Organization Theory/Structure and Design
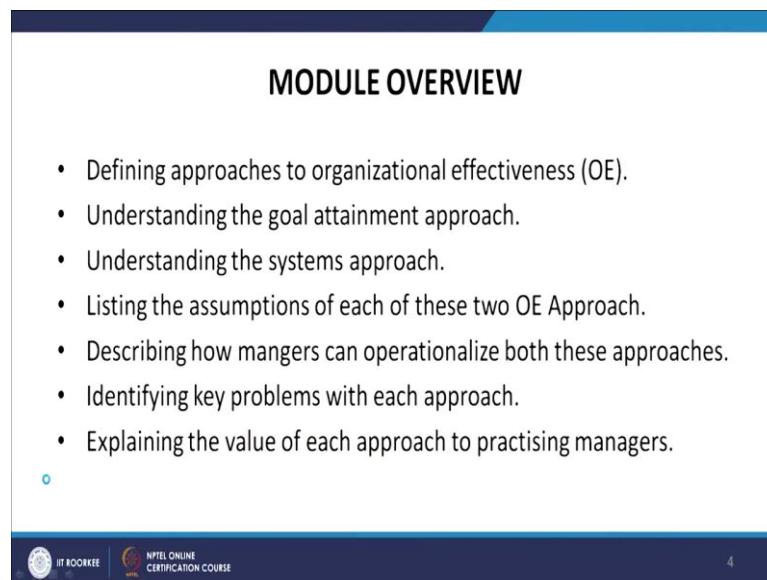**Prof. Zillur Rahman**
Department of Management Studies
Indian Institute of Technology, Roorkee

Lecture - 06
Organizational Effectiveness - II

Welcome to this course Organization Theory/Structure and Design. Now we will talk about module 6. So, you see that module 5, 6 and 7 they are dedicated to understanding of Organization Effectiveness. So, we have talked about the definition and we have also seen the problems in defining organization effectiveness in module 5.

In module 6, we will talk about defining the approaches to organization effectiveness, then we will talk about understanding the goal attainment approach. Thereafter, we will talk about understanding the systems approach, listing the assumptions of each of these two organization effectiveness approaches, describing how managers can operationalize both these approaches.

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Then we will identify key problems with each approach and explain the value of each approach to practising managers.

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So, let us start with defining organizational effectiveness. What is organizational effectiveness? Organizational effectiveness can be defined as the degree to which an organization attains its short term goals, that is the ends and long term goals, that is the means, the selection of which reflects its strategic constituencies, the self interest of the evaluator and the life stage of the organization; so, 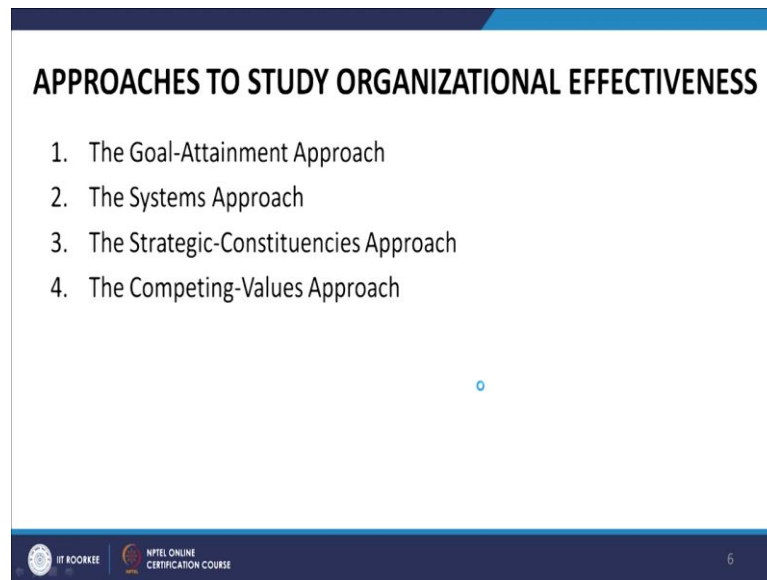organizational effectiveness can be defined as the degree to which an organization attains its short goals, short term goals that is the ends and long term goals that is the means.

The selection of which, now how these short term and long term goals are selected, that will reflect the strategic constituencies, self interest of the evaluator and the life stage of the organization. So, the long term and the short term goals will depend upon; will reflect the strategic constituencies, there are three things that it will reflect; the strategic constituencies, self interest of the evaluator and the life stage of the organization.
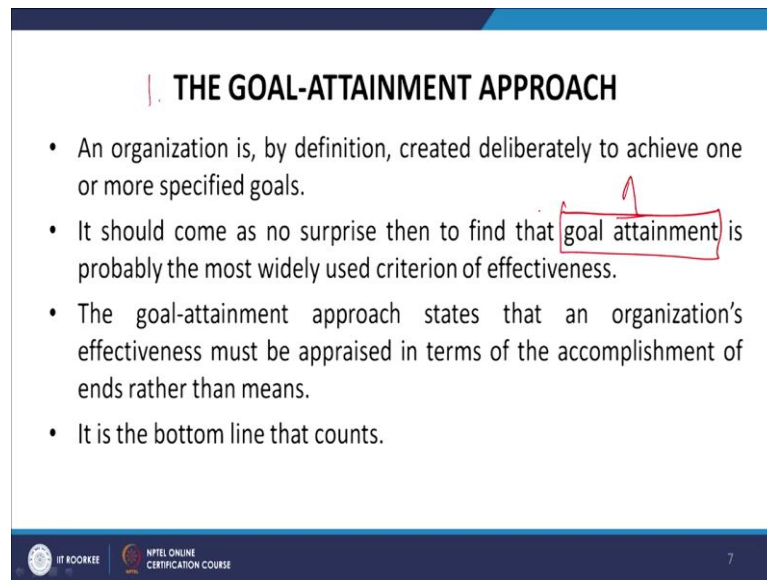
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Now, let us look at the approaches to study organizational effectiveness. The 1st approach is the goal attainment approach, the 2nd is the systems approach, the 3rd is the strategic constituencies approach and the 4th is competing values approach. So, after having defined organization effectiveness which is the degree to which an organization attains the short term and long term goals and these short term and long term goals will reflect three things.

The first is strategic constituencies, the second is the self interest of the evaluator and the third is the stage of the organization, that is the life stage of the organization. Now, these are the 4 approaches to study organizational effectiveness.
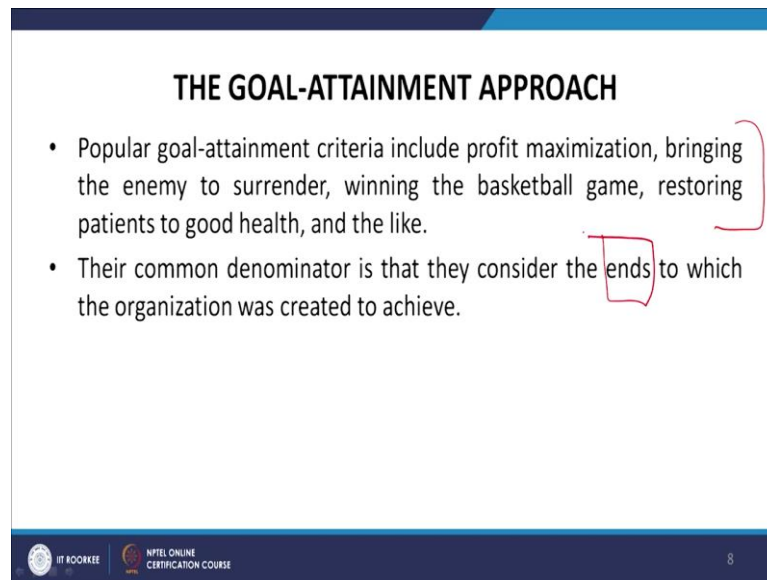
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So, let us start with the 1st approach that is the goal attainment approach. An organization is by definition created deliberately to achieve one or more specified goals. It should come as no surprise then to find that goal attainment is probably the most widely used criteria of effectiveness, that is the most important and most widely accepted criteria of effectiveness, goal attainment. And as you have seen earlier goals can be short term and they can be long term.

Long term goals the meaning of long term goals is the means and the short term goals is the end. So, both these things the means to achieve those ends and the ends also they are two important things. So, the goal attainment approach states that an organization's effectiveness must be appraised in terms of the accomplishment of ends rather than the means.

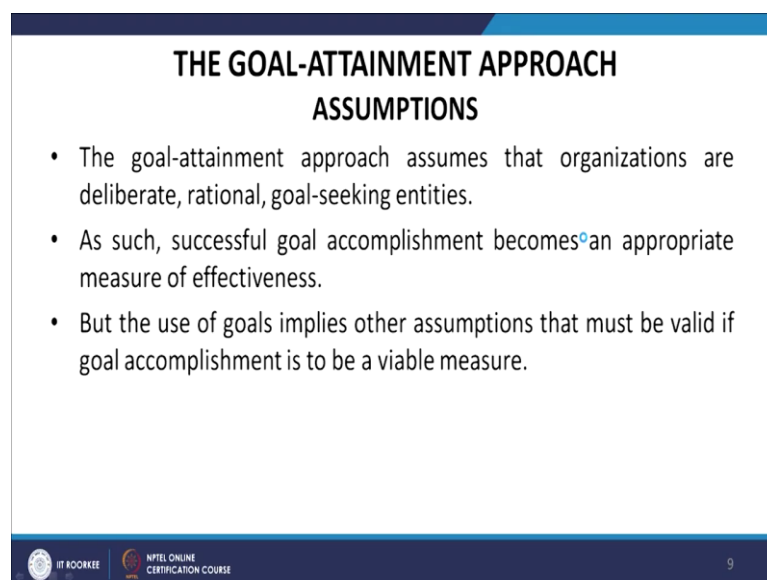So, now this goal attainment approach it says that we should consider on the ends and not the means. It is the bottom line that counts. Popular goal attainment criteria includes; profit maximization, bringing the enemy to surrender, winning the basketball game, restoring patients to good health and the like.

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So, these are the main criteria of this. So, as you say that everything is fair in love and war. So, if you are winning how you are winning is not important so that is what this goal attainment approach is. So, this common denominator is that they consider the ends to which the organization was created to achieve. So, that is the most important thing here that is the end.

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Now, let us look at the assumptions of the goal attainment approach. The goal attainment approach assumes that organizations are deliberate, rational and goal seeking entities. As

such successful goal accomplishments become an important measure of effectiveness, but the use of goals implies other assumptions that must be valid if goal accomplishment is to be a viable measure.

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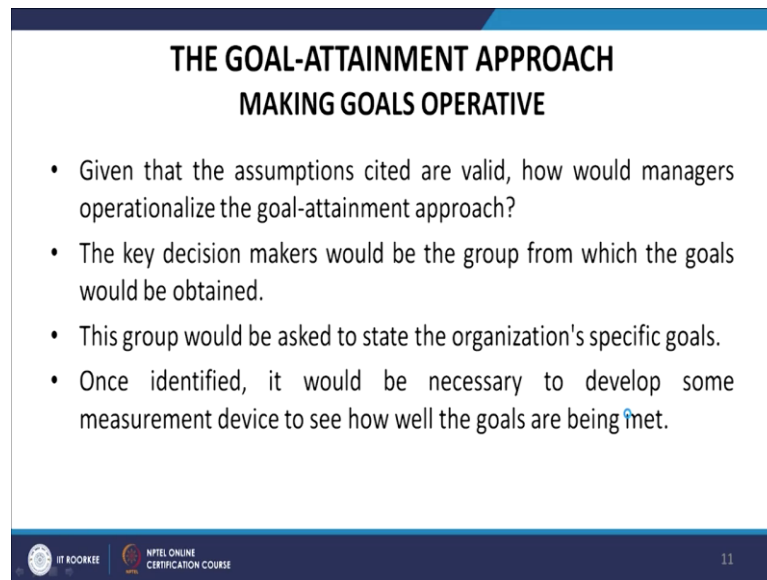
1st assumption of this goal attainment approach is that, the organizations have ultimate goals. The 2nd is these goals be identified and defined well enough to be understood. The 3rd is these goals must be few enough to be manageable. The 4th is there must be general consensus or agreement on these goals and finally progress towards these goals must be measurable.

So, the first thing is that the organization should have ultimate goals, they should be identified and defined. So, that everybody should understand them, then it they should be manageable; everyone should agree on that and they should be measurable.

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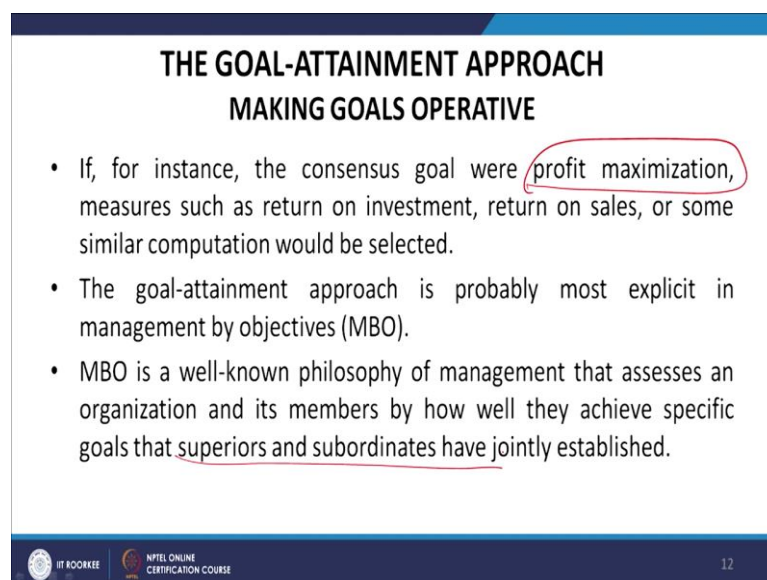
Now, how to make goals operative; given that the assumptions cited are valid, how would managers operationalize the goal attainment approach? The key decision makers would be the groups from which the goals would be obtained. This group would be asked to state the organizations specific goals and once identified it would be necessary to develop some measurement device to see how well the goal are being met.

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If for instance the consensus goal was profit maximization. So, let us talk of an example if the goal is profit maximization. So, how do we go about measuring this profit

maximization? So, measure such as return on investments or return on sales or some similar computation would be selected.

The goal attainment approach is probably most explicit in management by objectives. MBO or management by objectives is a well known philosophy of management that assesses an organization and its members by how well they achieve specific goals that superiors and subordinates have jointly established.

So, management by objective is one approach. Now the goal attainment approach is most explicit in this philosophy of management, that is management by objective. So, in this what happens is that how well the organization has achieved the goals that the superior and subordinates they have come together and jointly established.

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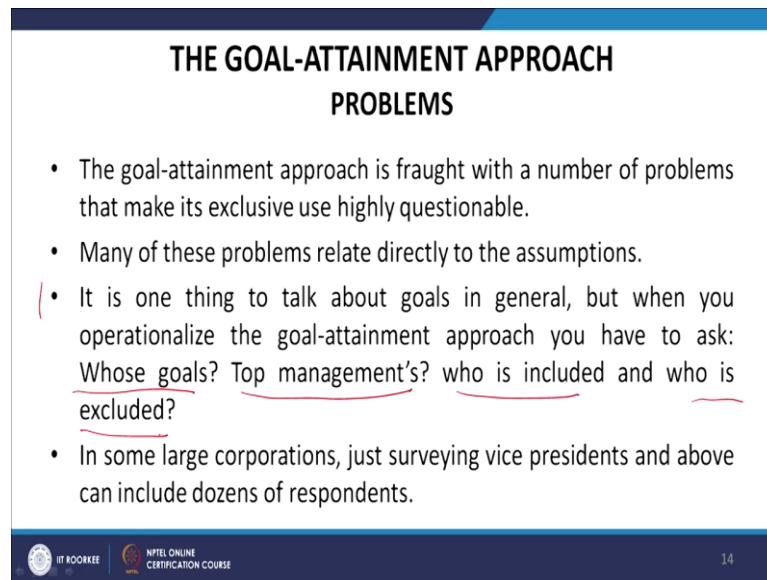
So, how to make these goals operative? 1st is they should be tangible, verifiable and measurable goals. So, those goals which are tangible, verifiable and measurable they should be developed. Then the condition under which they are to be accomplished is also specified.

The 3rd is the degree to which each goal must be satisfied is also specified. The 4th is actual performance is then measured and compared with the goals. Because either an organization accomplishes the specific task that it is supposed to do or it does not. MBO represents the ultimate in a goal oriented approach to effectiveness.

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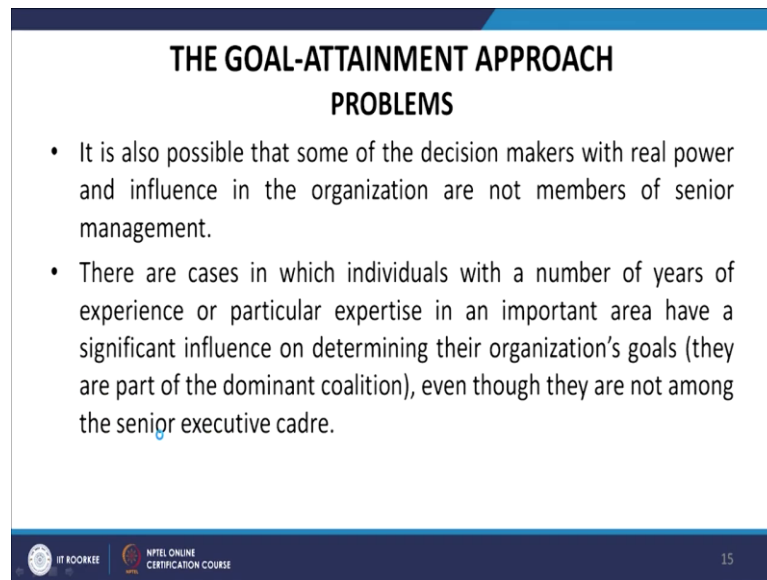Now, let us look at what are the problems in this goal attainment approach. So, the goal attainment approach is fraught with a number of problems that make its exclusive use highly questionable. Many of these problems relate directly to the assumptions that we have made.

1, so, it is one thing to talk about goals in general, but when you operationalize the goal attainment approach, you have to ask again; whose goals? Are we talking of top management goals? Who is included and who is not? In some large corporation just surveying vice president and above can include dozens of respondents.

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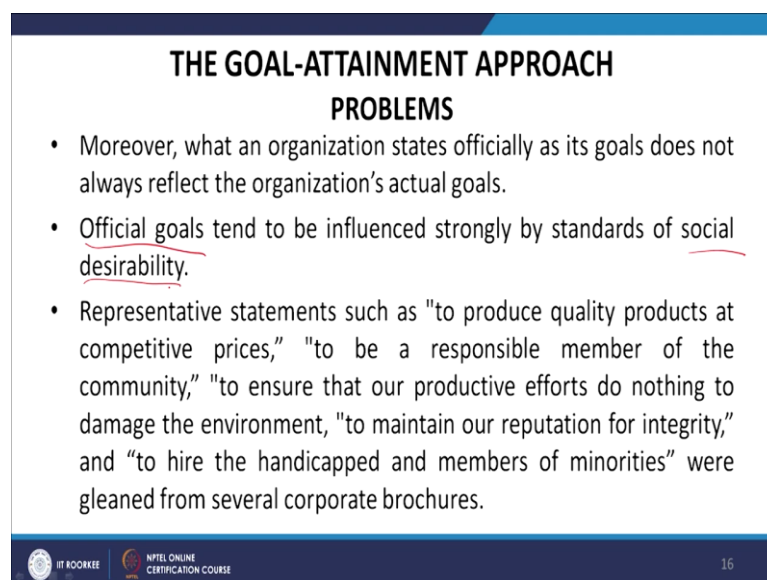
It is also possible that some of the decision makers with the real power and influence in an organization are not members of senior management. There are cases in which individuals with a number of years of experience or particular expertise in an important area have a significant influence on determining their organizations goal. They are part of the dominant coalition even though they are not among the senior executive cardre.

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Moreover, what an organization states officially as its goals does not always reflect the organizations actual goals. Official goals tend to be influenced strongly by standards of

social desirability. So, official goals may be biased towards social desirability. So, it is also important to understand the actual goals.

Representative statements such as to produce quality product at competitive price, to be 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 hire the handicapped and members of minority, were gleaned from several corporate brochures. But, you see that all these statements, they are more socially acceptable socially desirable and they may not be the actual goals.

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These vague apple pie and flag official statements may sound good, but rarely do they make any contribution to an understanding of what the organization is actually trying to accomplish. Given the likelihood that officials and actual goals will be different. An assessment of an organization's goals would probably include the statements made by the dominant coalition plus an additional listing derived from observation of what members in the organizations are actually doing.

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Next, an organization's short term goals are frequently different from its long term goals. For instance, one firms primary short term goal was directed financially to raise dollar 20 million of working capital within the next twelve months. Its five year goals however, was to increase its product market share from 4 to 10 percent. In applying the goal attainment approach which goal short or long term should be used.
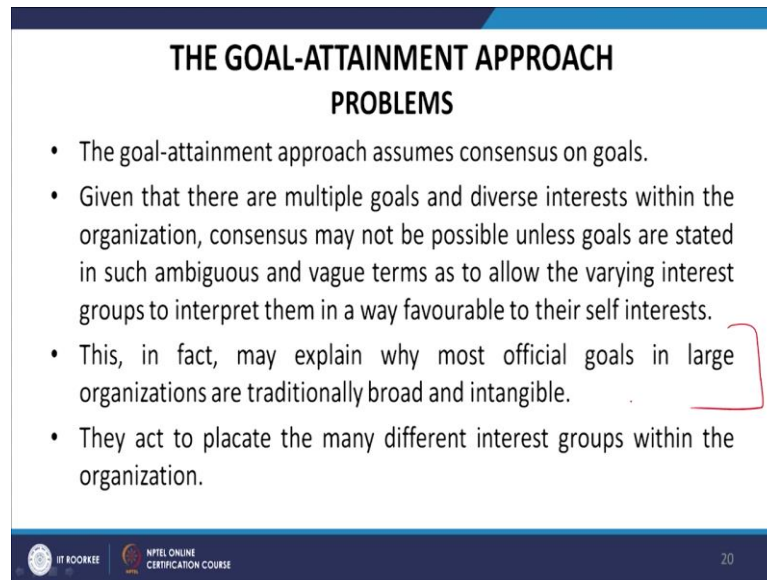
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So, this is the next twelve month and this is the next five years. So, which goals to use? So, that is the problem with this goal attainment approach. The fact that organizations

have multiple goals also creates difficulties. They can compete with each other and sometimes are even incompatible. For example, the achievement of high product quality and low unit cost.
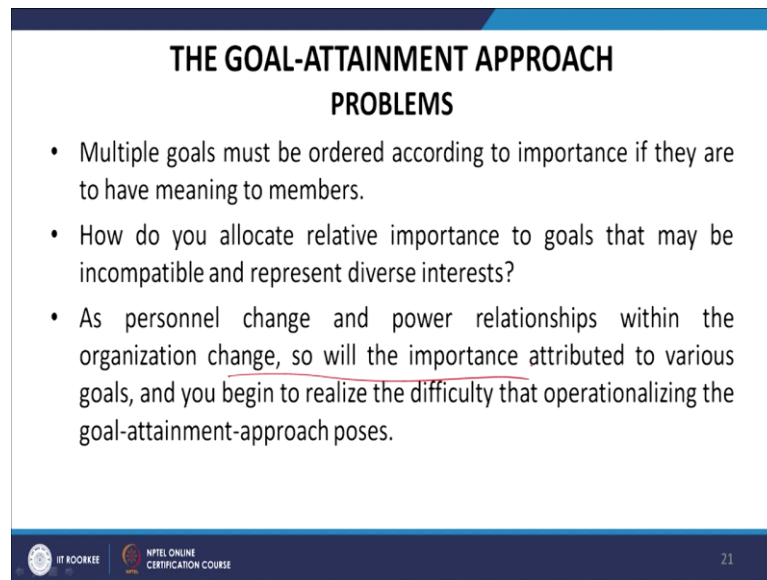
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So, the goal attainment approach assumes consensus on goals. Given that there are multiple goals and diverse interests within the organization, consensus may not be possible unless goals are stated in such ambiguous and vague terms as to allow the varying interest groups to interpret them in the way favorable to their own self interest. This in fact may explain why most official goals in a larger organization are traditionally broad and intangible.

So, that is the problem the goals they are defined in such a way that everyone can interpret them according to their own self interest; they act to placat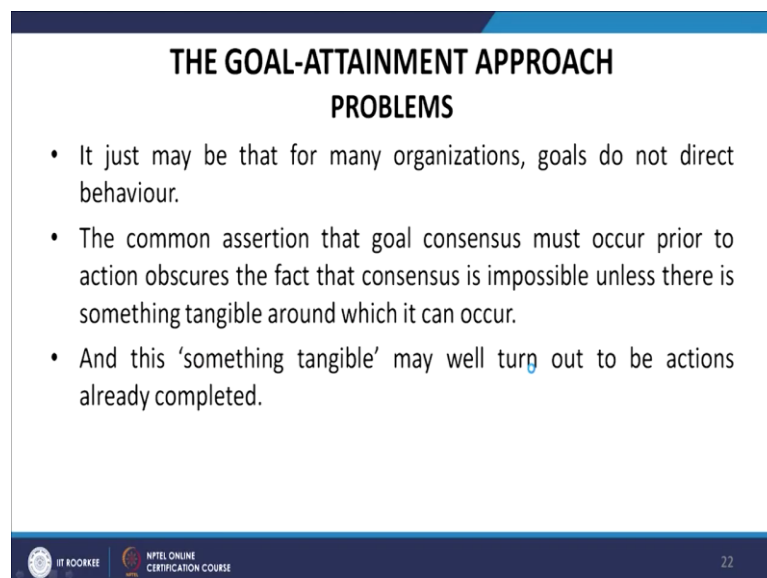e the many different interest groups within the organization. Multiple goals must be ordered according to the importance if they are to have meaning to the members. How do you allocate relative importance to these goals? Which goals are more important over others?

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So, how do you do that? So, that may be incompatible and they represent diverse interest. As personal change and power relationships within the organization change; so, will the importance attributed to various goals and you begin to realize the difficulty that operationalizing the goal attainment approach poses.

So, as people change as the relationships in the organizations they change. So, the importance of the goals they also change. So, now this is the biggest problem with this approach.

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It just may be that for many organizations, goals do not direct behavior. The common assertion that goal consensus must occur prior to action obscure 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 the actions already completed.

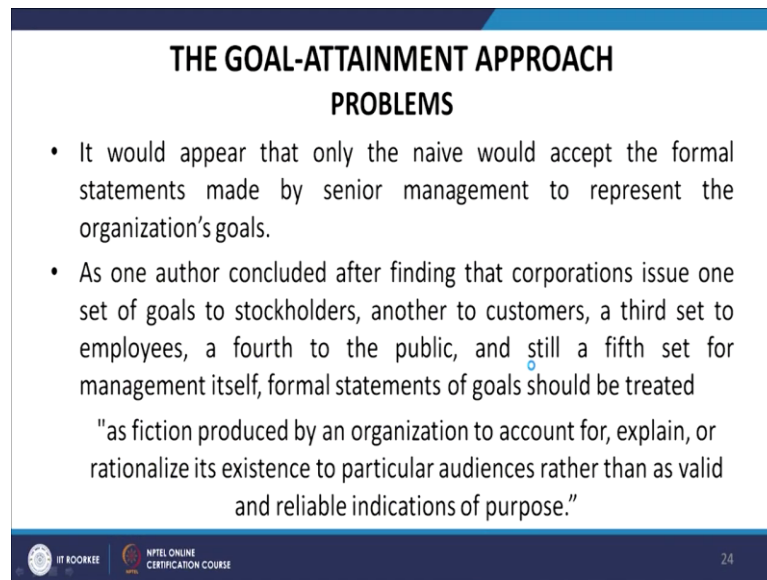(Refer Slide Time: 15:54)
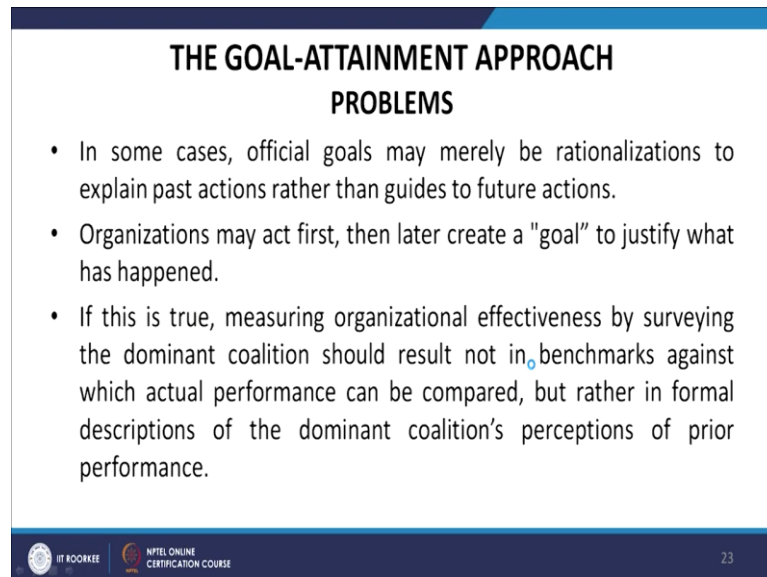
THE GOAL-ATTAINMENT APPROACH
PROBLEMS

- In some cases, official goals may merely be rationalizations to explain past actions rather than guides to future actions.
- Organizations may act first, then later create a "goal" to justify what has happened.
- If this is true, measuring organizational 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.

In some cases official goals may merely be rationalizations to explain past rather than guide the future action. Organizations may act first then later create a goal to justify what had happened. If this is true, measuring organizational effectiveness by surveying the dominant coalition should result not in benchmarks against which actual performance can be compared, but rather in formal description of the dominant coalition's perception of prior performance.
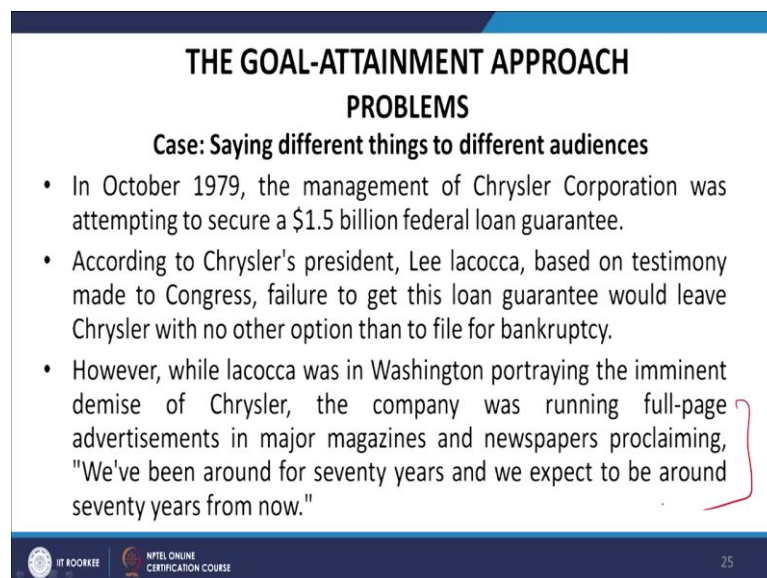
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Now, it would appear that only the naïve would accept the formal statements made by senior management to represent the organizations goal. As one author concluded after finding that corporation issue one set of goals to stockholders another to customers, a third set of goals to employees and the fourth to the public and still a fifth set for the management itself. Formal statement of goals should be treated.

As fiction produced by an organization to account for explains or rationalizes its existence to particular audience rather than as valid and reliable indication of purpose.

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Now, let us look at this problem. So, we are talking of case saying different things to different audience. In October 1979, the management of Chrysler Corporation was attempting to secure a dollar 1.5 billion federal loan guarantee. According to Chryslers president, Lee Lacocca based on testimony made to Congress, failure to get this loan guarantee would leave Chrysler with no other option than to file for bankruptcy.

However, while Lacocca was in Washington portraying the imminent demise of Chrysler; the company was running full page advertisement in major magazines and newspapers proclaiming, we have been around for seventy years and we expect to be around seventy years from now. So, now you see that what their president was saying in the Congress and what they were telling to their customers.

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The intent of these ads of course was to encourage prospective customers to buy Chrysler product and to ignore any future concern about the availability of parts, service and warranty coverage. In its quest for survival, Chrysler projected itself one way to the public and another way to the government officials.

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Now, let us look at its value the goal attainment approach value to the managers. These problems while certainly damning should not be construed as a blanket indictment of goals. Organizations exist to achieve goals the problem lie in their identification and measurement.

So, goals are should be there, the problem is how to identify and measure them. The validity of these goals identified can probably be increased significantly. How? Ist, ensuring that input is received from all having a major influence on formulating the official goals even if they are not part of senior management.

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II is including actual goals obtained by observing the behavior of organization members. Recognizing that organizations pursue both short and long term goals insisting on tangible, verifiable and measurable goals rather than relying on vague statements, that merely mirrors societal expectations.

So, we should emphasize on tangible, verifiable and measurable goals rather than only saying what the society expects. Viewing goals as dynamic entities that change over time rather than as rigid or fixed statement of purpose; so, keep in mind that goals are dynamic and they keep on changing.

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If managers are willing to comfort the complexities inherent in the goal attainment approach, they can obtain reasonably valid information for assessing an organization's effectiveness, but there is more to OE than identifying and measuring specific ends.

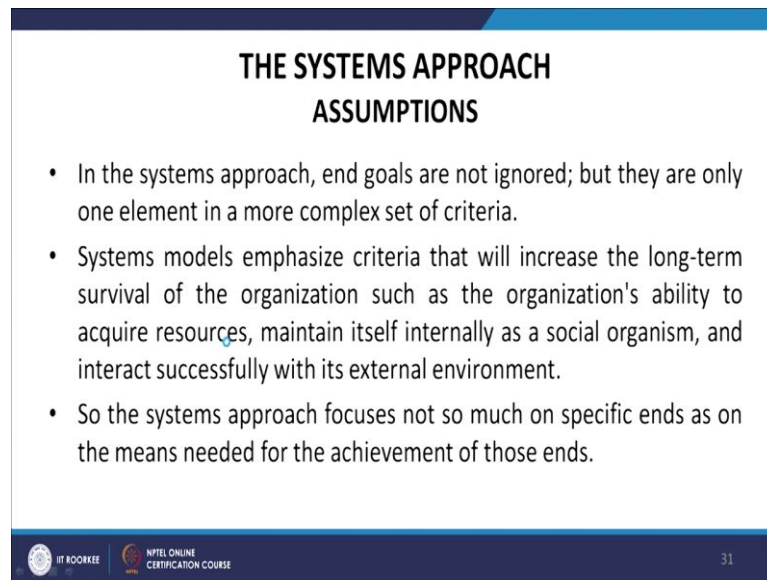(Refer Slide Time: 20:36)

The next approach is the systems approach. Organizations acquire inputs, engage in transformation processes and generates outputs. It has been argued that defining OE solely in terms of goal attainment result in only a partial measure of effectiveness.

Goals focus on outputs, but an organization should also be judged on its ability to acquire inputs, process these inputs, channel the output and maintain stability and balance. So, it is not only the output, but the process; input and the channel etc., which are all important. Another way to look at OE therefore, is through a systems approach.
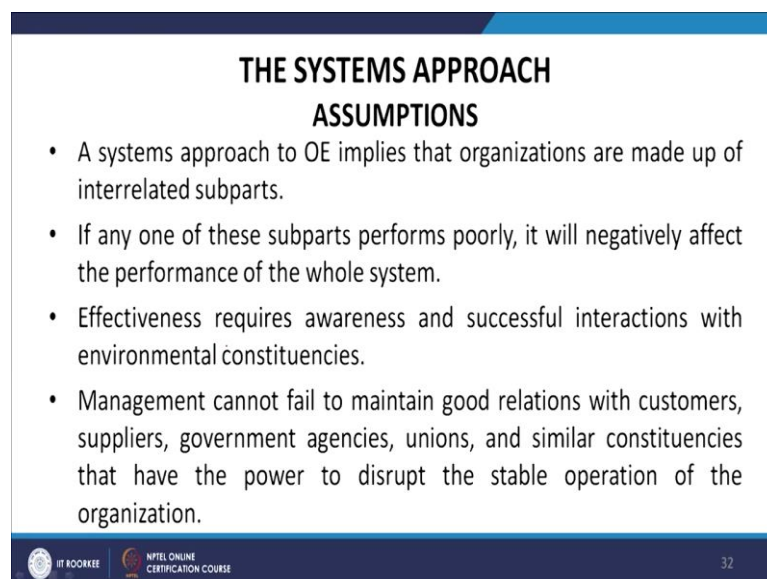
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In the systems approach end goals are not ignored, but they are only one element in more complex set of criteria; systems model emphasize criteria that will increase the long term survival of the organization. Such as the organizations ability to acquire resources, maintain itself internally as a social organism and interact successfully with its external environment. So, the systems approach focuses not so much on a specific ends as on the means needed for the achievement of those ends

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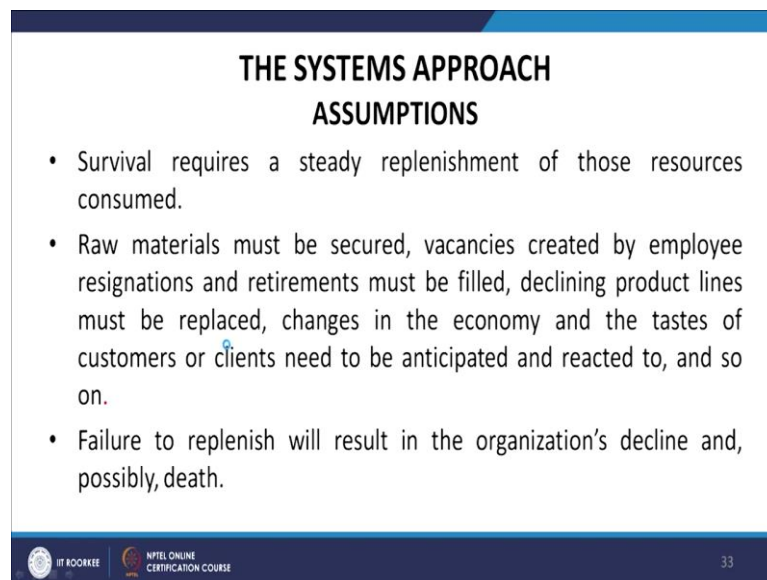
The assumptions of system approach are the following. So, a systems approach to organization effectiveness implies that organizations are made up of interrelated subparts; if one of these subparts performs poorly it will negatively affect the performance of the whole system and the performance of other subparts.

Effectiveness requires awareness and successful interaction with environmental constituencies. Management cannot fail to maintain good relations with customers, suppliers, government agencies, unions and similar constituencies that have the power to disrupt the stable operations of the organization.

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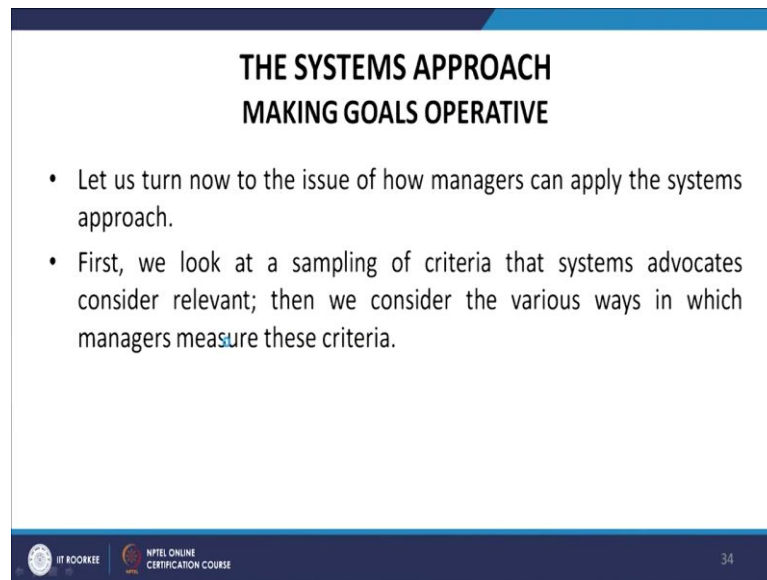
Survival requires a steady replenishment of those resources consumed. Raw material must be secure, vacancies created by an employees, resignation and retirement must be filled, declining product lines must be replaced, changes in the economy and the taste of customers or clients need to be anticipated and reacted to and so on. Failure to replenish will result in the organization's decline and maybe possibly death.
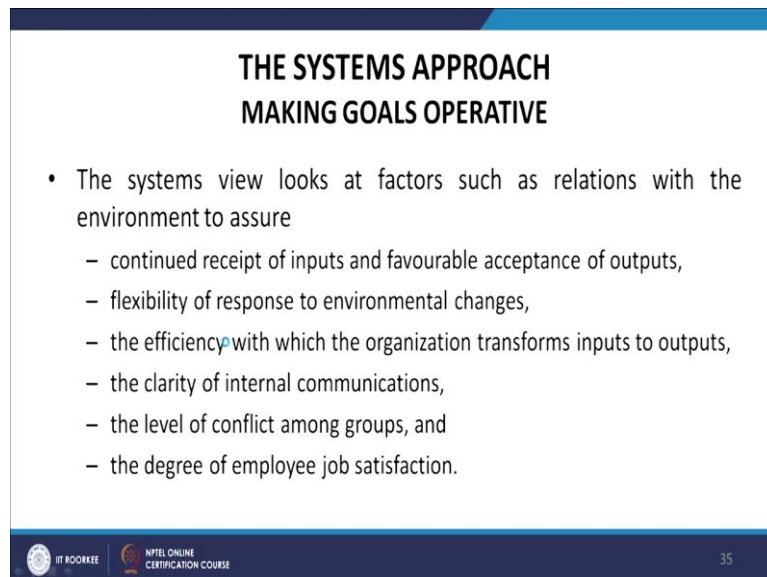
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Now, how to make goals operative in the systems approach; so, let us turn now to the issue of how managers can apply the systems approach. First, we look at the sampling of criteria that systems advocate considers relevant then we consider the various ways in which managers measure these criteria.

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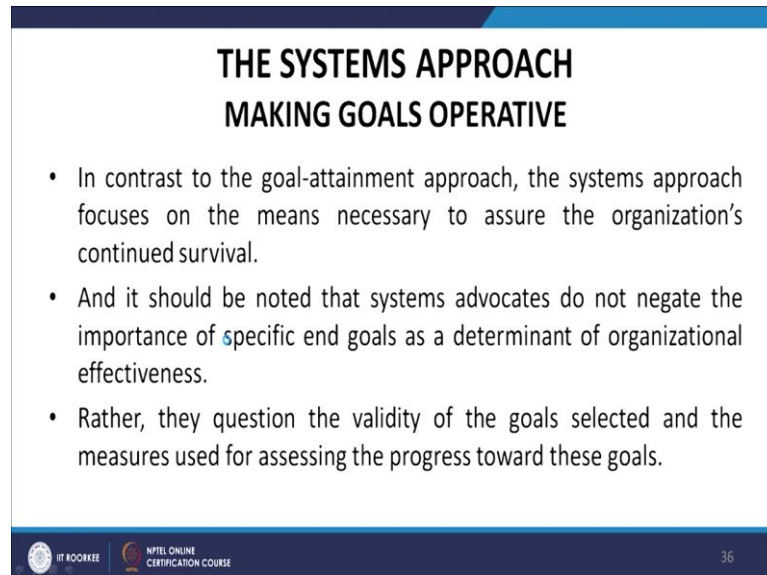The systems view looks at factors such as relation with the environment to assure, first, continued receipt of input and favorable acceptance of output, second, flexibility of response to environmental change, third, the efficiency with which the organization

transforms input to output, the fourth one is the clarity of internal communication, fifth, the level of conflict among groups and the degree of employee job satisfaction.
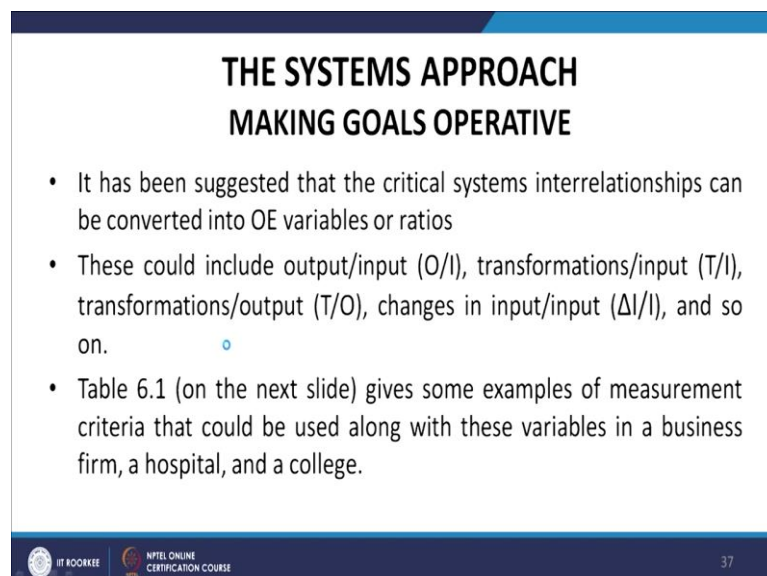
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Now, in contrast to the goal attainment approach, the systems approach focuses on the means necessary to assure the organizations continued survival. And it should be noted that systems advocate do not negate the importance of specific end goals as the determinant of organizational effectiveness. Rather they question the validity of the goal selected and the measures used for assessing the progress towards the goals.

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It has been suggested that the critical systems interrelationships can be converted into OE variables or ratios. These could include, output upon input, transformation upon input, transformation upon output, changes in input upon input that is delta I upon I and so on. So, the table 6.1 in the upcoming slide gives you some examples of measurement criteria that could be used along with these variables in a business firm, a hospital or a college.
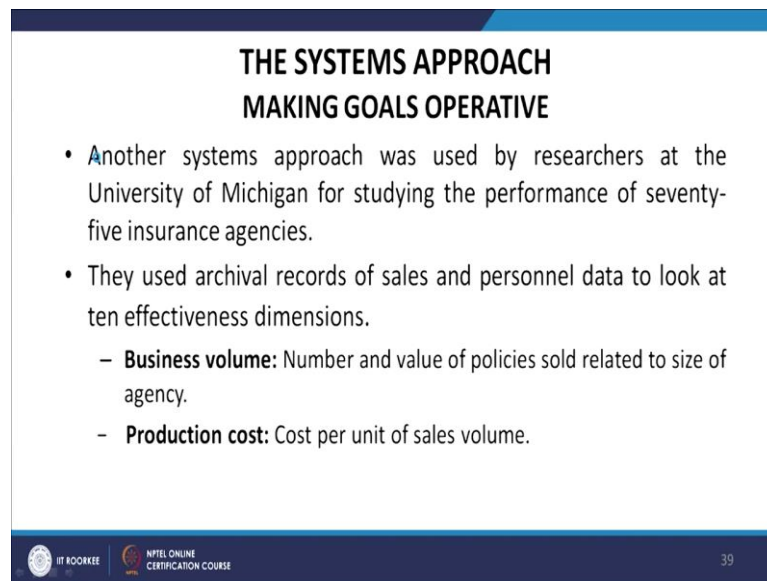
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Now, these are the examples of effectiveness measures of system for different types of organization and here is the source for this table. So, we are talking about systems variable output upon input, transformation upon input, transformation upon output and changes in input upon input.

So, on the left hand side and in the first column we have the systems variable O upon I, T upon I, T upon O and delta I upon I all these have been explained in the earlier slide; output upon input, transformation upon input, transformation upon output and change in input upon input.

So, now for a business firm the measure of this can be return on investment, for a hospital it can be total number of patients treated and for a college it can be number of faculty publication. When we are talking about transformation upon input; so, for a business firm it can be inventory turnover, for a hospital it can be capital investment in medical technology and for a college it can be the cost of information systems.

In the third systems variable that is transformation upon output. For a business firms it can be sales volume, for a hospital it can be total number of patients treated and for a college it can be number of students graduated. And from change in input upon input, for a business firm it can be changes in working capital, for a hospital it can be change in number of people treated and for the college is the change in student enrollment.

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Another system approach was used by researchers at the University of Michigan for studying the performance of seventy five insurance agencies. They used archival records of sales and personnel data to look at ten effectiveness dimensions. So, the first of those dimensions is the business volume, that is number and value of policies sold related to the size of the agency. The second is the production cost; cost per unit of sales volume.

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The 3rd is new member productivity, that is productivity of agents having less than five year's tenure. The 4th one is youthfulness of members that is productivity of members under thirty five years of age.

The 5th is business mix, a combination of three conceptually unrelated performance indices interpreted as reflecting the ability of agencies to achieve high overall performance through any of the several strategies. The 6th is workforce growth, a relative and absolute change in workforce levels.

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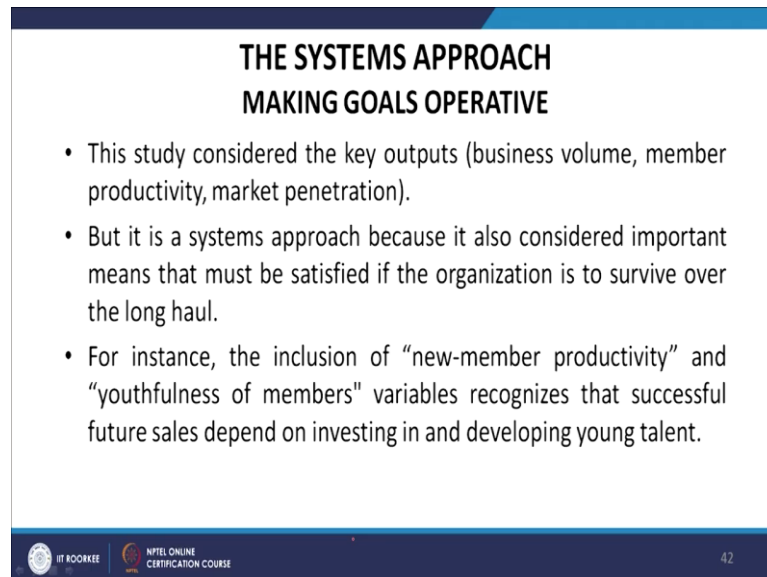
Devotion to management, that is sales commissions earned by agency managers, the maintenance cost, cost to maintain accounts, members productivity, average new business volume per agent and the 10th one is the market penetration that is proportion of potential market being exploited.

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Now, how to go about making goals operative under the systems approach? This study considered the key outputs, business volumes, member productivity and market penetration. But it is a systems approach because it also considers the important means that must be satisfied with the organization is to survive over the long haul.

For instance the inclusion of new member productivity and youthfulness of members, variable recognizes that successful future sales depends on investing in and developing young talent.

Another systems application to OE is the management audit. It is developed by Jackson Martindell and his American Institute of Management. The management audit analyzes the key activities in a business firm past present and future to ensure that the organization is getting the maximum efforts out of its resources.

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Using a ten-thousand point analysis sheet Martindell price performance in ten areas: economic functions, organizational structure, service to stakeholders, health of earnings, research and development, board of directors, fiscal policies, production efficiencies, sales vigor and executive evaluation.

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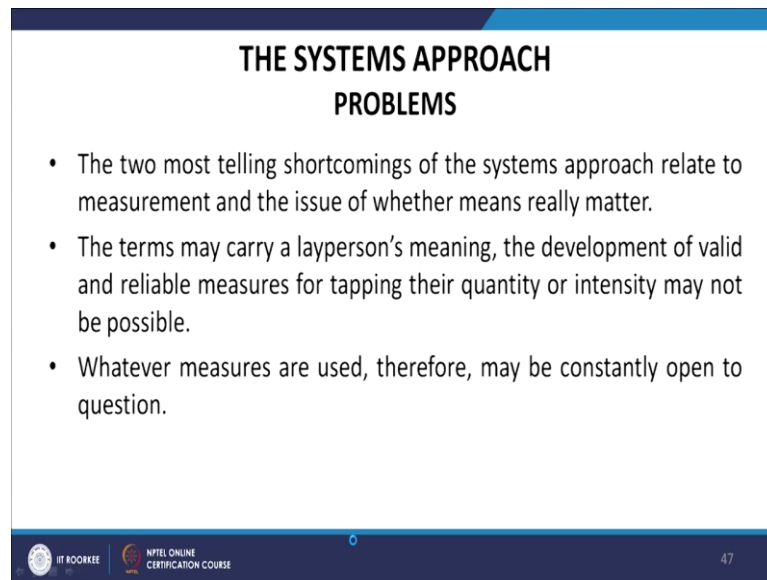
So, although a number of criteria are relevant to profit making organizations alone, the concept could be modified for use in non profit sectors also. The ten area carries various weights reflecting the importance that Martindell has assigned to each variable in terms of its contribution to the organizations overall performance.

It is a systems approach because it recognizes that, no organization can reach its performance potential if one or more of its subsystem is performing inadequately. Now, the problem of this system is that the two most telling shortcomings of the systems approach relate to measurement and the issue of whether means really matters.
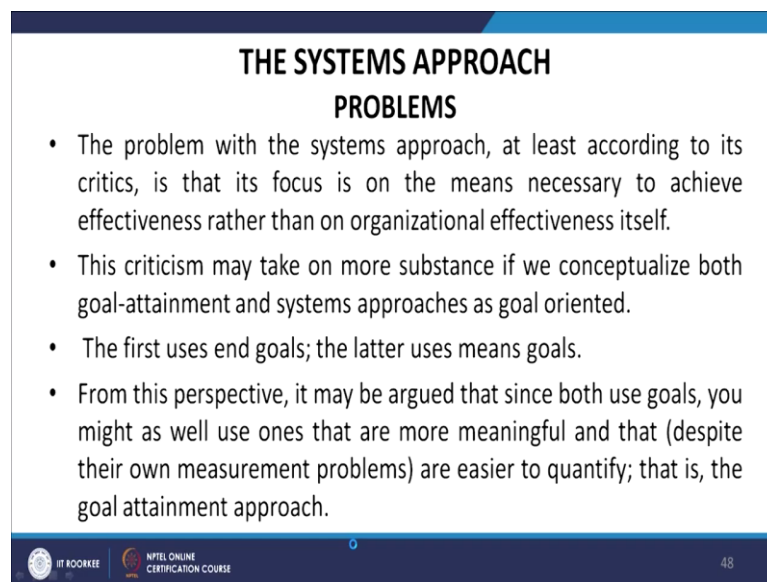
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The term may carry a laypersons meaning, the development of valid and reliable measure for tapping their quantity or intensity may not be possible. Whatever measures are used therefore, may be constantly open to question.

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So, the problem with the subsystem approach at least according to its critics is that it focuses on the means necessary to achieve effectiveness rather than an organizational effectiveness itself. This criticism may take on more substance if we conceptualize both

goal attainment and system approach as goal oriented. The first uses the end goals and the later use means goals.

So both of them together will cover both the things. From this perspective it may be argued that since both use goals, you might as well as use one that are more meaningful and that despite their own measurement problems are easier to quantify, that is the goal attainment approach.
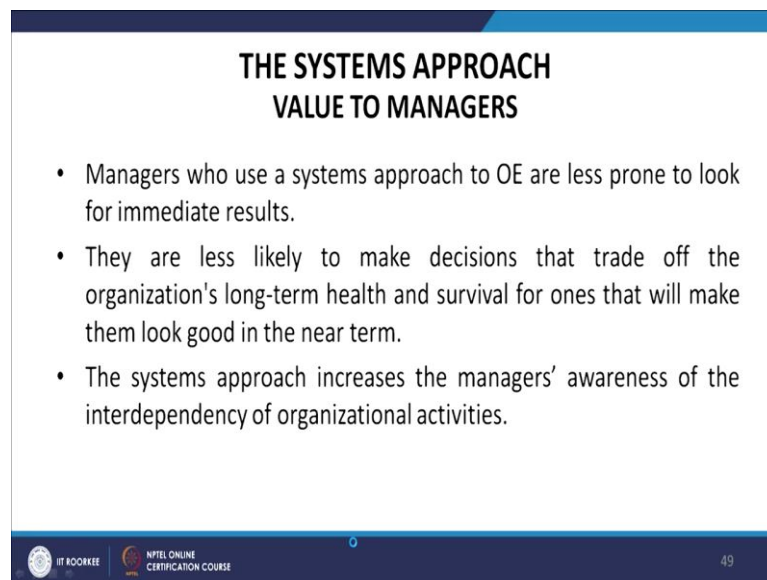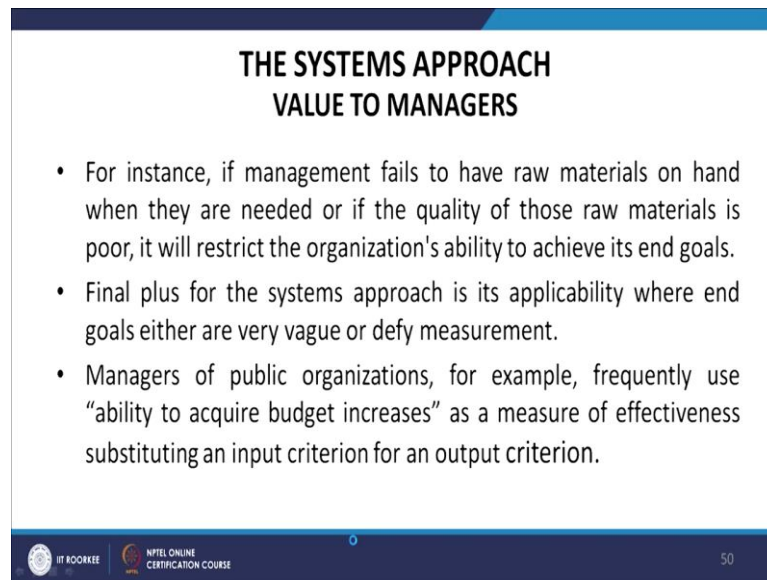
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Now, let us look at what is its value to managers. Managers who use a systems approach to OE are less prone to look for immediate results. They are less likely to make decisions that trade off the organizations long term health and survival for ones that will make them look good in the near term or in the short term. So, the systems approach increases the manager's awareness of the interdependencies of organizational activities.
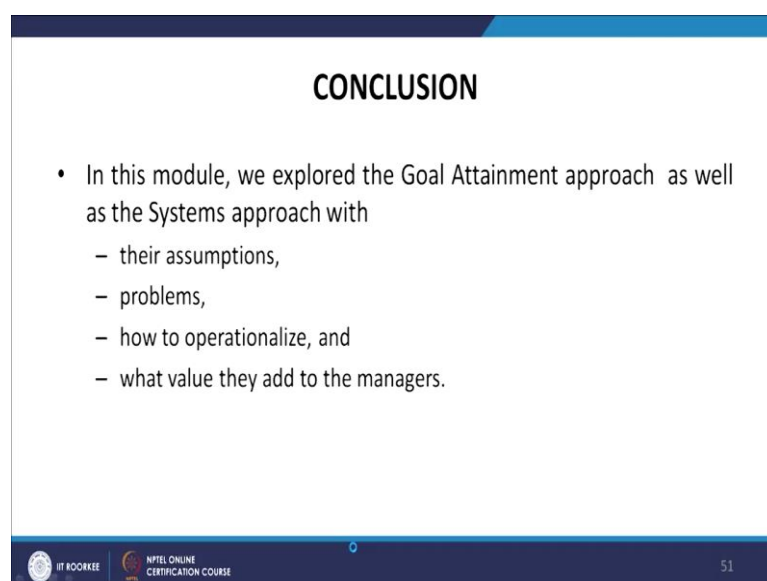
For instance, if the management fails to have raw material on hand when they are needed or if the quality of those raw materials is poor, it will restrict the organizations ability to achieve its end goals. Final plus for the system approach is its applicability where end goals either are very vague or they defy measurement.

Managers of public organizations, for example, frequently use ability to acquire budget increase as a measure of effectiveness substituting an input criteria for an output criteria.

So, in order to conclude in this module we had explored the goal attainment approach as well as the systems approach and we have talked about their assumptions of both of them, the problems that are inherent in both these approaches. Then we have talked about how to operationalize and what value they add to the managers.

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And these are the 4 books from which the material for this module was taken.

Thank you.