CHAPTER-I
INTRODUCTION
CHAPTER - I

INTRODUCTION

Drucker (1974)\(^1\) has stated that the effectiveness is the foundation of success. Therefore, organizational effectiveness is the measure of how successfully organizations accomplish their mission and goals through their core competencies. Organizations have been referred to as social entities, which comprise large and diverse group of people. Hence it is difficult to measure their effectiveness as they are large, diverse and fragmented. They perform multiple roles and generate many outcomes. The managers find it difficult to measure organizational effectiveness based on characteristics and are not subject to hard quantitative measurements. Traditionally, the organizational effectiveness was viewed in terms of the accomplishment of objectives for which organizations were created. In the present scenario top executives of some of the corporations suggest new ways to measure the effectiveness of the organizations. Organizational effectiveness is measured by using soft indicators such as “customer delight” and “employee satisfaction”.

A study of any organization or industry is meaningless without studying its effectiveness. Identifying the factors leading to organizational effectiveness is important especially while allocation of resources and optimizing organizational performance. The concept of organizational effectiveness is complex due to lack of consensus on its definition and its measurement. Connolly, Conlon & Deutsh (1980)\(^2\) concluded that organizational effectiveness is a theoretical concept and impossible to measure. This fact was further supported by Campbell saying that organizational effectiveness can not be defined operationally and difficult to measure. But the arguments of these scholars were contradicted by
Cameron (1980) by emphasizing the importance of the study of organizational effectiveness for understanding and improving organizational performance. He proposed that organizational effectiveness is difficult to measure but some criteria like growth & development, absence of conflict and better services can predict effectiveness of an organization.

1.1 ORGANIZATIONAL EFFECTIVENESS: AN INTRODUCTION

Definition of organizational effectiveness has been a matter of debate. The available literature on organizational effectiveness explores that the understanding about the concept of organizational effectiveness can vary with the nature of constructs. Economist and financial analysts define organizational effectiveness in terms of profit or return on investment while for a production manager it is the quality and quantity of the output. Gaertner & Ramnarayan (1987) defined organizational effectiveness as "ability of an organization to account successfully for its output and operations to its various internal and external constituencies".

In the view of Stephen (1982) an empowered organization is one in which individual have knowledge, skills, desire and opportunities to personally succeed in a way that leads to collective organizational success. While some of the scholars see that employee empowerment can be an important factor leading to organizational effectiveness. As per the view of Venkatachalam and Moni (2006) empowerment of employee is a promising way to organizational effectiveness. Factors like open line communication, clear job objectives, transparent organizational objectives, organizational culture, shared ethical values, leadership, code of conduct and fair appraisal system are some of the factors that lead to organizational effectiveness.

According to Yutchman and Seashore (1967), "Organizational Effectiveness is the ability of an organization to exploit its environment in the
acquisition of scarce and valued resources to sustain its functioning". Rausch defined organizational effectiveness in terms of behavior attributes observable in organization settings i.e discipline and morale. Mott(1976)⁸ defined this concept as the ability of an organization to mobilize its center of power for action, production and adaptation. Effective organizations produce more and adapt to internal as well as environmental problems.

Some scientists believed that autonomy and centralization can improve organizational effectiveness. The fact was supported by Argyris (1972)⁹ that dispersed influence, distribution of power leads to organizational effectiveness. So organizations should always prefer a decentralized, participative decision in their structure. Organizational effectiveness is not limited to productivity only, however, it is an important determinant of organizational effectiveness. Measurement of organizational effectiveness become difficult in service sectors like banking as the productivity of employees can not be quantified.

Most of the managers now a day’s also advocate the use of contingency approach to measure effectiveness of organization which is based on goal approach, resource based approach and internal process approach. An organizational goal is the desired state of affair that organization attempts to achieve. Every organization is created with some goals and objectives. Hence, understanding organizational goals and strategies is the beginning of understanding organizational effectiveness. Organizations are social entities that are goal directed and are linked to the external environment. Organizations are designed in such a way that they have to achieve a level of performance and effectiveness. Manager adjusts and operates the organization in such a manner which can most efficiently and effectively transforms inputs into outputs and provide value. Efficiency refers to the amount of resources used to achieve organizational goals
whereas effectiveness measures the degree to which organization achieve its goals. To be effective, thus organizations need clear, focused goals, and appropriate strategies for achieving them.

The organizational effectiveness can be referred to as ability of the organization in either absolute or relative terms to obtain scarce and valued resources and successfully integrate and manage them. The term organizational effectiveness started appearing predominantly in various business magazines, research journals about 50 years back. However, at the individual level this view manifested in the work of F.W. Taylor (1911)\(^9\) and the scientific management movement at the beginning of 20th century. Later on with the emergence of socio-technical system, (Herbst (1974)\(^10\), Margon(1986)\(^11\), Trist (1996)\(^12\)) suggested that interdependencies between separate jobs within the groups or teams and work technologies had "co-producing" outcomes on organizational effectiveness. With the advent of system theory of management resulted in the creation of greater awareness of the organization’s environment and need for managing its complex, dynamic interdependencies. Burn Stalker (1961)\(^13\), Chandler (1962), Child (1972), Kast and Rosenzwere (1973)\(^14\), highlighted the importance of strategy and structure fit as a determinant of performance. They argued that organization that achieved the closest fit or alignment between the larger environment, its overall strategy and its organizational design would outperform its competitors, that is be more effective. Therefore an attempt is made to draw the best fit and alignment among all the organization’s constituents. Mckinsey 7-S model(1982)\(^15\) suggested that an organization can perform well if Strategy, Structure, Systems. Shared Values, Style, Staff and Skills are integrated and coordinated.

Drucker(1985)\(^16\) argued that effectiveness is crucial for employees' and organizational effectiveness. Baguley's (1994) placed emphasis that

4
right service at the right place can lead to organizational effectiveness. Complexity and competition in today’s business environment require companies to raise their effectiveness. It is well known fact that organizational effectiveness is very critical for the success and to excel. How to improve organizational effectiveness and what are the factors affecting organizational effectiveness is a difficult question to answer.

1.2 APPROACHES OF ORGANIZATIONAL EFFECTIVENESS

As we stated earlier, that organizational effectiveness attracted the attention of research scholars and practitioners for the last few decades. The researchers are struggling to suggest an acceptance approach to measure the organizational effectiveness. They have proposed a number of models and approaches to be used as a measure for organizational effectiveness. These models as suggested by various scholars have been classified into four categories-

Goal Approach

Goal approach as suggested by David and Stanley (1999) and Steers (1977) emphasizes that effectiveness of an organization can be measured in terms of accomplishment of business goals or objectives. In other words goal approach is the method of measuring organization effectiveness. More the organization’s output achievement more effective will be the organizations. The goal of an organization if achieved the organization can be referred to as effective. The major limitations of this approach is that organizations can have multiple or intangible goals.

Systems Approach

As we all know that organizations work in a social system. Hence the systems approach proposed as proposed by Evan (1976), Argyris (1964), Yutchman and Seashore (1967) and Pearson is an appropriate measure of
the effectiveness of an organization. The systems approach emphasizes that organizational effectiveness can be measured in terms of its ability to acquire inputs, process these inputs, channel the output, maintain stability and balance.

Internal Process

Rensis Likert (1950), Steers (1975) and Cameron (1981) have advocated that internal process approach can be used for measuring the organizational effectiveness. This approach emphasizes that internal variable like trust, teamwork, concern, leadership and communication are the various factors that affect organizational effectiveness and can be used for measuring organizational effectiveness.

Multiple Constituency Approach

This approach lays emphasis on degree to which an organization respond to demand and expectations of its strategic constituencies or its stakeholders as criteria of effectiveness. Various scholars who have contributed towards this approach are Conolly, Penning sand Goodman, Zammuto(1982)^18 Laxmi, Roy and Yadav,(1982).^19

1.3 MEASURING THE ORGANIZATIONAL EFFECTIVENESS

As, mentioned earlier, the organization effectiveness attained the prominence about five decades ago. There is an old business saying that whatever can not be measured can not be managed. The competition and complex business environment in today's business scenario makes it compulsory for the organizations to be effective. It attracted the attention of academicians, practitioners and administrators only when it was realized that organizational effectiveness can be measured in terms of the accomplishment of objectives for which organizations were created .It is heartening to note that the organizations are created with multiple objectives.
Field suggested that organizations must respond to environmental factors if they wanted to be effective and achieve its goals. He proposed various models for measuring organizational effectiveness such as rational goal model of effectiveness, open system model, internal process model, human relation model, completing value model, strategic constituencies' model, legitimacy model, fault driven model, high performing system model. These models provide for the path which can be used for measuring effectiveness of organization.

Likert(1967)\(^{20}\) is of the opinion that there are three variables that determine the effectiveness of an organization. These are casual variables, intervening variable and output or end result variables. Casual variables are those factors that influence the course of development within the organization. These include leadership strategies, skills, and behavior and management decisions. Since these are the internal variable, hence, management can alter these. Intervening variables represent commitment to objective, motivation and morale of its members. These manifest the current conditions of the internal state of the organizations. Whereas output or end result are the dependent variable that reflects the achievement of the organization. Majority of the managers evaluate the effectiveness of organization in terms of output alone. Thus the effectiveness of business managers is often determined by net profits. Fiedler and Reddin have echoed the similar viewpoints. Fiedler(1967)\(^{21}\) in his studies evaluated leader's effectiveness in terms of group performance. Reddin argued that the effectiveness of a manager can be measured objectively by his profit centre performance.

Various arguments were given by research scholars from time to time to determine the factors responsible for organizational effectiveness. Bass(1952)\(^{22}\) believed that profit and productivity can not be the only criteria for organizational effectiveness. Apart from these two variables effectiveness
of the organization can be evaluated by measuring its worth to its member and society as a whole. In other words, the perception and worth of organizations for society and its people can be the other criteria of organizational effectiveness. The fact was further supported by Brown (1955)\(^{23}\) by emphasizing that organizational effectiveness is influenced and determined by administrative situation, speed, and efficiency with which decision are taken. Quality of efforts also plays an important role in organizational effectiveness.

Caplow (1953)\(^{24}\) further added to the research on organizational effectiveness saying that performance of functions, conflicts minimization and maximization of individual satisfaction in the organization are the determinants of organizational effectiveness. The alignment of subsystems of the organization also improves effectiveness of the organization. It's not only the internal factors that determine and affect organizational effectiveness; external factors like customers, suppliers, union, and voluntary association are equally important. The idea was supported by Mohr\(^{25}\) and Perow saying that effectiveness of organization is a function of goodness of fit between organizational structures.

William J. Reddin also suggested the same viewpoint. He further added that effectiveness of a manager should be measured objectively by his profit centered performance. Therefore, organizational effectiveness can be measured in terms of its performance in the area of production, market share, customer satisfaction, etc. On the basis of this, we are of the opinion that organizational effectiveness is measured on the basis of various parameters. These parameters are not same for all the organizations but can be characterized into various groups. In the opinion of Gilbreth and Ali (2000)\(^{26}\) for those organizations which are quality-focused organizational effectiveness is the relationship between systems within the organization.
and their effects on the quality of the services and product offered to the external customers, so it can be inferred that internal structure and process is one of the important factors affecting organizational effectiveness. Rodsutti and Swierczek\(^ {27} \) stated that internal and external criteria can be used to measure organizational effectiveness. In external approach organizational goal attainment can be used to assess organizational effectiveness. Internal approach focuses on the productivity and employee satisfaction. The goal attainment model is criticized by various scientists due to difficulty in defining goals especially in service and non-profit organizations.

Organizational characteristics such as structure, leadership style, management processes, employee attitude and behaviors are some of the major factors that affect organizational effectiveness. It was added by Hamid (1999)\(^ {28} \) that apart from these variables goal clarity, adequacy of planning, quality of information & communication and sound organizational structure are important factors affecting organizational effectiveness. Some researchers argued that organizational effectiveness can be measured by members of dominant coalition.

Apart from these factors some other factors have also been identified by the scholars. Dean and Yunus (2000)\(^ {29} \) identified that the global outsourcing if implemented well can also be one of the factors that improve organizational effectiveness. The researchers have proposed internal and external variables that influence the organizational effectiveness. In our study we would be taking up both internal and external variables for determining the organizational effectiveness. According to the factors like process mapping and measurement, process improvement, expert facilitation of internal interventions, productivity improvement, monitoring and evaluation, measuring and assessing climate & culture, improving
communication process, team building and improving organizational structure, can improve organizational effectiveness.

Bhargava and Singha (1992) proposed a model for organization effectiveness. According to the model, organizational effectiveness can be predicted on four criteria, i.e., production, commitment, leadership, and interpersonal conflict. Leadership is the degree of influence and personal ability. Interpersonal conflict is the degree of perceived misunderstanding between supervisors and subordinates. Production refers to flow of output. The another model was proposed by Ridley and Mendoza (1993). According to this model, there are eleven key processes that contribute to organizational effectiveness. They are organizational survival, maximization of return, self-regulation, and internal-external boundary permeability, sensitivity to status and change, contribution to constituents, transformation, promoting advantageous transactions, flexibility, adaptability, and efficiency.

Jackson (1999) proposed another model of organizational effectiveness for non-profit organizations. He proposed that management experience, organizational structure, political impact, board of directors' involvement, volunteer involvement, and internal communication play an important role in predicting organizational effectiveness. Some research scholars emphasized that job satisfaction and customer satisfaction play an important role in organizational effectiveness. The idea was supported by Cobbenhagen (1999) and Cottam (2001). Cottam further emphasized that employee satisfaction, creativity, improved problem solving and decision making, lesser stress, improved personal and work relations can lead to profits and sales, leading to organizational effectiveness.

Pennings and Goodman (1977) referred that absolute level of either input acquisition or outcome achievement can be called as organizational effectiveness. Sowa et al. (2004) proposed a multidimensional model which
can be used to measure the organizational effectiveness. This model emphasized that effectiveness can be measured on two dimensions management and program. The assessment of the capacity and outcome in each dimension can give an idea of effectiveness. Capacity refers to program, activities and processes through which employees activity are directed and outcomes are the result produced by the management and program activities.

Morley (1990)\textsuperscript{37} developed some principles of organizational effectiveness. According to his viewpoint organizations can adopt some principles for its operations that will lead to organizational effectiveness. These principles are selecting cohesive teams, organizing controlled convergence to solutions that everyone understands and accepts, organizing vigilant information processing, avoiding premature consensus, maintaining the balance between individual and group work and allowing individuals do the things that they can do the best. Organizational effectiveness can be achieved if every individual possess behavior, attitude and knowledge to achieve personal and organizational success.

Training and learning is another important component for organizational effectiveness. Training should be linked with business requirements. Chien further suggested that organizational effectiveness can be improved by training, learning, good communication, adaptability, development and linking individual and organizational success. However, some scientist like Gary Cherniss(2008)\textsuperscript{38} feel that emotional intelligence is the another factor that play an important role in the organizational effectiveness. The leaders who are emotionally intelligent can influence and maintain good relationship with employees. Emotional intelligence influences organizational effectiveness by influencing areas like employee recruitment,
development of talent, team work, employee's commitment, innovation, productivity, efficiency, sales, quality of service, customer loyalty etc.

Weick(1977) noted that effective organizations are characterized by diversity of linguistic forms, techniques to breakout normal cognitive and discrediting information received and structural units that are loosely articulated to maintain sensitivity to environment and diversity responses. That means that flexibility and good flow of communication are the contributing factors in organizational effectiveness.

Peter and Waterman (1982) explained eight principles that can lead to organizational excellence. A bias for actions (prioritizing), staying close to customers, autonomy and entrepreneurship, productivity through people, executive should keep in touch with firm’s essential business, stick to remaining in the business company best known, simple form, lean staff- few administrative layers, simultaneous loose tight properties i.e maintaining flexibility can lead to organizational excellence. Organizational climate also play an important role in affecting organizational effectiveness. The various factors like structure, responsibility, reward, risk, warmth, conflict have a relationship with organizational effectiveness.

Newton on the other hand highlighted that a mutual understanding between board of directors & management is another important factors for organizational effectiveness. Conflict and tension between board and management can lead to ineffectiveness of the organization. The fact was further supported by Carver (1997) and Taylor (1996) saying that board and management relation is important for organizational effectiveness. The criteria of organizational effectiveness measurement can be broadly classified into two categories tangible and intangible. Tangible criteria refers to quantitative measurement such as performances in finance, sales, manufacturing, purchasing and profit. The tangible criteria was supported
by Benge (1952) while Likert supported intangible criteria. He proposed criteria like employee morale, leadership etc.

Web (1974) proposed a general model of organizational effectiveness based on four indicators of organizational effectiveness namely cohesion, efficiency, adaptability, efficiency and support. Organizational effectiveness reflects the internal functioning of enterprises. Mainsail Associates (2009) encouraged the use of systems model which emphasizes that leadership, structure and support are the important components of organizational effectiveness. Some scientists have also identified emotional intelligence as one of the factors that affect organizational effectiveness.

Cameron (1986) identified five major predictors of organizational effectiveness. These are institutional demographics, institutional strategies, institutional structure, institutional finances and external environment. Reith (2003) emphasized that the permeability of the authority boundary is also an important factor for improving organizational effectiveness. It was also observed by various scientists and research scholars that collaboration among employees play an important role in organizational effectiveness. There is a little difference between the organizational effectiveness criteria of profit and non-profit organizations. Forbes (1998) emphasized that goal attainment, system resource, reputation, competing value and emergent approach are the five approaches that can be used to measure organizational effectiveness.

Knowledge sharing was identified as one of the factors affecting organizational effectiveness by Spinello (2000), Goh (2002) and Sveiby's (2001). They further proposed that knowledge sharing enables individual's learning in the company and also enhances the capability of employees leading to organizational effectiveness. Quinn & Rohrbaugh
(1983) proposed a human relations model (which emphasize on the morale and human resource development), open system model (readiness, growth and resource acquisition), rational goal model (planning, goal setting, productivity and efficiency) and internal process model (role of information management, communication, stability and control).

Cameron emphasized that evaluating the effectiveness of an organizational is not difficult as various approaches are available but the selection of right approach is of utmost importance. He further proposed that there can be four approaches for measuring organizational effectiveness. First approach is how well an organization is accomplishing its objectives. Second approach is systems approach which emphasizes on the extent to which organizations acquire its needed resources. Third approach is focused on the effectiveness of internal processes. Fourth approach is based on how effectively organizations respond to the demands and expectations of its strategic constituencies.

Jamrog and Overholt (2004) emphasized that HR Practices have an impact on organizational effectiveness. Hence, in order to improve the effectiveness, the HR systems and practices should be improved. It was emphasized by some scholars that there are three main constituents of organization namely owners, employers and customers. The combined level of these three constituents can be defined as organizational effectiveness. The satisfaction level of ownership will come in term of productivity, survival and expansion and customer satisfaction in terms of product quality.

Mckenna et al (2002) strongly argued that behavior style of individuals is one of the factors affecting organizational effectiveness. They further emphasized that organizational citizenship behavior improves individual performance leading to organizational effectiveness. So it can be
inferred that behavior of employees working in the organization also have an
impact on organizational effectiveness.

Numerous problems have been highlighted by various scientists in
measuring organizational effectiveness. Researchers are not willing to
accept any arbitrary criteria of effectiveness. The criteria of organizational
effectiveness become difficult to decide in those organizations that don’t
have well defined goals. It can further be stated that numerous scientists are
involved in the study of organizational effectiveness and try to measure it in
different ways. Various models and criteria have been proposed to measure
the organizational effectiveness. Each model or method have its own
advantages or disadvantages. Therefore, deciding an appropriate method or
model for measuring organizational effectiveness becomes very difficult in
such a situation. Banking being a service sector the financial criteria cannot
be the appropriate to predict organization effectiveness.

The model proposed by Rensis Likert to measure organizational
effectiveness can also be used to measure effectiveness of banking sector.
After extensive research on human behavior within the organizations, he
concluded that there are four systems of management. These are exploitive
authoritative system, benevolent authoritative system, consultative system,
participative (group) system. Likert further stated that if an organization has
to achieve optimum effectiveness then the “ideal” system to adopt is
Participative (system 4). In participative management system manager have
complete confidence in their subordinates. There is lots of communication
and subordinates are fully involved in the decision making process.
Subordinates comfortably express opinions and there is lots of teamwork.
Teams are linked together by people, who are members of more than one
team. Likert calls people in more than one group “linking pins”. Employees
throughout the organization feel responsible for achieving the organization’s
objectives. The organizational effectiveness refers to the worth of success of an organization. It is not just enough to measure organizational effectiveness but the need of the hour is to manage organizational effectiveness to achieve organizational excellence.
REFERENCES


