic constituencies from the 'almost' strategic constituencies? Where do you draw the line? And won't the interests of each member of the management team strongly affect what he or she perceives as strategic? An executive in finance is unlikely to see the world—or the organisation's strategic constituencies—in the same way as an executive in the supply chain management function. Finally, identifying the expectations that the strategic constituencies hold for the organisation presents a problem. How do you tap that information accurately?

The strategic-constituencies approach also assumes that an organisation's basic goal is survival. This may not be the case in many instances. Organisations are often established with the idea of selling them to someone else once they reach a certain size. Any company listed on the stock exchange has effectively put itself up for sale. Many businesses realise that they must merge with another in order to achieve some form of economies of scale, and management then negotiates the best deal that it can. Even charities and not-for-profit organisations such as hospitals or recreation clubs realise that independence may not be the best policy for their strategic constituents. Amalgamations and mergers then follow.

Value to managers

If survival is important for an organisation, it is incumbent on managers to understand just who it is (in terms of constituencies) that survival depends upon. By

OT CLOSEUP

Halliburton—a company activists love to hate

Business critics may hold a dislike for most businesses, but they can't criticise all of them all of the time; they normally concentrate on one or two high-profile cases. In the United States a company which raised the ire of activists for some time was Nike. Critics lambasted it for child labour abuses, unhealthy working conditions and miserly pay for workers. Over the past few years, Nike and similar companies have gone to great lengths to address the accusations and, as a result, much of the sting has been removed from criticism levelled at them.

Many activists in the US have moved on to another company called Halliburton. Halliburton conducts a range of businesses, including maintenance of oil rigs and oil fields, construction activities and provision of catering for the US army in Iraq. It has been embroiled in bribery scandals and it has been accused of being granted high-value contracts without tendering. Critics argue that these have been acquired because of the company's close links with the White House. The Vice-President of the United States, Dick Cheney, once headed the company.

Halliburton is the biggest US contractor in Iraq, having won work worth over US$15 billion. It also stands to benefit from the reconstruction work associated with Hurricane Katrina which devastated New Orleans. Halliburton's critics are extremely well organised and their website <www.halliburtonwatch.org> shows correlations between Halliburton's share price and the number of soldiers killed in Iraq. It was also noted that the share price rose as Hurricane Katrina struck in anticipation of lucrative rebuilding contracts.

Perhaps Halliburton's high profile amongst activists is less of a problem than that which was presented to Nike. Nike sold consumer goods and the reputation of its brand was important to it. Halliburton's customers are mainly government departments and other large companies and, provided that it maintains key contacts, it can afford to ignore most of the criticism aimed at it. It can be confident that there are not too many companies with the skills and financial resources to undertake major contracts, particularly in areas such as Iraq where the risk profile can be extremely high. So even politicians who may be wary of dealing with Halliburton because of all the bad publicity would probably have to turn to it for assistance. As long as Halliburton keeps the critical constituency of government onside, then it can ignore most of the criticism. But activists have keen political antennas; that is why most of their activism is aimed at severing the Halliburton–government relationship.

operationalising the strategic-constituencies approach, managers decrease the chance that they might ignore or severely upset a group whose power could significantly hinder the organisation's operations. If management knows whose support it needs if the organisation is to maintain its health, it can modify its preferred ordering of goals as necessary to reflect the changing power relationships with its strategic constituencies.

The balanced scorecard approach

Organisations can be very confusing and difficult to comprehend. Notwithstanding advances in management techniques and the ability to process information, the complexity associated with the activities and interactions of large numbers of people working in multiple subsystems defies easy analysis and understanding. The technologies of even a medium-sized organisation are beyond the grasp of one person and areas of waste and inefficiency are often difficult to identify. Environments are

constantly changing, and the demands on the organisation for performance, and indeed to justify its existence, never seem to diminish. Whether an organisation is performing well or poorly may not even be obvious to senior management, at least in the short term. Given this complexity, it is easy for those managing and working in an organisation to concentrate their energies on a few, easy-to-grasp measures that are easy to arrive at.

So far in this chapter we have identified the importance of ends, means and processes in measuring organisational effectiveness. We have also identified that responding innovatively to environmental pressures contributes to the effectiveness of an organisation. The **balanced scorecard** attempts to integrate all of these approaches.[18]

balanced scorecard the balanced scorecard seeks to balance the various demands on the organisation with its capabilities

In generating the various measures used in the balanced scorecard, one seeks to balance (hence the name) the various demands on the organisation with its capabilities. As a result, developing the measures becomes a diagnostic tool—a management technique to align the organisation with its environment and a measurement system to identify whether goals are being met. It is also seen as a means of developing and implementing strategy.

The balanced scorecard, developed by Kaplan and Norton, is an attempt to provide an integrated measure of organisational effectiveness. As with the approaches previously discussed, it proposes that there is no one measure that can assess an organisation's performance or that can focus attention on critical areas of the business. Financial measures are historical rather than future oriented and are limited as to what can be measured in monetary terms. Operational measures, such as process times and defect rates, often lack the ability to differentiate between items of greater and lesser importance. The balanced scorecard attempts to view performance in several areas simultaneously and identify not just results but how the results were achieved.

Making the balanced scorecard operative

The various components of the balanced scorecard are illustrated in Figures 3.1a–b. The various performance measures are linked, highlighting that they are interrelated. The components attempt to identify four basic questions facing any organisation. These are:

- How do important financial providers perceive us? (*Financial Perspective*) All organisations must have access to finance and hence they have financial demands and constraints. Financial measures enable an organisation to determine how profitable it is and its rate of return on assets. It can also be used by charities to identify how successful they are at raising funds or government departments in accessing budget increases. In short, the financial measures indicate whether an organisation's strategy and its execution are contributing to profitability, or covering costs.
- How do customers see us? (*Customer Perspective*) Goals and measures under this heading typically include assessment of time to delivery, product utility, and performance and service which, when combined, show how the product or service contributes to creating value for customers. Market share is also a good measure of customer satisfaction.
- What must we excel at? (*Internal Perspective*) These measures concentrate on what the company must do internally to meet the customers' expectations. This is a process-driven measure, examples of which may include on-time running, quality

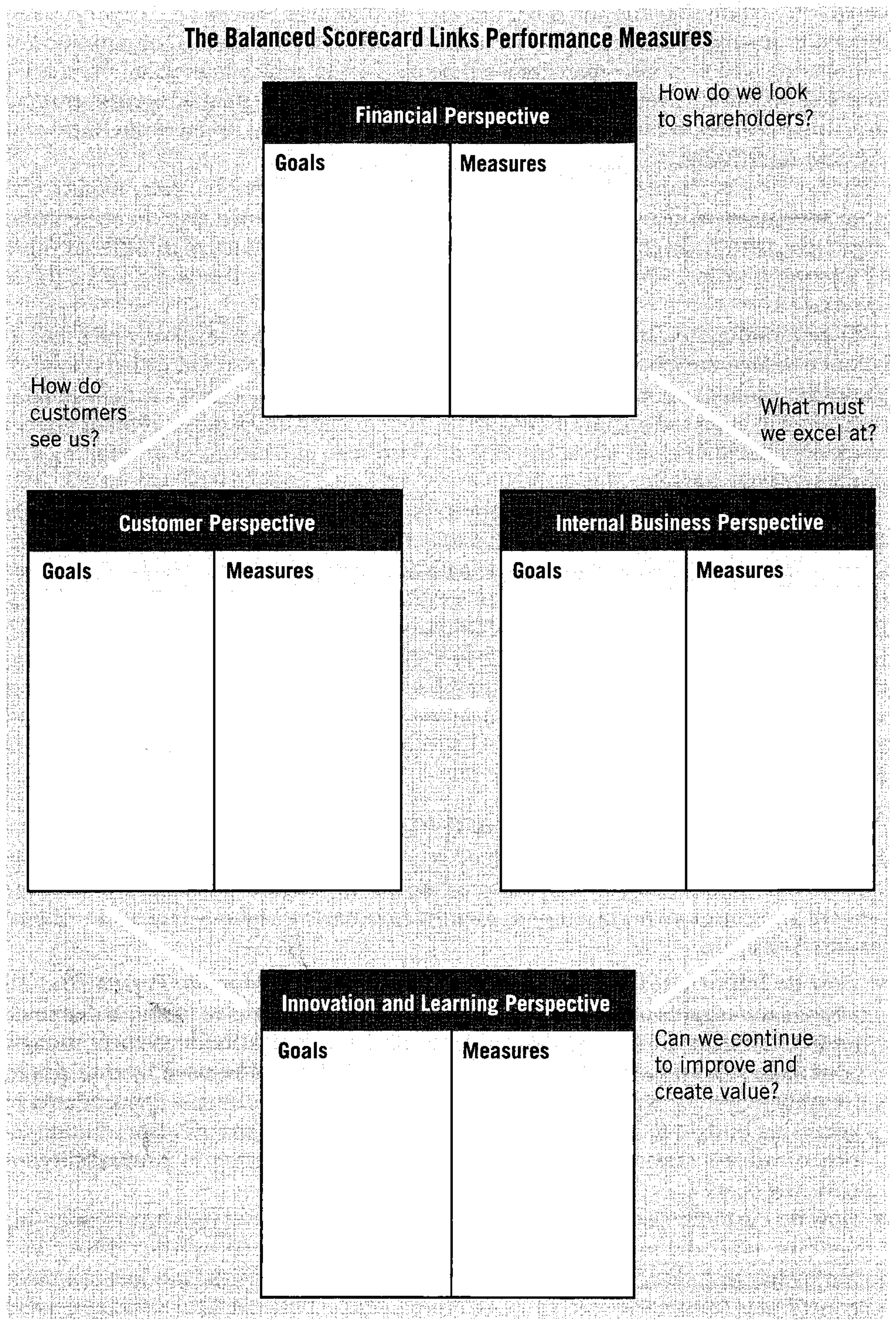

FIGURE 3.1A Representation of the balanced scorecard

Source: Robert Kaplan & David Norton, 'The Balanced Scorecard—Measures that Drive Performance', *Harvard Business Review*, Jan/Feb 1992, pp. 71–79.

Railco's Balanced Business Scorecard

Financial Perspective

Goals	Measures
Reduce reliance on government subsidy	Increase % of revenue from fares
Accelerate system upgrade	Increase number of joint venture undertakings

Customer Perspective

Goals	Measures
Be a preferred means of transportation	Increase % of travellers choosing rail transport
Increase comfort levels	Complete air-conditioning of fleet Clean carriages at terminus stops

Internal Business Perspective

Goals	Measures
Improve on time running	Undertake signals upgrade Introduce planned maintenance
Reduce staffing costs	Benchmark staffing levels against worlds best practice

Innovation and Learning Perspective

Goals	Measures
Reduce environmental impact	Instal environmentally friendly air-conditioning
Reduce energy usage	Develop new generation of rolling stock
Improve response times to unexpected events	Computerise timetabling and station information boards

FIGURE 3.1B Application of the balanced scorecard to a city rail system

after-sales service and costs of production.attainment, availability of equipment, cycle times for introduction of new product, after-sales service and costs of production.

- Can we continue to improve and create value? (*Innovation and Learning Perspective*) This goal is associated with the ability to develop and introduce new products of value to customers or clients. It also includes measures of continuous improvement and production efficiencies.

Kaplan and Norton stress that it is possible to have too many measures of organisational performance. Management should identify just a few goals for each of the four perspectives. The measures developed for each goal should be easy to understand and contribute to deciding whether the goal has been achieved or not. The goals and measures will of course vary between organisations. In one way, the balanced scorecard is similar to the goal-attainment approach. Where it differs is that it formalises the way in which goals are determined. It also proposes that there are multiple goals, which exist within a network of interrelationships. Choosing what to measure is very important, as measurements guide actions, but it is difficult to avoid subjectivity. An example of goals and measures for a city-based rail system is shown in Figure 3.1b.

The first benefit attributed by Kaplan and Norton to the balanced scorecard is that it brings together in a single report many areas of importance to an organisation's competitiveness. These include both short-term efficiency issues and those relating to the long-term adaptability of the organisation. Second, the scorecard acts to guard against suboptimisation. By forcing senior managers to consider all important operational issues together, they are compelled to evaluate whether improvement in one area may have been achieved at the expense of creating problems in another. For instance, there is always the temptation within organisations to achieve superior short-term performance at the expense of long-term viability. A good example is that equipment maintenance can be curtailed, improving short-term cash flows but leading to unreliable plant and higher costs in the future. The balanced scorecard should be able to identify where unwise compromises have been made.

The balanced scorecard also puts into perspective the use of financial measures as a means of information to managers. Financial measures tend to be backward-looking, as they provide information only on what has occurred in the past. They fail to reflect contemporary value-creating actions, such as innovation and new product development. Money also is a symbolic measure which lacks the diagnostic ability of those which, for example, use time, defects or consumption rates as their unit of measure. Financial measures are important, but must be considered in combination with other sources of information in order to allow a comprehensive picture of the organisation to emerge.

Although it may appear that the balanced scorecard is applicable only to business organisations, it is of use to organisations in the non-profit sector as well. No organisation can ignore resource constraints; organisations must derive their funds from somewhere. Likewise, all organisations have some form of consumer group that must be satisfied. And in the not-for-profit sector, these groups can be difficult to define. Should charities, for instance, regard donors as customers? However they are regarded, they must be satisfied that their donations are being put to good use, or they will take their donations elsewhere. The balanced scorecard allows all of these competing interests to be assessed and incorporated in decision making.

Finally, the underlying theme of the balanced scorecard is organisational survival. It aligns important environmental constituencies with measures aimed at satisfying

their needs. Given that the aim of most organisations is to survive this is not perhaps a bad thing. But as with all such measures, it is often not entirely clear what an organisation actually needs to do to survive; there are always differences of opinion amongst important stakeholders. This leads us to the problems with the balanced scorecard.

Problems

The utility of the balanced scorecard may be limited if what is chosen to be measured is not important. An old management adage is that what gets measured gets managed. But problems arise when what is measured is not very important. Kaplan and Norton

OT CLOSEUP

General Electric and organisational effectiveness

For over 20 years, until he retired in 2001, Jack Welch was the CEO of General Electric. During that time he developed legendary status as a successful manager and contributed to the belief that the CEO was critical to a firm's success. His unusually long tenure allowed him to develop and implement his ideas on how large organisations should be structured and managed. And General Electric was certainly large: with over 250 000 employees and worldwide operations it was, and is, one of the largest organisations in the world. It also has a very large product range, extending from medical imaging equipment through to electrical generators and aircraft engines. This makes Jack Welch's achievements all the more noteworthy; such companies, known as conglomerates, are out of fashion with current strategic thinking. Most companies now try to concentrate on just a few core competencies. So what are Jack Welch's ideas on how a CEO can contribute to organisational effectiveness? These many be summarised as follows:

- Integrity is critical. It sets the tone for the organisation and helps build better relations with customers, suppliers and analysts.
- Intensity and passion are critical. Without passion there is not motivation and without motivation performance will be suboptimal. The biggest enemy of passion is bureaucracy.
- An organisation must maximise its intellect. Everyone's mind must be on the game and their ideas should be transferred to others.
- Getting the right people in the right jobs is far more important than developing a strategy. You may have the greatest strategy in the world, but without the right people to deliver it you will get only mediocre results.
- Bureaucracy strangles while informality liberates. Bureaucracy can be the ultimate insulator from reality. But informality is not about first names and unassigned car-parking spaces: it is about making everybody count and making everybody know they count.
- Stretch goals are important. Mediocre goals lead to mediocre effort.
- The bottom 10% of managers should be let go; it is the best antidote for bureaucracy.
- The CEO should spend as much time away from the corner office and in the field as possible.
- Don't attempt to do everything. Don't try to run a cafeteria and a canteen when your business is turbines. It only distracts time and effort from what you are good at. Get a company to do it that specialises in doing it.
- Business success is less a function of grandiose strategies than it is a result of being able to respond rapidly to real changes. Consequently, strategy needs to be dynamic and anticipatory.
- Never underestimate your competition. One of the most common errors business people make is thinking that the competition is going to act in a way in which they would like them to act.

Source: Adapted from Jack, Welch, *Jack: What I've Learned from Leading a Great Company and Great People*, London: Headline, 2001.

recommend that the top management team and major stakeholders be involved in identifying the goals. But, as we have seen with the goal-attainment approach, the identification and ranking of goals by importance is often a subjective process, which is influenced by political agendas. Additionally, what is important often changes over time. These changes may be obvious and easily incorporated by changes in goals or measures. But they may be subtle and difficult to identify or quantify. Customers are also a difficult-to-satisfy group, with the habit of constantly requesting unrealistic performance from suppliers. Similarly, identifying genuine technological innovation as distinct from continuous improvement is easier in theory than it is in practice.

The approach also takes a benign view of the organisation's environment. The managers of many organisations have in their mind worst case scenarios which can threaten their organisation but which are not obvious or immediately apparent. A major accident or fire, wars and insurrections in countries where investments have been made, sudden rises in interest rates, outbreaks of disease such as bird flu and SARS which can devastate tourist resorts are examples. Often an organisation's long-term survival depends on having sufficient slack resources in order to avoid succumbing to such crises. Many organisations have built in such a buffer, but the steady state scenario of the balanced scorecard assumes a far more benign environment that many managers are prepared to accept.

Value to managers

Notwithstanding its problems, the balanced scorecard is a useful framework, which enables managers to assess effectiveness. It also aids in the development and implementation of strategy. Organisations are difficult to understand, and this difficulty increases with size. The balanced scorecard is an attempt to identify what is important to the organisation and to develop appropriate measures of these. It brings together in a single management report the different elements of a company's competitive agenda. In our city rail example, for instance, on-time running is linked to expenditure on capital equipment; and the more reliable the system is perceived to be, the easier it would be for the rail system to raise fares to cover costs. A further benefit of the balanced scorecard is that it guards against suboptimisation. As all important operational decisions are considered together, it enables managers to see whether improvements in one area have been made at the expense of another.

The balanced scorecard also has the advantage of involving a reasonably wide range of managers and stakeholders in the process of nominating what is important for the organisation. In moving away from a top-down imposition of values, it has the capacity to be a mechanism in which the collective ownership of goals and performance is promoted. But of course this does not necessarily follow: much depends on the attitudes of senior managers as to how it is implemented.

Comparing the four approaches

In this chapter we have presented four different approaches to assessing organisational effectiveness. Each, in its own way, provides useful insight, and may be of benefit when applied under appropriate circumstances. But what are the circumstances when each is preferred? Table 3.4 summarises each approach, identifies what it uses to define effectiveness, and then notes the conditions under which each is most useful.

TABLE 3.4 Comparing the four organisational effectiveness approaches

Approach	Definition	When useful
	An organisation is effective to the extent that . . .	*The approach is preferred when . . .*
Goal attainment	it accomplishes its stated goals	goals are clear, time-bound and measurable
Systems	it acquires needed resources	a clear connection exists between inputs and outputs
Strategic constituencies	all strategic constituencies are at least minimally satisfied	constituencies have a powerful influence on the organisation, and the organisation must respond to demands
Balanced scorecard	areas critical to the business are identified and measured	the organisation is complex and is operating in a demanding environment

Source: The first three approaches were adapted from Kim S. Cameron, 'The Effectiveness of Ineffectiveness', in B.M. Staw & L.L. Cummings, eds, *Research in Organizational Behavior*, vol. 6, Greenwich, Con.: JAI Press, 1984, p. 276. Reproduced with permission.

Summary

Organisational effectiveness has proven difficult, some even say impossible, to define. But as the central theme in organisational theory, we cannot ignore the issue because of measurement difficulties. Four approaches have been offered as guides to assist in arriving at an understanding of organisational effectiveness.

The two dominant positions, which are often in conflict, are the goal-attainment and systems approaches. The former defines organisational effectiveness as the accomplishment of ends. The latter focuses on means, defining effectiveness as the ability to acquire inputs, process them, channel the outputs, and maintain stability and balance in the system.

A more recent offering is the strategic-constituencies approach. It defines organisational effectiveness as satisfying the demands of those constituencies in the environment from which the organisation requires support for its continued existence. Success, then, is the ability to placate those individuals, groups and institutions on which the organisation depends for its continued operation. The application of this form of assessment would be facilitated if the demands of the strategic constituencies did not change. But strategic constituencies are sometimes difficult to identify and often present contradictory and unpredictable demands.

The final perspective is one based on the balanced scorecard. It has sought to accommodate organisational complexity and environmental demands by promoting a framework in which the key goals that the organisation must achieve for survival are identified and measures developed for them. The scorecard is 'balanced' because the measures are aimed at identifying areas where unwise compromises have been made. Hence the aim is to ensure that areas that are important to the organisation are accommodated within decision making.

For review and discussion

1 Why is organisational effectiveness relevant to the study of organisation theory?
2 On what factors do almost all definitions of organisational effectiveness agree?
3 'The final test of an organisation's effectiveness is survival.' Construct an argument to support this statement. Then construct one to refute it.
4 Give three examples of effectiveness criteria that are consistent with the goal-attainment approach.
5 'For a business firm, the bottom line is profit. You don't need any other measures of effectiveness.' Construct an argument to support this statement. Then construct one to refute it.
6 Discuss why it is often difficult to determine what an organisation's goals are.
7 'Goals are a viable standard against which effectiveness can be measured.' Construct an argument to support this statement. Then construct one to refute it.
8 Are organisational efficiency and flexibility conflicting goals?
9 'Organisations like Amnesty International and the Wilderness Society manage to avoid issues relating to effectiveness because of the type of work that they do.' Evaluate this statement.
10 Why might the administrator of a public service or department use 'ability to acquire budget increases' as a measure of effectiveness? Could such a measure be dysfunctional?
11 Why are stakeholders considered one of the strategic constituencies?
12 Compare the strategic-constituencies and balanced-scorecard approaches. How are they similar? How are they different?
13 Identify how the balanced scorecard is intended to promote 'balance' in organisational activities.
14 How would the size of an organisation affect the criteria used to evaluate its effectiveness?
15 Select three or four organisations familiar to you and to members of your class. How have you, in the past, evaluated their effectiveness? How would you now assess their effectiveness using the goal-attainment, systems and strategic-constituencies approaches?

CASE FOR CLASS DISCUSSION

GSL and detention centres

Some changes are difficult for society to come to terms with and the concept of private prisons is one of them. However, governments have increasingly let out to tender work which they previously undertook themselves. Sometimes this is not controversial, such as private contractors undertaking catering for armies or conducting coastal surveillance. But some contracts raise more than their fair share of controversy. One case concerns the private contractor, GSL, which won the contract to operate Australia's immigration detention centres. Australia runs a number of these centres, such as Baxter and Villawood, and the contract provides for the provision not just of catering services but all custodial services as well.

As a result of its custodial role, GSL was responsible for medical and psychiatric services and the failure to adequately provide these services led to GSL receiving a fine of over $500 000 for breach of contract. GSL was found to have mistreated detainees by refusing them access to toilet facilities during transit, and detainees were also denied adequate food, water and medical treatment. Further problems arose for GSL in providing psychological and psychiatric treatment to detainees, many of whom were deeply disturbed. This was held to be inadequate and a number of high-profile cases of detainees attempting suicide or sewing their lips together reached the mass media. All of this was made public by a small group of activists who monitor the condition of detainees in detention centres and regularly keep touch via the Internet. The press also takes a keen interest in events taking place in detention centres.

GSL responded to the fine by dismissing a number of officers and improving training. It also undertook to work with the Department of Immigration to improve services to detainees. The Department of Immigration itself undertook to reduce the level of coercion when it detained non-citizens. It has removed all children from detention and reduced the levels of surveillance and the prison-like atmosphere of many of the detention centres. It has moved most female detainees and low-risk males to motel-style accommodation.

But GSL has been tarnished through association with the old system. It would argue that it was caught up in having to implement an excessively harsh detention policy with a level of coercion that was not necessary. As a result, psychological problems multiplied. This led to frustration on the part of its employees, compounded by the desperation of many of those detained. In the end it was a contract which involved far more than providing food and doing the cleaning.

QUESTIONS

1 What is the best method of assessing the effectiveness of GSL? Using this method how would you rate its effectiveness?
2 What are GSL's critical constituencies? Is it possible to satisfy them all? If not, which is the most important?
3 How closely is the effectiveness of GSL linked to Department of Immigration policies? What is the best way for GSL to manage this relationship?
4 In answering the above questions, to what extent were you influenced by a) your attitude towards the detention of asylum seekers, and b) your attitude towards the government contracting out work of this nature.

FURTHER READING

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NOTES

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PART 2

Comparing Organisations