

Organizational Design Change and Transformation
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Module - 01
Lecture - 04
Introduction to Organizational Design

[FL]. We continue with our lecture on Introduction to Organizational Design, this is a week 1 or module 1 lecture 4.

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The slide features a blue header with the IIT Kharagpur logo and the text "NPTEL ONLINE CERTIFICATION COURSES". Below this, the course title "ORGANIZATIONAL DESIGN, CHANGE AND TRANSFORMATION" is displayed in bold black text on an orange background. The instructor's name, "DR. SANGEETA SAHNEY, PROFESSOR, VGSOM, IIT KHARAGPUR", is listed below. The slide is identified as "Module 1" and "Lecture 4". A graphic on the right shows a pyramid with icons representing organizational elements. At the bottom, a yellow box contains a detailed list of topics: "What is an organization?; Why do organizations exist? How do organizations create value? Organizational theory, structure, culture, change, and design; Evolution of organization theory and design; Dimensions of organizational design; Organizational configuration; How do contingency factors influence the design of organizations? Assessing and measuring organizational effectiveness; Approaches to measure effectiveness; Organizational stakeholders and organizational effectiveness; Challenges faced by organizations."

We have already discussed about organizations why do they exist, how do they create value. We spoken about organizational theory, structure, culture design and change, we have discussed about evolution of organization theory and design. We spoken about dimensions of

organizational design, organizational configuration and we have also spoken about how contingency factors influence the design of organizations.

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In today's lecture we will be speaking about you know assessing and measuring organizational effectiveness and what are the various approaches to measuring effectiveness.

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ASSESSING AND MEASURING ORGANIZATIONAL EFFECTIVENESS

- An understanding and assessment of organizational effectiveness require comprehending organizational goals and strategies and formulating or adapting the organizational design to various contingencies.
- *Effectiveness* is a broad term; it examines the extent to which numerous goals are achieved.
- *Efficiency* is a measure of the ratio of inputs to outputs; it measures the quantity of resources required to produce a level of output; an organization that produces an output with lesser resources than another is said to be more efficient than the latter.

Efficiency Vs Effectiveness

The slide features a graphic on the right side with the text 'Efficiency Vs Effectiveness'. The graphic includes icons of a gear, a person, a lightbulb, and a bar chart. Below the graphic is a small inset video of a woman speaking. At the bottom left of the slide, there are logos for IIT Madras and NPTEL.

So, to start we will now begin with assessing and measuring organizational effectiveness. Now in the previous lecture we I spoke about efficiency and effectiveness, we will continue to build on that further. So, an understanding and assessment of organizational effectiveness actually requires a comprehending the goals and strategies and formulating or adapting the organizational design to the various contingencies.

I spoke or you know in my previous lecture I spoke how organizational should actually fit in with the environment and how a good fit can lead to efficiency and effectiveness and how a poor fit can be damaging for an organization.

I spoke about how the how companies today face a VUCA world which is volatile you know uncertain complex and ambiguous environment and how they must respond to such an environment in terms of bringing about a change in their structure, in their strategy, in their

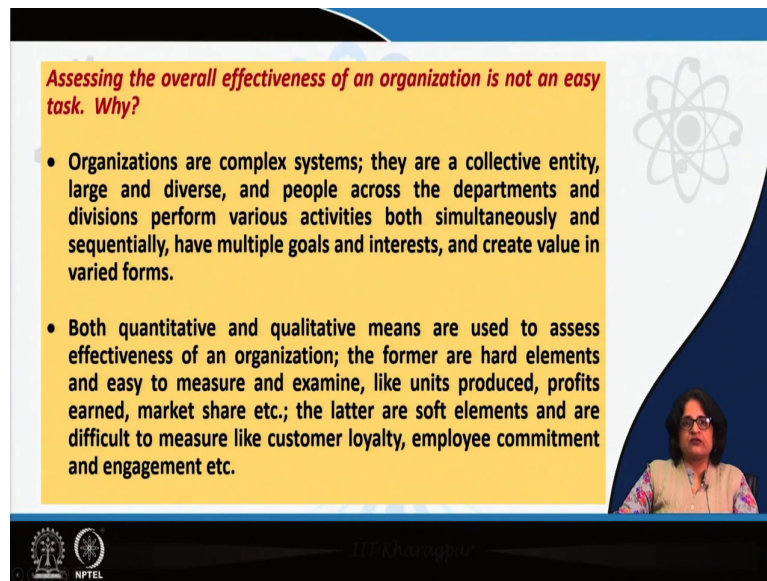
culture; so, as to be able to gain the objectives, so as to be able to achieve their objectives efficiently and effectively.

And I also said that you know we must see that you know the structural dimensions fit into well with the contextual dimensions and how organizational must adapt to the environment to be able to gain you know to be able to gain their objectives, to be able to achieve their objectives more effectively and efficiently and building on that moving on that further we will see that it is very important that organizations assess and measure their effectiveness.

And an understanding an assessment of organizational effectiveness requires comprehending the goals and strategies and formulating or adapting the organizational design to various contingencies. Now, a little bit more on effectiveness and efficiency. So, efficiency is a measure of a the ratio of inputs to output it measures the quantity of resources required to produce a level of output and an organization that produces an output with lesser resources than another is said to be more efficient than the latter.

Effectiveness is a broader term; it is a broad term, it examines the extent to which the various goals of the organization are achieved and both of these are important for an organization. And a we must actually you know ensure that our goals are met effectively and efficiently. Of course, you know if we talk of the two effectiveness is actually a preferred you know goal and we need to assess the overall effectiveness of organization, but that is not an easy task.

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Assessing the overall effectiveness of an organization is not an easy task. Why?

- Organizations are complex systems; they are a collective entity, large and diverse, and people across the departments and divisions perform various activities both simultaneously and sequentially, have multiple goals and interests, and create value in varied forms.
- Both quantitative and qualitative means are used to assess effectiveness of an organization; the former are hard elements and easy to measure and examine, like units produced, profits earned, market share etc.; the latter are soft elements and are difficult to measure like customer loyalty, employee commitment and engagement etc.

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Now, first and foremost why do we need to assess the overall effectiveness of an organization? So, organizations are complex systems there are people there are interactions, there is there are relationships with internal and external stakeholders. And organizations are a collective entity, they are large and diverse people across the departments and divisions perform a large range of activities both simultaneously as well as sequentially and they have multiple goals and interest and they all contribute towards creating value in some form or the other.

So, both quantitative and qualitative means are needed to you know to assess effectiveness of an organization and both qualitative and quantitative measures are used to evaluate effectiveness of organizations. So, when we talk of quantitative means they are hard elements

they are easy to measure and examine like units produced or profits earned or market share etcetera.

The qualitative means are softer elements and they are difficult to measure ah, but they are important like for example, loyalty, customer loyalty, employee engagement, employ commitment, employee motivation and so forth. So, so when we talk of effectiveness we use both qualitative and quantitative measures to assess the effectiveness of organizations ok.

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What are ways in which managers evaluate and measure organizational effectiveness?

- **Determinants of organizational effectiveness in value creation:**

1. **Control:** This is the ability to control the external environment and attract resources and customers.
2. **Innovation:** This implies developing organizational skills and capabilities to encourage the creation of new products and processes. It includes creating new organizational structures and cultures that increase and strengthen a company's ability to change and improvise.
3. **Efficiency:** This is the ability to produce goods and services in a timely and cost- effective manner and enhance productivity.

The slide features a graphic of interlocking gears in various colors (blue, red, green, yellow) with the word "Effective" written below them. A small video inset in the bottom right corner shows a woman with glasses speaking. The NPTEL logo is visible in the bottom left corner.

So, what are the ways in which managers evaluate and measure organizational effectiveness? You know when we talk of the ways in which managers evaluate and measure we are in a way also talking of the various determinants of organizational effectiveness and value creation. So, the 1st is control ok. So, you know one of the determinants of organizational

effectiveness in value creation is controlled; this is the ability to control the external environment and attract customers, attract resources.

The 2nd is innovation; so this implies developing organizational skills and capabilities to encourage the creation of new processes, new products and it includes creating new organizational structures as well as new cultures that increase and strengthen a company's ability to change and a company's ability to improvise. The 3rd is efficiency, so efficiency is the ability to produce goods and services in a timely and cost effective manner and enhance overall productivity.

So, when we talk of effectiveness or when we talk of organizational effectiveness it is very very important that we measure them and why should we measure them? Because if we need to understand how well an organization is; moving ahead towards achieving its goals by people who are working in parallel simultaneously and sequentially, it is very very important that we keep a control on them you know and understand how well they are (Refer Time: 07:07) on the path to achieve the objectives.

So, to do that assessing their effectiveness of this workforce in the organization of the diversified workforce across functions, across divisions, across activities and tasks, it is very very important that a control and check is kept on how well they are performing. So, that the organization. So, that the organization is able to assess whether it is on the right track as far as achieving its goals is concerned or not.

So, organizations are complex systems, people are working across departments across divisions, across units they have different functions to perform different activities and they are working in parallel, they are working simultaneously, they are working sequentially with each other and all of them contributing in some way or the other to the value creating exercise.

And so because they are all involved in value creation in some form or the other there has to be a check on how well they are performing to be able to achieve the goal in a timely manner

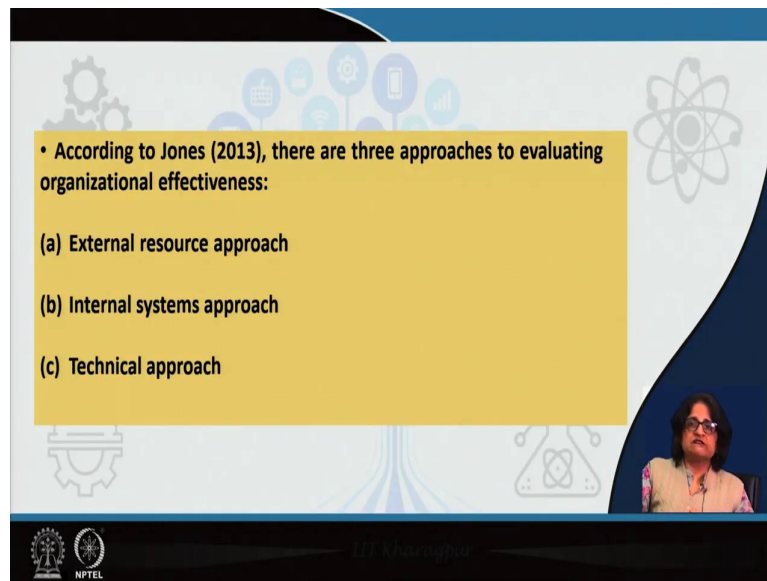
are they on the right track, are they on the right path, are they working timely, are they working well within prescribed limits of resources or of time or of money and so forth.

So, if assessing effectiveness of organizations even real time is very important and that is and that is not an easy task. Why is it not an easy task? Because organizations are complex entities, they are very complex systems and so keep a check on them is also very very difficult.

But nonetheless organizations use both quantitative and qualitative measures to do that. And as I just said the quantitative is more objective and hard element easy to measure easy to examine and but the qualitative is equally important they are subjective elements, but important for an organization and organizations use both these qualitative and quantitative measures to actually assess performance.

And when they are doing so they this the what drives them into doing so and how they actually evaluate and measure is through control is through assessing innovation abilities as well as through efficiency. So, the determinants of organizational effectiveness in value creation include control, innovation and efficiency.

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• According to Jones (2013), there are three approaches to evaluating organizational effectiveness:

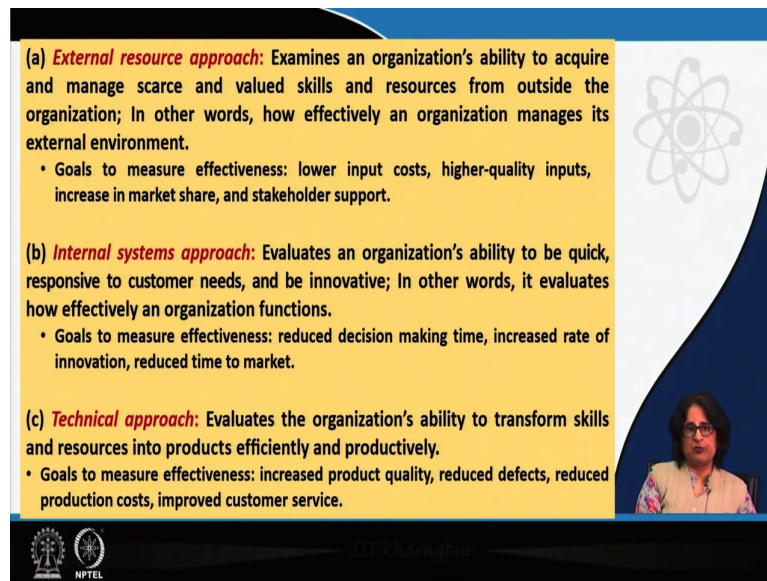
- (a) External resource approach
- (b) Internal systems approach
- (c) Technical approach

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So, all of these is very very you know crucial for organizational functioning. Now, according to Jones there are three approaches to organize to evaluating organizational effectiveness you have the external resource approach, you have the internal resource approach and you have the technical approach.

So, according to Jones there are three approaches which are used to evaluate organizational effectiveness; the internal resource approach, the external resource approach and the technical approach. So, let us do these approaches one by one.

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(a) **External resource approach:** Examines an organization's ability to acquire and manage scarce and valued skills and resources from outside the organization; In other words, how effectively an organization manages its external environment.

- Goals to measure effectiveness: lower input costs, higher-quality inputs, increase in market share, and stakeholder support.

(b) **Internal systems approach:** Evaluates an organization's ability to be quick, responsive to customer needs, and be innovative; In other words, it evaluates how effectively an organization functions.

- Goals to measure effectiveness: reduced decision making time, increased rate of innovation, reduced time to market.

(c) **Technical approach:** Evaluates the organization's ability to transform skills and resources into products efficiently and productively.

- Goals to measure effectiveness: increased product quality, reduced defects, reduced production costs, improved customer service.

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So, coming to the external resource approach; now the external resource approach is where in the you know the it involves examining an organizational's ability to acquire and manage scarce and valued skills and resources from outside the organization. In other words, how effectively is an organization able to manage its external environment and how effective is it in being able to acquire and manage scarce and valued skills and resources.

So, this is the fundamental of the external resource approach. Now, the goal to measure effectiveness will be lower input costs higher, quality inputs, increase in market share, and stakeholder support. So, this is what constitutes the external resource approach. The external resource approach examines an organization's ability to acquire and manage scarce resources, skilled resources and the basic question that it addresses is how effective is an organization in managing its external environment.

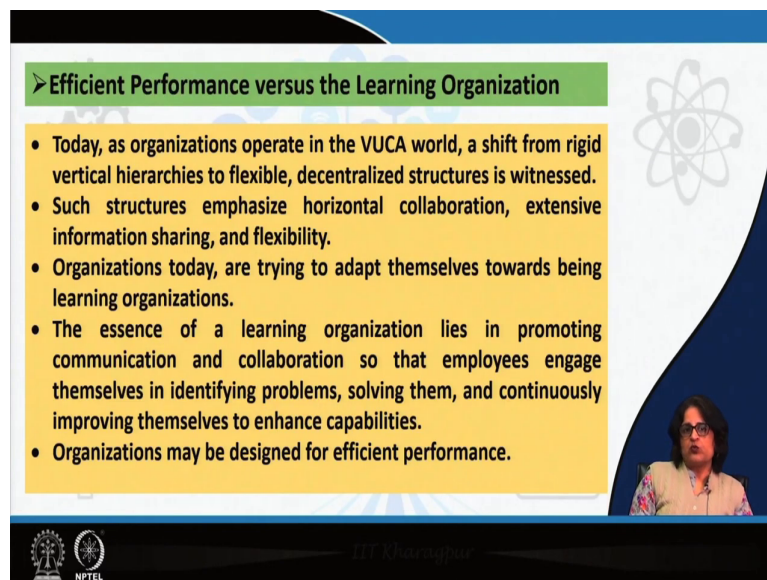
Goals will be to goals involve lower input costs, higher quality inputs, increase in market share and stakeholder support. The second approach is the internal system approach, which basically examines you know an organizations ability to be quick and responsive to customer needs and to be innovative.

In other words the question that it addresses is how effective you know does how effectively does an organization function in meeting customer needs? So, the goals to measure effectiveness will be reduced decision making time, increased rate of innovation, reduced time to market etcetera ok.

The third is a technical approach which basically evaluates the organizations ability to transform skills and resources into products efficiently and productively. So, here the basic question that is being addressed is how well does the organization you know how well is it you know how strong is it in its ability to transform its skills and resources into products effectively and sorry efficiently and productively?

So, so what we talk of in terms of goals is increased product quality, reduced defects, reduced production costs, improved customer service etcetera. So, these are three different approaches to measure organizational effectiveness according to Jones.

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➤ **Efficient Performance versus the Learning Organization**

- Today, as organizations operate in the VUCA world, a shift from rigid vertical hierarchies to flexible, decentralized structures is witnessed.
- Such structures emphasize horizontal collaboration, extensive information sharing, and flexibility.
- Organizations today, are trying to adapt themselves towards being learning organizations.
- The essence of a learning organization lies in promoting communication and collaboration so that employees engage themselves in identifying problems, solving them, and continuously improving themselves to enhance capabilities.
- Organizations may be designed for efficient performance.

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Now, when we talk about efficient performance and we also try to compare and contrast it with the learning organization. Now, we have been speaking about the VUCA world, organizations today operate in a VUCA world and there is a shift from rigid, vertical, hierarchies you know superior subordinate and then again superior subordinate and so forth there is a shift from this rigid vertical hierarchy to very flexible decentralized structures today, which we will study of as we move into this course.

So, companies no longer restrict themselves to hierarchical structures, vertical structures where you know following the strict principles of centralization or unity of command so forth. No today companies are more you know flexible, they are moving, towards flexibility towards decentralized structures even towards boundaryless organizations and virtual structures something, which we will do in week 3.

So, such structures which are evolving are emphasize upon horizontal collaboration, extensive information sharing between different levels across levels of people cutting across all you know hierarchical lines of authority and there is a huge amount of flexibility.

So, organizations are trying to adapt themselves today towards being more of learning organizations and such organizations are designed you know the essence of such organizations or such learning organizations lies in promoting communication and collaboration between people. So, that people engage themselves in identifying problems, solving them and continuously improving them to enhance their capabilities

So, organizations today have to be designed for efficient performance through learning organizations ok. So, a sense of the learning organization being that people work together with each other cutting across lines of authority and control and they work together, they engage themselves in identifying problems solving problems and continuously improving the organization and continuously improving themselves to enhance the capability and to build up and to work more efficiently than before.

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- Organizations may also be designed for continuous learning.
- A comparison may be drawn by examining five inter-connected and interrelated elements, viz., structure, tasks, systems, culture, and strategy.

Source. Adapted from David K. Hurst, *Crisis and Renewal: Meeting the Challenge of Organizational Change* (Boston, Mass.: Harvard Business School Press, 1995). IN Daft, R. L. (2008). *Organizational Theory and Design*, Tenth edition. South Western, Cengage Learning, USA

So, organizations while we understand that they have to be efficient we also have to be understanding that they have to be designed for continuous learning and comparison here can be drawn by examining five interconnected, but an interrelated elements which is structure, tasks, systems, culture and strategy ok. I will go back to the previous slide and you know explain that while we are talking of efficiency while we agree that organizations have to be designed for efficient performance.

It also has to be through learning organization mode in the form that companies today have to adapt themselves towards being learning organizations, which is towards more of horizontal collaboration, extensive information sharing, flexibility, people working together, collaborating with each other, communicating with each other continuously improving themselves to enhance their capabilities as well as overall organizational performance.

So, while organizations have to be designed for efficient performance that is very very important we know that, but there has to be an orientation towards a learning organization. And organization may also be designed with that perspective in mind which is learning organization.

And here we actually can compare you know and contrast efficient performance in stable environments vis a vis you know learning organization perspective, which works more in turbulent environments or VUCA environment of today where, we can actually draw a comparison you know within five interconnected and interrelated elements which are structure, systems, task, culture and strategy.

So, if you see here you know when you have mechanical system designs which work well for stable environments and typically oriented towards efficiency per efficient performance, the structures are vertical they are the people perform routine tasks and there are formal systems, competitive strategy and rigid cultures ok.

So, the mechanical system design more suited for stable environments with efficiency in mind, efficient performance in mind what we see is a vertical structure, routine tasks, formal systems, competitive strategy and rigid cultures. But if we try to look at it from a learning organization perspective or point of view we are talking of organizations that operate in turbulent environments and we actually term them as natural system design where we see that the structures are horizontal structures with empowered roles adaptive culture, shared information and collaborative strategies.

So, what we see is that there is a horizontal structure instead of a vertical structure there is an there is the tasks are not routine, but roles are very empowered people perform their duties, their responsibilities and their roles keeping in mind the demands of the changing environment. Taking things as and when they come and taking decisions they the people are empowered to take the decisions they have the freedom to take decisions keeping in mind the kind of challenges that they face, the kind of situation that they face.

So, the culture is very adaptive, information is shared across people across levels across the organization. So, there is shared information both informal and formal modes of information sharing and networking and there is an emphasis on the collaborative strategy rather than a competitive strategy.

So, they work together. So, there is a change in the service of performance and you see companies today need to move from you know a mechanical system, design more suited to stable structure, stable environments and you know if oriented towards efficiency to you know a natural system design which is more suited to a complex environments, turbulent environments and with a learning orientation or a learning organization perspective.



So, companies have to move while we understand that efficiency is important organizations have to be efficient, but at the backdrop the perspective has to be more towards a continuous learning perspective and organizations need to move from a mechanical system design to a more natural system design.

They have to move from a stable environment to turbulent environmental needs because of which they must be efficient yet be learning organization yet have a perspective towards learning organizations which means continuous improvement. It means collaborations communication, free information sharing and exchange empowerment more of horizontal structures.

So, that and a lot of flexibility a lot of adaptive culture so, that people in an organization you know can take decisions and you know act as per situation it actually blend, it actually is fundamental to the contingency approach to management so, or to the contingency theory.

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	Stable environments Efficient Performance	Turbulent Environment Learning Organization
Vertical versus Horizontal Structure	Vertical: activities are grouped together from the bottom to the top; little collaboration occurs across functional departments; vertical hierarchy with decision making authority restricted to the management.	Horizontal: absence of a gap between the top management and the technical core; vertical hierarchy is flattened; horizontal workflows or processes; self-coordination and control through directed teams are the basic units; cross-functional team composition, lines of demarcation between functions are eliminated.
Routine tasks to Empowered roles	Tasks are broken down into specialized, separate parts; control of tasks centralized; employees must follow orders.	An employee possesses the discretion and responsibility to achieve a goal; employees are role players in a team; roles may also keep changing; lesser formalization, and few rules or procedures; knowledge and control of tasks lie with workers.



So, here we have stay we I draw comparison between stable environments and turbulent environment and an efficient performance orientation to a learning organization orientation.

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	Stable environments Efficient Performance	Turbulent Environment Learning Organization
Formal Control Systems to Shared Information	Communication in small organizations is informal and face-to-face, as the top leaders/managers work directly with employees. As organizations grow larger, the levels and the gap between top leaders and workers increases; this also results in the rise of formal systems for better communication and control.	There is huge amount of information and knowledge sharing which helps organizational functioning at an optimum level; lines of communication are open with the various stakeholders.
Competitive to Collaborative Strategy	Strategy formulation is restricted to the top management, and the execution and implementation left to the middle and the lower.	The informed and empowered workforce collaborate and formulates strategies.



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	Stable environments Efficient Performance	Turbulent Environment Learning Organization
Rigid to Adaptive Culture	Stable environments and hence, formalization and rigidity are prevalent.	Rapidly changing environments and this requires flexibility, openness, continuous improvement, and change; boundaries across levels of management and across departments is blurred; the inter-relationships allow people to develop and contribute to their fullest; people are allowed to experiment and take risks and encourages and facilitates learning.

So, in terms of structure you know or in terms of tasks or in terms of control systems and information or strategy or in terms of culture there is a huge difference ok where we will see that in the case of the stable environment or where the orientation is efficient performance.

These structure is vertical activities are grouped together from top to bottom there is little collaboration which occurs between functional departments; coordination and control is what is through vertical hierarchy and decision making is centralized it is restricted to the top management or to you know the management itself.

But in the case of organizations that operate with a learning organization perspective and in today's world turbulent environments, the structure is horizontal there is an absence of gap between the top management and the technical core; the vertical hierarchy is flattened ok

horizontal workflows and processes cross functional team composition, self directed teams the lines of demarcation between the different functions gets broken.

So, it is not vertical, it is not functional, but it is horizontal and cross functional and so it is the structure is very different coming to the tasks. So, in the stable environments and with you know with the machine; with the machine with the very mechanical or the machine system design what we see is you know routine tasks, but as we move to turbulent environments and learning organization perspective it is more to do with empowered roles.

So, we move from routine task to empowered roles. In the case of stable environments and with efficient performance orientation tasks are broken down into specialized separate parts, control of tasks is centralized and employees have just follow orders. But in the case of learning organization in the in that perspective also in case of companies operating in turbulent environments employees possess the discretion and responsibility to achieve a goal, they are role players, they are team players.

The roles also may keep changing, there is lesser formalization fewer rules procedures, knowledge and control of tasks lies with the workers and they are highly empowered to take decisions for their roles. In coming to formal control systems to shared information in stable environments where you know if we find formal control systems, but in turbulent environment and with learning organization perspective the essence lies in shared information.

So, you know the one of the determinants of you know successful operation in learning organizations or successful operation of learning organization is shared information. So, in the case of the mechanical or the machine design systems you know the there are formal control systems.

Communication in small organizations is informal and face to face as the top managers work directly with employees, but as organizations grow larger the levels and the gap between the

top management and the workers increases and so there it results in rise of formal systems for better communication and control.

But in case of learning organizations there is huge amount of information and knowledge sharing which happens between people across levels formally and informally people communicate with each other and lines of communication are open with various stakeholders both within and outside the organization. So, the information flow is very free flowing.

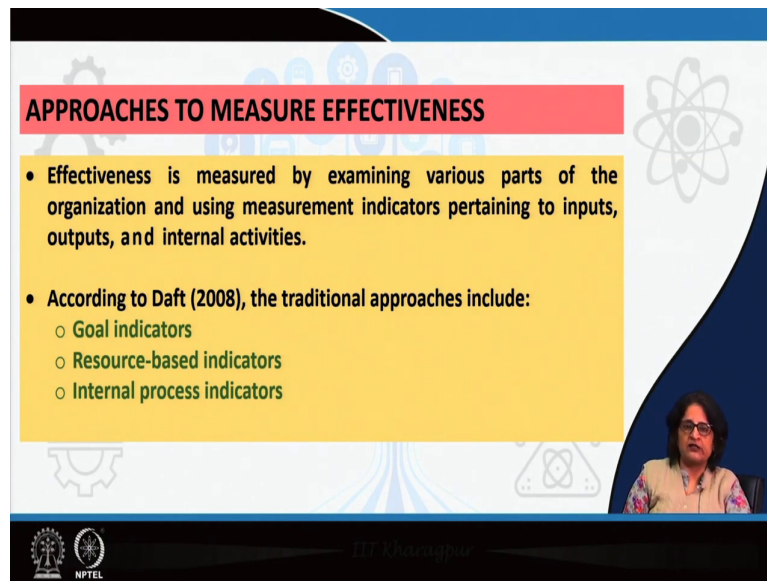
Coming to strategy in the case of efficient performance orientation and stable environments you know or again in mechanical design systems it is a competitive strategy, but when we talk of natural systems what we see is you know and learning organizations what we see is a collaborative strategy.

So, in the in stable environments and with efficient performance as a perspective or as a goal strategy formulation is restrict to the top management and the execution and implementation is left to the people at the middle and the lower. But in learning organizations people are informed, well aware and empowered and the employees the workforce they collaborate with each other and they formulate strategies and work together.

So, what we see in the mechanical structures are very rigid cultures, stable environments and hence formalization and rigidity are prevalent, but in the case of learning organizations turbulent environment learning organizations that these are rapidly changing environments requires great flexibility, openness, continuous improvement in change.

So, boundaries across different levels of management and across departments are very blurred people are a people network with each other formally informally and the interrelationships allow them to work together and cooperate with each other, coordinate with each other and contribute to the fullest. So, the cultures are very very adaptive people are allowed to experiment, people are allowed to take risks and all of this facilitates a learning in a big way.

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APPROACHES TO MEASURE EFFECTIVENESS

- Effectiveness is measured by examining various parts of the organization and using measurement indicators pertaining to inputs, outputs, and internal activities.
- According to Daft (2008), the traditional approaches include:
 - Goal indicators
 - Resource-based indicators
 - Internal process indicators

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Next we come to the approaches to measure effectiveness. Now, effectiveness is measured by examining the various parts of the organization as you said and using measurement indicators pertaining to inputs, outputs and internal activity. So, when we measure effectiveness we are actually trying to look at or trying to evaluate the different parts and we will use measurement indicators which pertain to the input or to the output or to the internal activities.

Now, according to Daft the traditional approaches to measure effectiveness include the goal indicators, the resource based indicators and the internal process indicators approach. So, we have these three traditional approaches to measuring effectiveness; the goal indicators approach, the resource based indicators approach and the internal process indicators approach.

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I Goal Indicators: As per the goal indicator approach, effectiveness is measured by recognizing an organization's output goals, and evaluating as to how effective the organization has been in attaining the goals.

- Goals may pertain to profit, market share, growth, social responsibility and product quality.

II Resource-based Indicators: This approach lays emphasis on the input side of the conversion process.

- Effectiveness may be both absolute or relative, and is the ability of an organization to obtain resources and integrate and manage them to create value.

III Internal Process Indicators: As per this approach, effectiveness is a measure of internal organizational health, productivity, and efficiency.

- Proponents of the approach include those who contributed to the literature on human resources and effectiveness, like Chris Argyris and Rensis Likert.
- Indicators include communication, work climate, culture, operational efficiency, etc.

OBJECTIVE
Progress required
Strategy 1
Strategy 2
Strategy 3
Goal

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Now, coming to the goal indicators approach now as per the goal indicator approach effectiveness is measured by recognizing the organizations output goals and assessing as to whether the organization has been able to attain its goals. So, the effectiveness here is measured by recognizing the output goals and evaluating as to how effective the organization has been in attaining those goals. So, the goals may pertain to the profit or to market share or to you know social responsibility and product quality.

The second approach according to a daft is the resource based indicators approach. Now, according to the resource based indicators approach it the emphasis is on the input side of the conversion process. So, effectiveness may be both absolute or relative and it is the ability of the organization to obtain resources and integrate and manage them to create value.

So, this approach lays emphasis on the input side of the conversion process, effectiveness may be absolute, effectiveness may be relative and it is the ability of the organization to obtain resources and integrate them and manage them so that value creation can be maximized. The third is the internal process indicators approach; now according to this approach effectiveness is a measure of the internal you know health productivity and efficiency of the organization.

So, the proponents of this approach actually include you know Chris Argyris and Rensis Likert who actually contributed immensely to the literature on human resource and effectiveness and the indicators which pertain to this are communication work climate, culture, operational efficiency etcetera.

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So, here if we see Daft said that the three approaches include the goal indicator, the resource based indicator and the internal process indicator and each one of these actually pertains to the entire process which we have been discussing which is the input transformation or conversion process output stages.

Like for example, you have the resource based approach which pertains to the resource inputs or you have the goal approach which pertains to the product and service outputs or you have the internal process approach which pertains to the internal activities and processes of the organization.

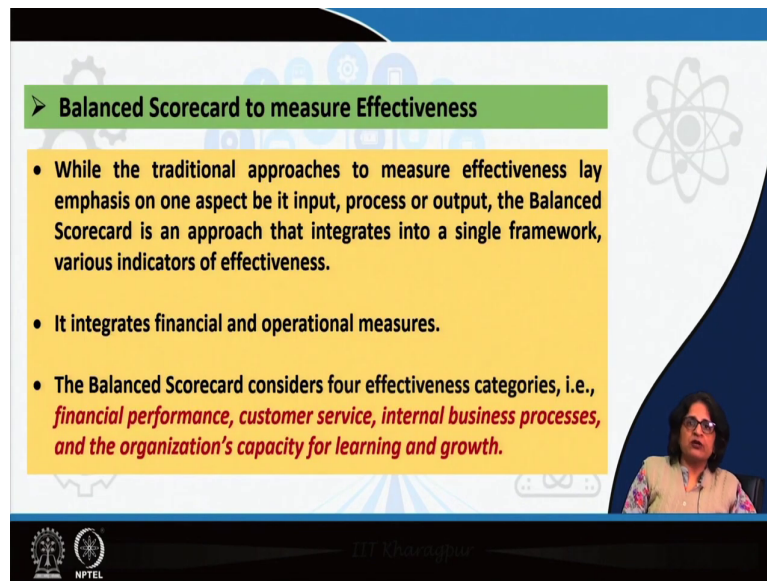
So, if we talk of the resource based approach it relates to the resource inputs and the inputs input side of the conversion process where effectiveness may be absolute or relative and it is the ability of the organization to obtain resources and integrate and manage them to create value.

If we talk of the internal process approach, we are talking to internal activities and processes which pertain to the you know effectiveness as a measure of internal organizational health and productivity and efficiency which gives importance to communication work climate, work culture, operational efficiency etcetera.

And if we talk of the goal approach we actually talking of the product and service outputs, which is how well has the organization been able to achieve its goals pertaining to profit market share growth; market share growth and social responsibility and product quality.

So, each of these here you know the inputs, the outputs and the transformation process can be assessed and different approaches to assess effectiveness have been proposed traditional approaches have been proposed.

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➤ **Balanced Scorecard to measure Effectiveness**

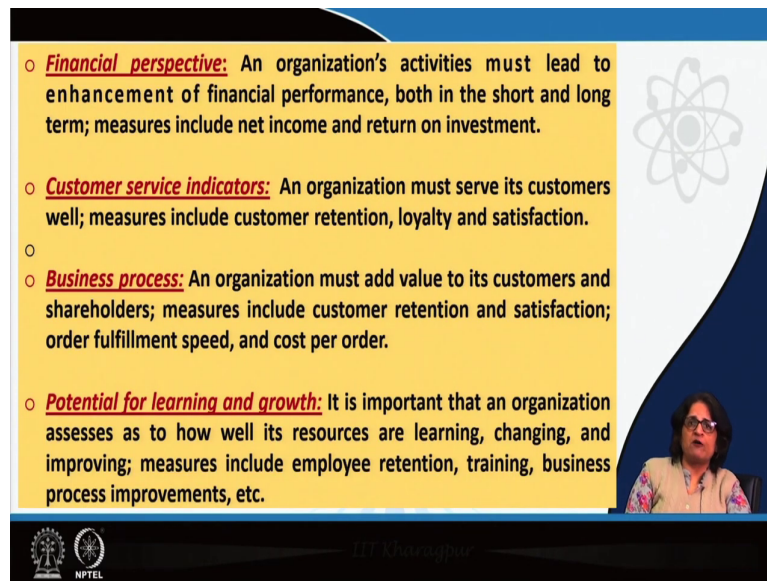
- While the traditional approaches to measure effectiveness lay emphasis on one aspect be it input, process or output, the Balanced Scorecard is an approach that integrates into a single framework, various indicators of effectiveness.
- It integrates financial and operational measures.
- The Balanced Scorecard considers four effectiveness categories, i.e., *financial performance, customer service, internal business processes, and the organization's capacity for learning and growth.*

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But today what is actually being you know emphasized upon is a is more of an integrated perspective. So, while the traditional approaches seek to measure effectiveness on one aspect a be it the input or the process of the output the balance score card is an approach which integrates you know effectiveness into a single framework.

And it integrates financial and operational measures. So, Kaplan who proposed it considers four effectiveness categories which is financial performance, customer service, internal business processes and the organizations capacity for learning and growth.

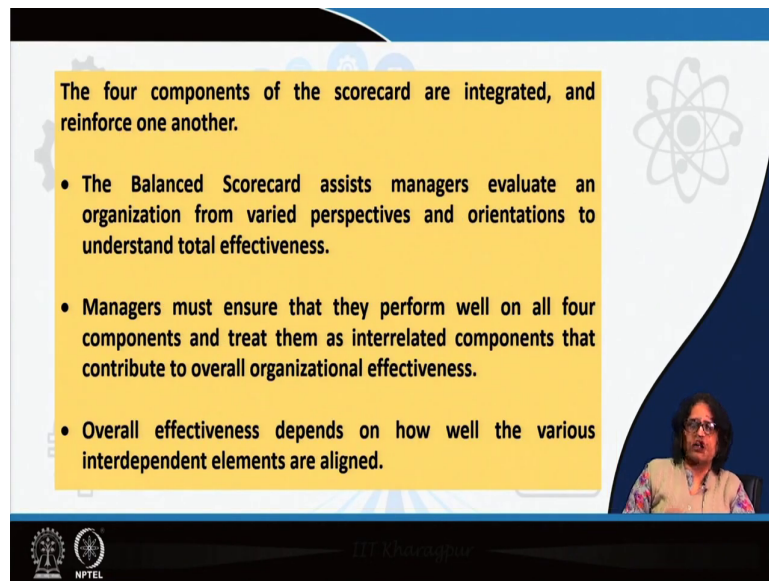
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- **Financial perspective:** An organization's activities must lead to enhancement of financial performance, both in the short and long term; measures include net income and return on investment.
- **Customer service indicators:** An organization must serve its customers well; measures include customer retention, loyalty and satisfaction.
- **Business process:** An organization must add value to its customers and shareholders; measures include customer retention and satisfaction; order fulfillment speed, and cost per order.
- **Potential for learning and growth:** It is important that an organization assesses as to how well its resources are learning, changing, and improving; measures include employee retention, training, business process improvements, etc.


And he spoke of each of these perspectives through a model which is which integrates the four dimensions that is the financial perspective, the customer service indicators, the business process and potential for learning and growth.


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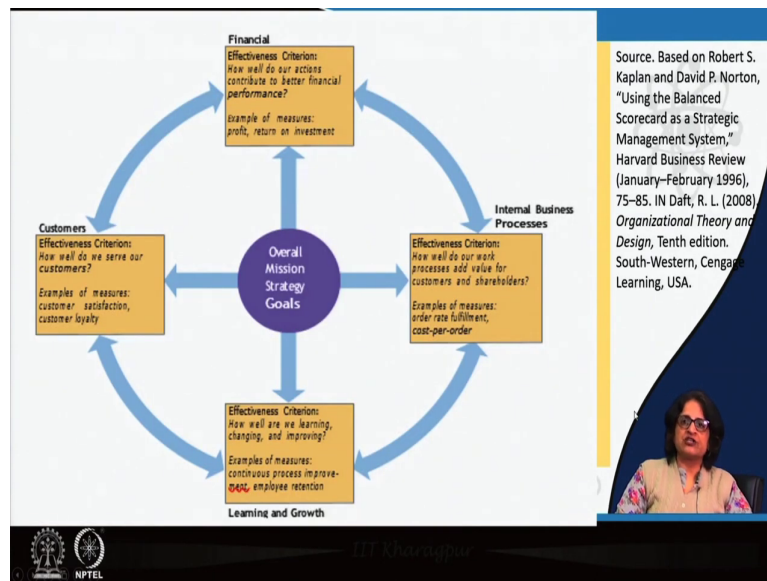
The four components of the scorecard are integrated, and reinforce one another.

- The Balanced Scorecard assists managers evaluate an organization from varied perspectives and orientations to understand total effectiveness.
- Managers must ensure that they perform well on all four components and treat them as interrelated components that contribute to overall organizational effectiveness.
- Overall effectiveness depends on how well the various interdependent elements are aligned.



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So, if you look at the model here you know you have the financial perspective, you have the customers perspective, you have the internal business process and you have the effectiveness criteria and you have the learning and growth and each one of them basically you know is connected and interconnected with the others and it presents a very integrative framework for assessing effectiveness.

So, the financial perspective is the organizations activities must lead to enhancement of performance must lead to enhancement of financial performance of an organization and law and in the long both in the long term as well as in the short term and measures include net income and return on investment. The customer service indicators pertain to an organization serving its customers well where measures include customer retention loyalty and satisfaction.

The business process pertains to the fact that organizations must add value to the customers and to the shareholders and measures include customer retention and satisfaction order fulfillment speed and cost per order and then you have the potential for learning and growth where it emphasizes that very important for an organization that its resources are learning, changing and improving and measures for effectiveness include employee retention, training business process improvements.

So, if you look at these a four dimensions or different parts the these are integrated the four components are integrated and reinforce each other and the scorecard assists managers to evaluate an organization from varied perspectives and orientation, so that they understand total effectiveness.

So, managers must ensure that they perform well on all the four components and they must treat them as interrelated components, which contribute to organizational effectiveness. Of course, overall effectiveness will depend upon how well these four elements are integrated and managed well. So, with this I come to an end of this lecture.

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CONCLUSION

This brings us to the end of the fourth lecture of Week I.

We shall continue with the topic in the next lecture.

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These are the references and we shall continue with the topic in the next lecture.

Thank you.