

5

ORGANIZATIONAL GOALS

After studying this chapter, you should be able to:

- A Identify why organizational goals are important to managerial activities.
- A Discuss the three types of organizational goals and how they are applied to the managerial hierarchy.
- A Describe the factors that influence the goal formulation process.
- A Discuss the various techniques managers use for managing multiple goals.
- A Recognize the distinction between organizational efficiency and effectiveness.
- A Identify the various approaches managers use for assessing organizational effectiveness.
- A Apply criteria for assessing organizational effectiveness.

All organizations have goals that direct activities of members. An organizational goal is defined as a desired state of affairs which the organization attempts to realize.¹ Organizations can differ widely in activities that are directed toward goal achievement. Also, goals will often change as the organization grows or faces new situations in the environment. For example, if we examine organizations in a single industry, goals may differ depending on organization size and growth. A new computer software firm may emphasize a goal of survival in its first years of operation. A more established firm in the computer software industry may have goals of greater growth and profitability. Other computer firms may have goals of achieving dominance in the industry or recognition for quality software products. Managers of a hospital, on the other hand, may establish goals of providing low-cost health care, avoiding labor strikes, and recruiting the best graduates from medical schools.

It is important for managers to understand what goals are appropriate for their organizations. Goals are important because they provide members with a direction in which the organization desires to move. Goals also assist managers in the selection of strategies and the identification of department and member objectives; they inform the public as to the organization's intentions; and they provide a basis for judging the effectiveness of the organization's activities.

This chapter will examine the role that organizational goals and effectiveness play in directing managers toward successful outcomes. We will determine why goals are important and identify types of goals. We will also suggest techniques for managing multiple goals in an organization. Finally, we will introduce a framework for judging organizational effectiveness.

1. A. Etzioni, *Modern Organizations* (Englewood Cliffs, NJ: Prentice-Hall, 1964), 6:

This chapter will also provide the foundation for our discussion of strategic management in Chapter 6 and the planning function of management in Chapter 7. We will learn that organizational strategies evolve from goals and that planning is a direct outcome of the strategy organization managers select for their organizations. Figure 5-1 provides a model depicting the relationships between an organization's environment, goals, strategies, and plans. As depicted in the figure, managers make decisions that establish organizational goals. These decisions are made in regard to the conditions in the organization's environment as described in Chapter 4.

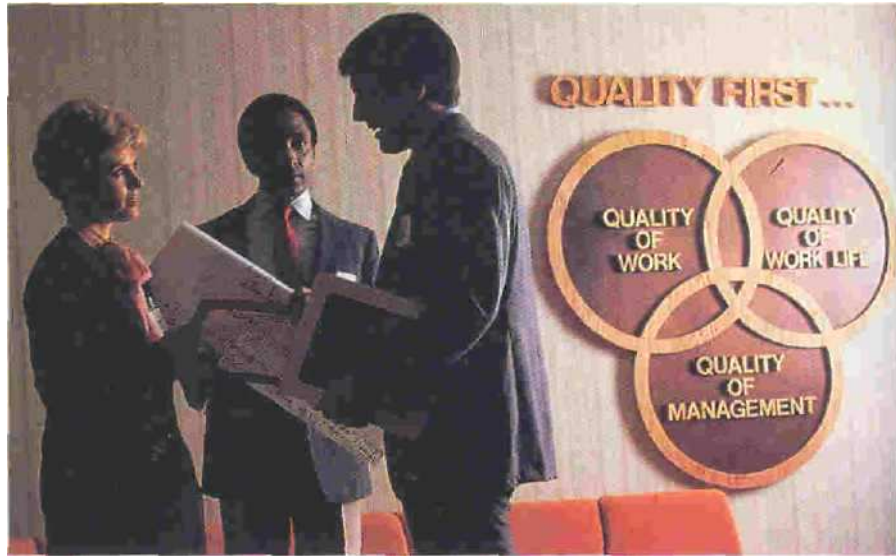
Figure 3-1 **RELATIONSHIPS AMONG AN ORGANIZATION'S ENVIRONMENT, GOALS, STRATEGIES, AND PLANS**



THE IMPORTANCE OF ORGANIZATIONAL GOALS

After examining an annual report or reading a charter of an organization, many individuals come to the conclusion that the goals stated in these documents are simply "for show." Phrases such as "produce a quality product/" "seek growth/" "innovative leadership," "high profit," or "enhance humanity" appear to be more the work of a creative marketing director than the substance of what top organization managers are really

It is important that managers define and communicate organizational goals to members and to society.



trying to accomplish. While in some instances managers do ignore the stated goals of the organization, It would be wrong to assume that stated goals are of little or no importance to the activities of the organization. Organizational goals have two major functions. First, goals affect the way the organization relates to the environment; that is, the presence of goals serves to clarify organizational activities and their connection to other organizations, groups, and individuals in the environment. The second major function of goals concerns their importance to the internal activities of the organization. Goals provide managers and members with knowledge of task scope, decision guidelines, methods of motivation, performance criteria, and a rationale for organizing. These attributes of goals serve to generate member commitment and increase identification with the organization. Therefore, one responsibility of management is to define and communicate organizational goals to members and to society.

External Importance of Goals

Goals are important for relating the organization to its environment. Goals provide information about the purpose, mission, and legitimacy of organizational activities.

Purpose. The **purpose** of an organization is the broad intent or reason for the organization's existence. We can view the purpose of an organization as the desire to provide a good or service and to survive. Without some purpose, the organization need not exist. Goals serve to emphasize the purpose by announcing to society what the organization's

intentions are, The purpose of the Chicago Museum of Art is to expose patrons to artistic productions. The purpose of the Chicago Bears football team is to earn a profit for the team's owners. The purpose of the state of Florida is to provide citizens with social services and protection.

Organizations, however, must continually contend with survival. For some organizations, particularly newly created ones, survival is the ultimate goal. However, there have been many instances when more mature organizations were unable to achieve the goal of survival. Braniff Airlines, W. T. Grant, and Burger Chef are examples of such organizations. On the other hand, some organizations are created with the expressed intent of undergoing demise. Many real estate partnerships schedule a self-liquidation program after so many years of operation with hopes of an adequate return on investment for the owners. Political campaigns designed to elect officials often cease operations the day after the election. The desire to cease operations, however, does not necessarily mean the organization is able to discontinue its activities. The Committee to Re-elect the President was formed in 1970 to elect Richard M. Nixon to the Presidency but did not formally stop operating until 1985, 13 years after the election was over!

Who determines what is the purpose of an organization? Initially, the purpose of an organization is determined by the creators of the organization. Over time, managers may change the purpose if significant change in the environment or activities is anticipated. For example, during World War II, many manufacturing firms changed their purpose from generating owner profit to supporting the Allies through weapons production. When the war ended, the firms returned to their original purpose of profit generation. Hence, a temporary change in the organization's purpose was made by management.

Mission. Identification of an organization's purpose leads to the creation of a mission. Organizational **mission** is defined as the path managers elect to pursue in order to achieve the purpose. Many organizations have the purpose of making a profit for the owners. But multiple paths can be pursued in order to achieve profit. Should the organization produce computer software? baseball mitts? supersonic jets? In determining the mission of a business organization, founders or managers identify a product and a market in which to pursue customers. Specification of the product and market can be stated in broad or narrow terms. A company, for instance, may define its mission as that of an oil producer or energy producer. The former focuses the organization on consumers of oil. The latter focuses the organization on energy production which may include oil, water, sun, or wind as sources of power. Goals, in the form of the organization's mission, serve to direct managerial attention to the needs and wants of a group of customers that it desires to reach.

Selecting an organizational mission is a critical decision. Stuckey's Inc., a restaurant chain, saw its mission as providing "convenient, moder-

ately priced home cooking" to travelers along the interstates. The company enjoyed tremendous success until the late 1970s when interstate travel decreased and consumer tastes shifted to more gourmet cuisine. By defining its mission as servicing interstate customers rather than dine-Out customers in general, Stuckey's was forced to close most of its interstate facilities. Thus, an organization's mission may be broadly or narrowly defined by management. The choice can have a significant and long-lasting effect on an organization's ability to achieve its purpose. Goals should not only specify the customer the organization desires to reach, but also should be updated and modified by management according to changing conditions in the external environment.

Legitimacy. **Legitimacy** is the acceptance of the organization's activities by nonmembers of the organization. Organizational goals are important for legitimizing the activities of the organization to important elements in the external environment. In the United States, many organizations achieve initial legitimacy through governmental granting of a legal charter. Legal charters differ based on how government views the purpose and mission of the organization. Not-for-profit organizations are granted charters that enable managers to provide goods or services that are deemed necessary for the welfare of the society even when it results in noncompetitive pricing. For-profit organizations are granted rights to produce goods and services provided they do not engage in unfair trade practices. They also must file appropriate forms and agree to pay a percentage of their revenue to the government in the form of taxes. The stated goal serves to legitimize the intent of the organization to those constituencies in the external environment.

Organizational legitimacy always comes from factors in the external environment. Consumers legitimize an organization through purchase of its products or services. Regulatory agencies determine whether the organization has faithfully fulfilled the criteria of its charter. Unions express approval or disapproval of organizational practices. Managers must continually relate the goals of the organization to external constituents in order to avoid the loss of legitimacy.

Numerous organizations have had to face a "crisis of legitimacy." Firms in the cigarette industry have had to contend with published medical research linking smoking with cancer. As a result, the government has decided that advertising of cigarettes on television is illegitimate. Amway, a distributor of home products, was challenged by the U.S. Internal Revenue Service concerning whether its goal was to produce and sell goods for the home or to provide a tax shelter for those granted distributorships. Bookstores selling pornographic materials have been picketed by groups claiming the material is morally and legally without justification. And some political groups that advocate overthrow of governments or hatred toward minority groups find obtaining legitimacy in the broader society problematic.

Organization legitimacy is usually a product of the cultural and legal system in which the organization operates. Many organizations, recognizing that what is not legitimate in the United States may be legitimate in some foreign countries, will move their operations outside of the United States. The formation of cartels, unlawful in the United States, is legal in many European countries. And many communist countries will not allow the formation of organizations within their boundaries if the stated goal is to make a profit for the owners.

Managers of organizations must recognize that goals serve to generate and maintain support among constituents in the external environment. Oftentimes, when managers recognize that their goal is losing legitimacy, they will seek a new purpose or mission for the organization. Philip Morris, for instance, in recognizing that cigarette production was losing legitimacy, redefined its mission from that of a tobacco producer to that of a producer of consumable goods. As a result, the firm entered the beer industry through the acquisition of Miller Brewery, obtained Barbasol shaving cream, and has placed greater emphasis on the sale of cigarettes in overseas markets where smoking is viewed to be a more acceptable practice. More recently, Philip Morris has tried to recapture legitimacy of cigarette sales as suggested in Situation 1.

SITUATION 1 On the Offensive

Philip Morris Companies, the nation's largest cigarette maker, has begun a counterattack against smoking's opponents. It has done so in the belief that public attitudes toward tobacco have grown more hostile in recent years. The company says it hopes to reverse that trend and thereby ease pressure on smokers, who are being shunted away more and more from nonsmoking areas and accused of harming other people with their habit. "We want smokers to enjoy their cigarettes in peace," says Frank Resnick, the president of the company's domestic tobacco business.

The campaign, of course, isn't entirely motivated by solicitude for smokers. Philip Morris also fears that anti-smoking pressure is contributing to the decline in cigarette consumption. Industry analysts figure that the company is fighting harder now partly because courts are trying a new wave of product-liability suits that question the legitimacy of the product and the legal responsibility of manufacturers.

The company is taking the following steps to counter claims that cigarettes are a harmful and illegitimate product:

- A It is trying to build a case that tobacco companies aren't getting a fair shake from the media.
- ▲ It portrays smoking as a civil rights rather than a health issue, in hopes of eliciting support from both smokers and non-smokers.

- A It is publishing a free quarterly magazine that it expects to reach one million smokers by the end of the year.
- A It puts inserts into cigarette packs exhorting smokers to rebel against tobacco taxes.
- A It has persuaded two law firms that represent cigarette makers in product-liability suits to hire a high-powered outside public relations expert to court the media on the liability issue.

Philip Morris's Mr. Resnick concedes that his company may be starting "ten years too late" in fighting harder against anti-smoking activists. But he is convinced that it is possible to change minds.

Λ
&

Source: Reprinted by permission of *The Wall Street Journal*. © Dow Jones

Company, Inc. (February 4, 1986). All Rights Reserved.

Internal Importance of Goals

Goals also provide important information to members of the organization. Members are informed about task scope, decision guidelines,, methods of motivation, standards of performance, and the rationale for organizing.

Task Scope. Goals can affect how members of the organization view the scope of their tasks. Consider two stock investment firms. One has the stated goal of producing a safe, low-risk rate of return for its investors. The other has a stated goal of high growth but considerable risk in returns for investors. Managers in the low-risk investment firm will focus their tasks on the search and purchase of financial instruments that guarantee a certain rate of return. One might expect the investment portfolio to be dominated by U.S. Treasury Securities or AAA bonds. Managers in the high-risk investment firm will focus their tasks on the search for and purchase of financial instruments that have a promise of high growth but little guarantee. Investment portfolios may consist of young firms in high-technology industries or firms that appear to be strong candidates for acquisition or merger. Hence, the stated goal of the organization serves to direct managers to task activities that will optimize their chances of achieving the goal.

While directing members of the organization toward desired outcomes, goals also inform members which activities to avoid. One would not, for instance, expect a financial manager handling low-risk investments to be conducting research on the options or commodities market. Goals should provide all members of the organization with a clear understanding of what tasks are appropriate and what tasks are inappropriate,

Decision Guidelines. Goals serve to establish decision guidelines for organization managers. If the stated goal of an organization is to

be responsive to customer needs, it would be appropriate for a sales manager to make decisions about the payment of purchased products. A sales manager may, for instance, decide to create a payment and shipping schedule that would conform to the customer's cash flow position. If the stated goal is to avoid accounts with the potential for delinquency, then the sales manager may have little decision opportunity to create a shipping and payment schedule other than one prescribed by upper management.

Similar to that of task scope, organizational goals serve to establish and constrain decision guidelines for organization members. Goals inform and justify to members the constraints on their decisions which ultimately should enhance the achievement of the stated goal.

Methods of Motivation. Goals provide the foundation to motivate organization members to perform at high levels. Goals serve as incentives for members, particularly when the achievement of the goal is linked directly to rewards such as promotions, salary increases, stock options, or recognition. Goals can further foster motivation through strong member identification with the purpose of the goal. Many individuals who have joined the Peace Corps were motivated not by the prospect of material rewards, but rather by a firm belief in and commitment to the goal of assisting people living in countries with harsh living conditions.

Standards of Performance. Goals provide a standard for assessing and evaluating performance. Standards can vary over time and be distributed throughout the organization. A goal of rapid growth requires upper management to establish specific standards as to what constitutes rapid growth. Upper management may examine last year's sales record and determine that a 25 percent increase in sales is needed to achieve "rapid growth." Once criteria have been established, standards can be assigned to members and their activities reflecting the expected contribution they would make to the overall goal. At the end of the year, each member would be evaluated to determine her or his degree of success in achieving the desired outcome. Thus, the organizational goal serves as a vehicle for generating and evaluating standards of performance within the organization.

Rationale for Organizing. A continual concern of managers is the creation and maintenance of organization structures. Organizational goals provide the basis for selecting the correct form and fit of structure. In an uncertain environment, managers would want to adopt structures that are loose and flexible. Organizations facing threats in the environment will try to adopt structures that will enable decision makers to mobilize resources quickly and efficiently. For instance, the armed forces have much different structures than computer software firms. The U.S. Air Force, for example, must be constantly on the alert for foreign intrusions of airspace. While a computer software firm may face threats from

competitors, it is not a life or death situation for members of the firm. Rather, survival is usually dependent on the degree of member creativity. Thus., the U.S. Air Force adopts structures that emphasize regimentation and rapid mobilization of weapons and combat units while a computer software firm adopts flexible structures that enhance member creativity.

Goals are important to an organization. They serve to link the organization with its environment by expressing the purpose of the organization, identifying the mission, and generating legitimacy with nonmembers. Internally, goals are important for providing members with a means for identifying the scope of their tasks, establishing decision guidelines, motivating members to excel, creating standards by which to measure performance, and providing a rationale for organizing. For these reasons, managers must actively communicate, articulate, and, if necessary, modify organizational goals in order to increase the overall performance of the organization.

TYPES OF GOALS

Organizations are best understood as pursuing multiple goals simultaneously. Organizational goals can be divided into three types, for which different parts of the organization assume responsibility. Top management is responsible for official goals, or those formally stated, of the organization. Middle management is responsible for operative goals, or those goals concerning operating policies of the organization. Operational goals are the responsibility of first-line supervisors and employees and have built-in standards of behavior, performance criteria, and completion time.²

Official goals are usually the most abstract and tend to be open-end goals. Open-end goals are those that lack specific measurement or time criteria for completion. Operational goals are the most concrete and are usually closed-end. Closed-end goals identify specific time and measurement criteria for the completion of the goal.³ Operative goals are usually a mix of both open-end and closed-end. They direct middle managers toward a desired outcome, but do not specify an exact time for completing the activity, nor do they provide a specific measure of performance.

The three types of goals can be arranged on a managerial hierarchy in which operative goals are derived from official goals and operational goals are derived from operative goals. Figure 5-2 depicts the relationships among these three types of goals within the hierarchy of the organization.

2. C. Perrow, "The Analysis of Goals in Complex Organizations," *American Sociological Review* 26 (1961): 854-66.

A. M. D. Richards, *Organizational Goal Structures* (St. Paul, MN: West Publishing Company, 1978)

Figure 5-2

ORGANIZATIONAL GOALS BY MANAGERIAL HIERARCHY

ABSTRACT

OPEN-END

Official Goals Top
Management

A *j\$M&: Operative Goals*
JsHHEMicidje Management

CONCRETE
^^P

J^st-liine Management

CLOSED-
END

Official Goals

Official goals are the formally stated goals of the organization as described in a charter, annual report, or policy manual. As such, they are often written in abstract terms and express the purpose and mission of the organization. Generally, official goals are abstract in content and as such are not readily measurable. Official goals also tend to be open-end in that they lack closure. That is, there is nothing in the statement of the goal to indicate to a member when the goal has been accomplished. For example, five official goals of Iowa Beef Processors, a leader in the meat processing industry, are:

- A To provide ourselves and our shareholders with controlled growth and a return on their investment consistent with reasonable risk.
- ▲ To serve real needs and to help feed a hungry world.
- A To be a responsible member of our society.
- A To provide the best of markets to our producers, the finest products to our customers, and excel in our service to both.
- A To provide a part of the jobs that are so necessary to the economic health of our home communities.⁴

The official goal statement of Iowa Beef Processors indicates that **the** firm's intentions are to: [1] obtain profits; [2] serve the world; [3] be

4. See Iowa Beef Processors, Annual Report [1978]

socially responsible; [4] produce quality products and service; and (5) provide employment. As stated, the official goals identify to constituencies in the environment a purpose [e.g., obtain profits]; a mission (e.g., controlled growth); and legitimacy (e.g., be responsible, serve needs, and provide economic health). The official goals also provide a basis for guiding members in task scope [e.g., provide the finest products]; decision guidelines [e.g., investment with reasonable risk]; motivation (e.g., serve real needs); standards of performance (e.g., excel in our service!); and a rationale for organizing (e.g., provide jobs to home communities). Thus, the five stated official goals of Iowa Beef Processors express the importance of establishing links with the environment and encourage employee commitment to and identification with the firm.

The official goal statement of Iowa Beef Processors establishes links with external constituencies and firm members. However, the wording itself does not provide specific direction or action to be taken. That is, the official goal statements are abstract. "Reasonable risk," "serve real needs," "be a responsible member," and so forth are open to debate among top managers. What is "reasonable" versus "unreasonable" risk? How are "real needs" determined? When is the company "responsible" or "irresponsible"? The official goal statements of Iowa Beef Processors are also open-end. The statements do not indicate when the goal will be accomplished. Rather, it is implied that the goals are to be ongoing concerns of top management.

Despite the level of abstraction and lack of closure, official goals can be beneficial to the success of the organization over time. The abstract wording allows top management to adapt organizational activities to changes in the environment. On the other hand, the statements restrict top management from developing some activities. For instance, the official goals of Iowa Beef Processors do make it clear that production of automobiles would be inappropriate. By stating the official goals as open-end, top management and others in the organization are informed that the goals are not to be interpreted as temporary. Rather, they are to be accomplished on a continual basis.

While top management has an opportunity to decide how goals will be accomplished, other responsibilities are important as well. Top management must set targets for middle and first-line managers in the organization. If these targets are not met satisfactorily, it is often top managers who are removed from their positions. Thus, it is important for top management to express clearly targets to be accomplished in a given year and then communicate those targets to department heads.

Operative Goals

Operative goals are the ends sought through the actual operating policies of the organization. Operative goals are more concrete than official goals and consist of a mix between closed-end and open-end dimen-

sions. Operative goals are often redefined on a yearly basis. Adjustments to the operative goal are made with information from the prior year's performance, a forecast of environmental trends, and examination of competitors' performance. Peter Drucker has identified eight types of operative goals found within most organizations.⁵

Marketing. Marketing goals address the intent of the organization with respect to what it wants to accomplish within markets. Marketing goals are usually the responsibility of a marketing or sales department. Increases in customer satisfaction, changes in products, expansion of product lines, and growth in sales are each examples of operative goals for a marketing department.

Innovation. Innovation goals are directed toward the development of new products, services, or a new manufacturing process. Innovation goals are often the responsibility of research and development or engineering departments. Innovation goals may direct the research and development department to "develop two new products" or to "reduce production waste."

Profitability. Profitability in for-profit organizations is an overall organizational concern, but also can be assigned to specific departments or profit centers. Profitability goals can be expressed in terms of return on investment, net income after taxes, or earnings per share. An increase in return on investment of a department store outlet in Fresno, California, or an increase in net income from the prior year in the sausage division of Iowa Beef Processors would exemplify a profitability goal. Not-for-profit organizations often use financial ratios to obtain profitability goals such as decreasing average expenses per client served.

Physical Resources. Physical resource goals address performance levels of the tangible assets of the organization. Plants and facilities, production capacity, inventory capacity, and the amount and quality of goods or services received from suppliers are examples of tangible assets. Physical resource goals, like profitability goals, can be assigned to many departments in the organization or to one department such as production. Additional classroom space may be a physical resource goal of a business school that is experiencing increased enrollment.

Financial Resources. Financial resource goals are concerned with the acquisition of capital to maintain organizational operations. Short- and long-term debt, accounts receivable, and payments for raw

5. P. F. Drucker, *Management: Tasks, Responsibilities, Practices* (New York: Harper and Row Publishers, 1974), 100,

materials and supplies are focuses of financial resource goals. Finance or purchasing departments would normally be assigned these goals. The repurchasing of outstanding common stock could be a financial resource goal of a firm seeking to prevent a takeover move by another firm.

Human Resources. Human resource goals relate to the recruitment and development of organization members. Human resource goals may address issues of staffing, absenteeism, turnover, training, and promotion of members. Human resource goals are often assigned to personnel departments, but also may be the responsibility of all departments within the organization. Reduction of absenteeism may be a human resource goal assigned to each department in the organization. Increasing the number of applicants with an MBA degree may be a human resource goal of a personnel department.

Productivity. Productivity goals concern the levels of output per worker. The greater the level of output per worker, the more efficient the production process. Productivity goals are common in production departments, but also can be applied to other departments in the organization. Productivity of sales forces can be determined by dividing dollars of sales by total expenses required to make the sales. A productivity goal of Del Monte foods may be to decrease costs per unit of production in the pickle packing plant.

Social Responsibility. Social responsibility goals pertain to the organization's relationship with the societies, states, or communities that are affected by its activities. Many organizations have established consumer affairs and public relations departments or foundations in order to achieve social responsibility goals. Reduction in pollution emissions, increases in minority hirings, and contributions to public television constitute goals derived from social responsibility.

The attainment of operative goals is the responsibility of middle managers who receive directives from top management. Top management derives operative goals from the official goals and creates measures by forecasting environmental trends, evaluating past performance, and examining performance of competitors. Operative goals are then assigned to the department and manager that will be responsible for their completion. It is essential that top management communicate the intent and purpose of the operative goal to members of each department.

Operational Goals

Operational goals have built-in standards of behavior, performance criteria, and completion time. Operational goals are concrete and close-ended. Operational goals inform first-line managers and members of the

organization how and when the goal will be attained. An operational goal is derived from an operative goal. The linkage of official, operative, and operational goals is referred to as the hierarchy of goals. Figure 5-3 shows the way in which official, operative, and operational goals are linked together. It is important to recognize that the accomplishment of operational goals leads to the accomplishment of operative goals, which in turn enables the organization to fulfill official goals at the top level of the organization.

Figure 5-3 THE HIERARCHY OF GOALS



Operational goals provide a concrete idea of what is expected from them. The operative goal of "increasing sales of Product A" can be rewritten into operational terms by stating "increasing sales of Product A in 1991 by 15 percent over last year through hiring five sales representatives to cover the New England states." Operational goals can be further specified, such as assigning one manager the task of locating 20 potential applicants for the sales representative job by October of 1990. Additional managers can be assigned the responsibility of segmenting sales territory in New England into five units by November of 1990. Figure 5-4 shows how Iowa Beef Processors might derive both operative and operational goals from their official goal statement.

FORMULATING GOALS

Goal formulation is a critical task for top management. Several questions must be considered by top management. What goals do they

Figure 5-4
^ POSSIBLE OPERATIVE AND OPERATIONAL GOALS
BASED ON IOWA BEEF PROCESSORS' OFFICIAL GOALS

Official Goals	
1. Obtain profits for shareholders with controlled growth. 2. Feed a hungry world. 3. Be a responsible member of our society. 4. Provide the best markets, finest pjp_duej\$, and excel in service. 5. Provide jobs to the community.	
Operative Goals	Operational Goals
L. Expand sales in markets that are profitable.	a; Hire additional sales force to sell beef in markets with a. minimum 10 percent ROI. b. Export cured beef products, to China. c. Increase advertising budget by 15 percent.
2. Send surplus meal 40. \$amirie-stricken nations.	a. Prepare plans for shipment of surplus meat overseas. b. Coordinate plans with United Nations relief programs,
3. Reduce plant pollution due to dumping of cattle slaughter waste.	a. Purchase waste dumpslte that is removed from living areas. b. Increase research budget by-'5 percent to develop water treatment hydraulics;
4. Reduce salt content of cured beef and identify important consumer trends.	a. Purchase 3 tons of low^sodium salt. b. Accelerate curing process of beef by 20 percent. e. Establish a consumer hotline to respond to consumer concerns.
5. Hire workers who: live; aeai i\$ie plants.	a. Hire workers who live within 50 miles of the plant. b. Hire workers who have been laid off the longest. c. Establish a program to project labor needs over a six-month interval.

want the organization to achieve? What goals do they believe they can achieve? The type of competition the organization must face, the availability of resources to the organization, constraints imposed on organiza^ tional activities by laws, and skill levels among members of the organiza- tion must all be taken into account in the goal formulation process. Simply the desire to be profitable and provide quality products or services to consumers is not all that should be considered by top management when goals axe formulated. Management also must have a clear understanding of the organizational context in which it operates in order to discriminate between unrealistic and realistic goals. Much of this understanding can be obtained by identifying external and internal factors associated with organizational goal formulation.

External Factors and Goal Formulation

James Thompson and William McEwen have provided a model for understanding the goal formulation process based on the organization's relationship with its environment.⁶ They stress that organizations can be placed on a continuum where at one end the organization has a strong influence over its environment and at the other end the environment has a strong influence over the organization. While most organizations reside somewhere in the middle, goals are formulated either through competitive factors or through cooperative factors such as bargaining, co-optation, or coalitions.

Competition. **Competition** implies that an element of rivalry exists between two or more organizations. Competition can exist over customers, raw materials, personnel, or social legitimacy. With competition, managers are relatively free to formulate goals based solely on competitive considerations. However, even under conditions of competition, the organization can be constrained by noncompetitive factors. Suppliers may simply refuse to sell products or services to the organization because they dislike the management of the company. Governments may constrain goal formulation by dictating what are and are not acceptable goals of the company. Or, customers may choose to purchase only products which are made in America.

Historically, large multinational corporations have come closest to organizations able to formulate goals based on competition. Recently, however, this type of goal formulation has been problematic. Opposition to apartheid in South Africa, for instance, has forced many multinational companies doing business in that country to reformulate goals based on ethical considerations. Revelations that officials of foreign governments have been bribed by managers of multinational companies have resulted in the expulsion of many firms from the host country. As a result, many companies doing business overseas have had to reformulate goals. Thus, even managers of organizations that have large influence over their environment are not necessarily able to formulate goals based solely on competitive considerations.

Cooperation. At the other end of the goal formulation continuum is cooperation. **Cooperation** is pursued by managers when other organizations in the environment have a strong influence over their organization. There are three ways to formulate goals through cooperation: bargaining, co-optation, and coalition.

6. J. D. Thompson and W. J. McEwen, "Organizational Goals and Environment: Goal-Setting as an Interaction Process," *American Sociological Review* 13 (1958): 23-31.

Bargaining, **Bargaining** refers to the negotiation of an agreement for the exchange of goods or services between two or more organizations. Managers formulate goals with respect to maintaining agreements that have been established with suppliers or buyers. Goals that may result in termination of agreements or lead to dissatisfaction among suppliers or buyers may be rejected if management believes it must continue to maintain the relationships.

The role of bargaining and its relationship to goal formulation are readily observed in negotiations between labor unions and management. Unions supply labor to an organization, usually under an agreement that is periodically renegotiated. Management must formulate its goals depending on the nature of the agreement that has been bargained with labor. For instance, the union representing baseball players has a strong impact on the formulation of goals by owners. The players' union can command strong influence largely because a substitute resource (i.e., baseball players) is not readily available.

Co-optation. **Co-optation** occurs when an organization must absorb new elements into the goal decision process as a means of averting threats to the organization's stability or survival. Co-optation constrains the formulation of goals because the desired goal must be acceptable to the co-opted party.

For instance, when Chrysler Corporation faced the possibility of failure in the late 1970s, it needed cooperation from labor in order to avoid costly strikes and to reduce labor costs. To obtain these guarantees, top management of Chrysler had to agree to accept George Fraser, then the president of the United Auto Workers Union, as a member of the board of directors. While this move alarmed many corporate executives both within and outside of the auto industry, the result was a more cooperative relationship between the union and the company. Indeed, observers have credited this move as a major reason why Chrysler was able to save itself from bankruptcy. Co-optation is also common among young, entrepreneurial firms. Often, young firms must include high executives or venture capitalists on their boards of directors in order to obtain the necessary cash to continue operations. The result is that some goals must be modified to satisfy the additional party in the decision-making process.

Coalition. In reference to external factors, **coalition** refers to a combination of two or more organizations joined to achieve a common purpose. For some organizations, the failure to locate a partner to form a coalition results in an inability to achieve a desired goal. On the other hand, a coalition usually means that the desired goal becomes compromised as each organization in the coalition seeks to formulate the goal in a manner that is most advantageous for it. Coalitions also introduce veto power which establishes further constraints on the goal formulation process.

For example, American Motors Corporation teamed up with Renault of France because AMC lacked the ability to design and produce a small car on its own that would appeal to a sufficient number of consumers. One condition of the venture was the emphasis on the Renault name over AMC which provided Renault with direct access to the United States market.

Managers need to recognize that the environment introduces constraints on the goal formulation process. While some goals may be highly desired by management, the pursuit of those goals may be infeasible without support from other organizations. Generally the larger and more dominant an organization is within its market, the more ability top management has to formulate goals based on its own desires as to what the organization should accomplish.

Internal Factors and Goal Formulation

There are several internal factors that further serve to constrain management's formulation of goals. Richard Cyert and James March suggest that goal formulation is an outcome of competing claims for resources among groups within the organization.⁷ Groups form, when organization members have identified common interests that they want to promote. The formation of groups with a common interest may be by department (e.g., research and development!; by hierarchy [e.g., middle managers),- or by distinct concerns or traits [e.g., women).

Three processes have an influence on goal formulation due to groups within the organization competing for resources. They include side payments, prior commitments, and organizational slack.

Side Payments. Side payments are inducements that can be used by groups to encourage others to join them in pursuit of their desired goals. Side payments may include money, status, privileged treatment, authority, or promises. Side payments, therefore, are the price a group pays to others to join it in support of a group goal. For example, stockholders are induced by dividends to support the goals of top management; production workers are induced through wage increases to avoid strikes; middle managers are offered promotions and more office space if they agree to support a goal; or a marketing department may be granted the opportunity to introduce a new product line if it agrees to cut back expenses in travel. The result in each case is that goals are formulated based on the number and type of side payments available to groups in the organization.

7. R. Cyert and J. March, *A Behavioral Theory of the Firm* (Englewood Cliffs, Prentice-Hall, 1963)

Prior Commitments. **Prior commitments** are guarantees or promises made to others on actions to be taken in the future. Goal formulation can be influenced by prior commitments made to groups within the organization. Prior commitments influence the formulation of goals by limiting the availability of resources used for side payments within the organization. For example, let's suppose that research and development is guaranteed an annual increase of 20 percent in its budget for the next five years to induce it to eliminate work on high-technology products. Future resources may not be available for side payments to other organizational groups, such as marketing, which may prefer the production of high-technology products. Thus, prior commitments may serve to constrain the ability of a group to influence goals in the future by diminishing its resources to make side payments.

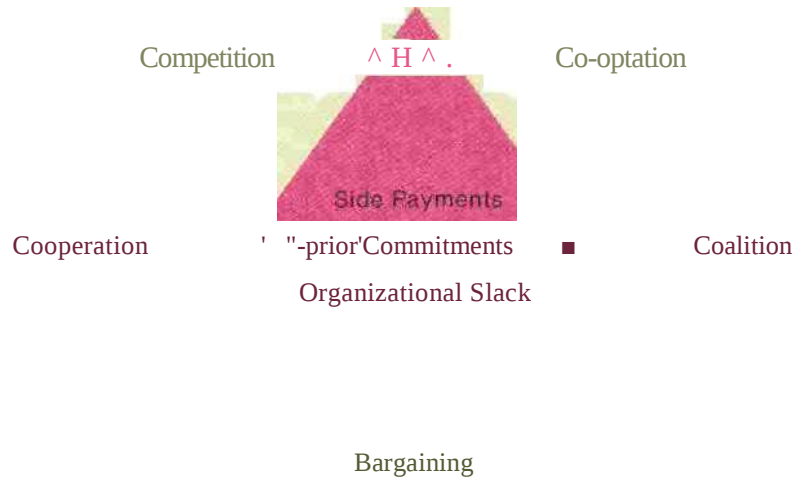
Organizational Slack. Fundamental to the processes of side payments and prior commitments is the notion of organizational slack. **Organizational slack** is the difference between the total resources available to the organization and the total side payments made to induce goal support among organizational groups. Organizational slack can be viewed as the balance of a bank account in which total resources are deposits and side payments are withdrawals. During times of excess resources [i.e., increased organizational slack], weaker groups often are able to participate in the goal formulation process as side payments tend to be generous. However, when organizational slack is low, hard bargaining between groups emerges and the weaker groups often must sacrifice the pursuit of their own goals.

The formulation of goals within organisations can be understood as the result of factors both external and internal to the organization. Managers must take account of the constraints imposed on goal formulation depending on the organization's relationship with the environment and the degree of group bargaining resulting from levels of organizational slack. Figure 5-5 depicts both the external **and** internal factors of an organization that influence the goal formulation process.

MANAGING MULTIPLE GOALS

It is apparent from our discussion that organizations have multiple goals. Often, these goals are incompatible or are in conflict. Increasing contributions to charitable organizations by a firm may cause a decrease in profits. Expanding a firm's market share can result in lower profit. Thus, managers must make decisions about the tradeoffs when the achievement of two goals simultaneously is not possible. Four techniques that managers can use to decide which goals will be emphasized when conflicts exist are satisficing, sequential attention, preference ordering, and goal changes.

Figure 5-5 INTERNAL, AND EXTERNAL-INFLUENCES ON GOAL FORMULATION



Satisficing

Managers of organizations can choose to satisfice their levels of performance across goals.⁸ Satisficing means that managers identify a satisfactory, or suboptimum, rather than optimum level of performance to be attained for each goal. This technique is most commonly used when management believes that optimum levels of performance cannot be achieved for all goals, but the organization cannot afford to fail in its performance of any one goal. Thus, managers establish acceptable levels of performance for each goal, recognizing that optimums may not be achievable.

Sequential Attention

Managers may elect to shift their attention sequentially from one goal to the next over periods of time. Sequential attention is most commonly used when certain time periods require greater attention to one goal than to others or when a crisis occurs in the organization that requires managers to redirect their attention until the problem is resolved.

8. J. G. March and H. A. Simon, *Organizations* (New York: John Wiley & Sons, 1958)

Toy manufacturers, for instance, focus their attention on research and development goals during the spring and summer months, shift their attention to production in the fall months, and shift attention again to sales before the Christmas season in December. In 1984, IBM suffered a less-than-projected sales volume of its PCjr home computer and was forced to redirect its attention to reviving sales. A concerted marketing campaign was instituted and the price of the computer was lowered. As a result, almost 200,000 PCjr home computers were sold in the fourth quarter of 1984 whereas only 75,000 units had been sold in the prior three quarters. This effort, however, did not correct the problem. After the marketing campaign ended and the price for the computer returned to its previous level, sales declined, forcing IBM to discontinue production of the PCjr computer in April, 1985. Thus, management's attention to the crisis enabled the company to obtain its sales goals for the 1984 year, but the need to shift attention to other products contributed to the demise of the PCjr in the next year.

Preference Ordering

In some situations, managers may utilize preference ordering, whereby goals are ranked according to priorities. Management may decide that maximizing profit goals is more important than maximizing market share. Maximizing market share may be considered more important than maximizing product quality. During an economic recession, managers of companies often elect to sell product lines or company divisions to other firms in order to use the cash to bolster profits, even though it means a loss in total market share. These decisions are often based on management having previously prioritized profit maximization over market share maximization.

Goal Changes

Over time, some goals become outdated or are no longer appropriate in relation to current environmental conditions. Goal changes come about as managers reevaluate goals in terms of importance or when the measurement criteria are inappropriate as a result of changes in environmental conditions. Changes in consumer tastes, governmental regulation, competition, or technology may require managers to examine the appropriateness of the goal. The three major television networks in the United States (ABC, CBS, and NBC) have long had the goal of being first in market share among television audiences. With the growth of cable broadcasting in the 1970s and 1980s, this goal has become less attractive. Expanded cable broadcasting has resulted in an overall decline in market share for the three major television networks. While being number one in market share is still a goal, it is much less of a priority than it used to be.

In some cases, goal change can be the result of success. One example is the Foundation for Infantile Paralysis which pursued the goal of developing a cure for polio in the 1940s. When the cure was developed, managers found the goal no longer had legitimacy as contributors were unwilling to contribute funds to a goal that had been accomplished. As a result, management selected the new goal of conquering birth defects and arthritis and changed the organization's name to the March of Dimes.⁹

Managers must assess the importance of the multiple goals they are attempting to achieve. If it is determined that all goals must achieve a satisfactory level, then satisficing can be pursued. Sequential attention is used when managers must shift attention among goals due to time or crisis conditions. Preference ordering can be advantageous when managers can clearly determine that one goal has more or Less importance than other goals. Finally, managers must be cognizant of changes in environmental conditions in order to make assessments as to whether a goal or its measurement needs to be changed.

ORGANIZATIONAL EFFECTIVENESS

An important concern of managers is the overall effectiveness of the organization. Organizational effectiveness can be defined as the extent to which an organization realizes its goals.¹⁰ In this section, we will discuss various methods managers can use to assess the effectiveness of an organization.

Effectiveness versus Efficiency

In the previous section, it was noted that organizations pursue multiple goals. One may assume that organisational effectiveness can be determined by comparing the actual performance with the intended performance for each goal and totaling the results. However, this would not provide a manager with an accurate picture of overall effectiveness. For instance, the organization may achieve the goal of increased market share, product innovation, product quality, consumer satisfaction, and social responsibility. Yet, the organization may fail miserably at achieving the goal of profitability, forcing the organization into bankruptcy. Because the organization achieved five of six operative goals, would a

9. D. L. Sills, *The Volunteers* [New York: The Free Press, 1957]

10. Etzioni, *Modern Organizations*, &.

Will the use of robotics help an organization improve its effectiveness, its efficiency, or both-



manager be content with this measure of effectiveness? In all likelihood, probably not.

Managers should recognize that organizational goals are not necessarily equal in importance and their importance can fluctuate over time. In addition, a measure of organizational effectiveness must incorporate factors both inside and outside the organization. If the organization were to achieve the goal of high profits at the expense of consumer satisfaction, managers of other organizations might conclude that the organization is ineffective and decide to enter the industry. Thus, the diversity and inequality of organizational goals make measurement of effectiveness a highly complex problem.

Efficiency is less problematic for managers to assess in most organizations. **Organizational efficiency** is defined as the ratio of an organization's outputs to its inputs. Inputs consist of raw materials, labor, and capital. Outputs consist of products or services. When compared to similar organizations, an organization is considered more efficient when fewer inputs are used to achieve an equivalent number of outputs. Thus, efficiency is an internal measure of organization performance which focuses on *how* the organization achieves its goal rather than *whether* the Organization achieves its goal.

Managers sometimes confuse measures of efficiency with those of effectiveness and vice versa. Generally measures of efficiency are related to organizational effectiveness, as reduced costs in production can enhance the survival of the organization. However, it should be noted that efficiency and effectiveness can be entirely unrelated. An organization may be able to produce a product at a relatively low cost, but discover that consumers have no interest in purchasing the product. On the

other hand, an organization may be able to sell its products, but the inefficiencies in production may result in the organization being unprofitable.

An example of efficiency not being related to effectiveness is provided by a computer firm named Viatron, founded in 1968. Viatron established the goals of (1) becoming a major force in the data processing industry, (2) supplanting IBM as the industry leader, and (3) generating large capital gains for the founders and investors of the company. The method for achieving these goals would be supported by the application of a relatively new technology known as MOS/LSI. This new technology was to replace the current use of transistors and would allow data processing to be conducted through terminals rather than through one large unit. Application of the new technology enabled Viatron to achieve a ten to one cost efficiency over IBM in the production of their units. However, due to a downturn in the economy in 1970, sales radically dropped and Viatron was forced into bankruptcy in 1971. The failure of the company to generate an adequate cash flow for corporate reinvestment led to its downfall despite the tremendous cost efficiencies in production it was able to achieve *over* its competition. Later, MOS/LSI technology led to the proliferation of silicon chips which were used by both Apple Computer and IBM to generate the home computer revolution in the mid-1970s."

Approaches for Assessing Organizational Effectiveness

The assessment of an organization's effectiveness is not a clear and easy task for a manager. While comparing intended goal performance with actual goal performance is perhaps the most common method, managers must also recognize that other factors have to be considered as well. Ways to evaluate overall organizational effectiveness include examining an organization's ability to acquire the resources it needs, operate in a *smooth and efficient manner, optimize goals, and satisfy external constituencies* who have an interest in the organization. We will address each of these approaches separately.

Systems Resource Assessment. The systems resource assessment of organizational effectiveness is an approach which examines the performance of the organization in acquiring the resources it needs.¹¹ Measures and evaluations of effectiveness in this approach come from assessing the organization's ability to obtain necessary inputs for transformation into a product or service. An inability to acquire necessary inputs will constrain or curtail organizational activities. New firms in

11. L. T. Hosniet, *Strategic Management: Text and Cases on Business Policy* (JEnglc-WOGd Cliffs, NJ: Prentice-Hall, 1982), 14-34.

12. E. Yuchtman and S. E. Seashore, "A System Resource Approach to Organisational Effectiveness/" *Administrative Science Quarterly* 12 11967]: 377-95.

high technology must be effective in obtaining start-up capital; bakeries must acquire flour, eggs and other ingredients to continue operating; airlines must purchase gasoline in order to meet schedules; and social service agencies must receive federal, state, or municipal funding to continue offering services to the community.

Determining organizational effectiveness from a systems resource view includes two important assessments: (1) the amount of resources acquired from the external environment, and (2) the bargaining position the organization has with resource providers in the external environment. The first assessment directs managers to goals that will increase resource acquisition. An example of this goal may be "to increase financial borrowing in order to expand product line," or "to increase coal reserves to avoid disruptions in production due to worker strikes." The second assessment directs managers' attention to goals that will optimize the bargaining position with suppliers. For instance, "to improve contacts with suppliers in order to obtain faster delivery time," or "to expand the number of suppliers in order to obtain a more competitive price" would constitute goals that address the bargaining position the organization has with resource providers.

Internal Process Assessment. The internal process assessment of organizational effectiveness focuses on goals related to productivity and member development. The organization is evaluated in terms of production efficiency, integration of departmental activities, satisfaction of members, and level of conflict within the organization. In other words, the effective organization from an internal process assessment is one that operates smoothly and efficiently without costly disruptions. Where systems resource assessment focuses on acquisition of organization inputs to determine effectiveness, internal process assessment focuses on how resources have been handled after they have been obtained. Lumber mills try to make use of the total tree to avoid waste; navy* personnel are given shore leave to increase morale; and building construction firms schedule regular meetings between architects and engineers to coordinate plans.

Internal process assessment of organizational effectiveness is concerned with both production efficiency goals and member goals. Sometimes these goals compete with each other, creating a dilemma for managers. Emphasis on production efficiency, for instance, may lead to worker dissatisfaction as constraints are applied to activities. Efforts to increase worker satisfaction may reduce production efficiency as members spend more time on activities that do not directly contribute to the production of a good or service. Thus, managers must make decisions concerning the tradeoffs between competing goals in order to maximize effectiveness.

Examples of goals contributing to internal process effectiveness of the organization would be "to increase employee morale by encouraging participation in production decisions," "to reduce production waste by

transferring unused materials to other departments," and "to establish coordinating committees across departments to engage in planning and resolving disputes."

Goal Assessment. Goal assessment focuses on the outputs of the organization. Outputs are the products or services that the organization produces to distribute to consumers in the environment. Output goals are usually described in terms of sales growth, market share, volume, revenues, or profits. Effectiveness is achieved when the organization has attained the desired level or target of the output goal. Business schools establish goals for the successful placement of students in jobs; television networks strive to increase their market shares of audiences; and grocery stores attempt to increase sales volume of products on the shelves.

Many organizations evaluate their effectiveness of output by comparing current goal achievement with goal achievement from a prior period or by comparing goal achievement to that of organizations with which they compete. "Increase our market share by 10 percent over last year" is a measure of a goal that compares last year's performance with this year's performance. "Increase market share to be largest in the industry" is a goal measure developed for purposes of comparison with competing organizations. It is usually inappropriate for organization managers to develop goals by setting targets based on organizations outside their industry. A five-percent increase in revenue for a restaurant may be considered effective, but a five-percent increase in revenue for a savings and loan may be considered ineffective.

Strategic Constituency Assessment. A strategic constituency assessment of organizational effectiveness places less emphasis on the inputs, the outputs, and the internal processes of the organization and more emphasis on groups that have a stake in the organization. A **strategic constituency** is any group internal or external to the organization that has more than a passing interest in how the organization performs. Stockholders, owners, creditors, suppliers, employees, communities, and customers can all be considered to be strategic constituencies of an organization. In this respect, effectiveness is determined by the degree to which the organization satisfies the expectations and demands of all these groups.

A strategic constituency assessment of organizational effectiveness is usually more difficult to make than assessments using the systems resource, internal process, and goal assessment approaches. Groups can vary widely in their expectations and demands on the organization. Stockholders evaluate the organization in terms of financial returns on their investments and members judge the organization on the quality of the workplace. Customers expect the organization to be responsive to their needs; suppliers evaluate the organization on its promptness in payment; and communities assess the organization on how the organization

improves the quality of life for the citizenry. Often the demands and expectations of these groups are inconsistent and contradictory, which reduces an organization's ability to be effective-Goals that relate to a strategic constituency assessment would be. "increase support for our service in the community/" "increase dividend payments on stock," and "be responsive to customer complaints." While many of these goals are similar to those of the systems resource, internal process, and goal assessment approaches, strategic constituency assessment measures effectiveness in terms of relative satisfaction across all groups with an interest in the organization. Hence, it is the combined satisfaction of these groups that is used to assess the effectiveness of the organization. Figure 5-6 shows the various constituents that can be important for managers in their assessment of organizational effectiveness.

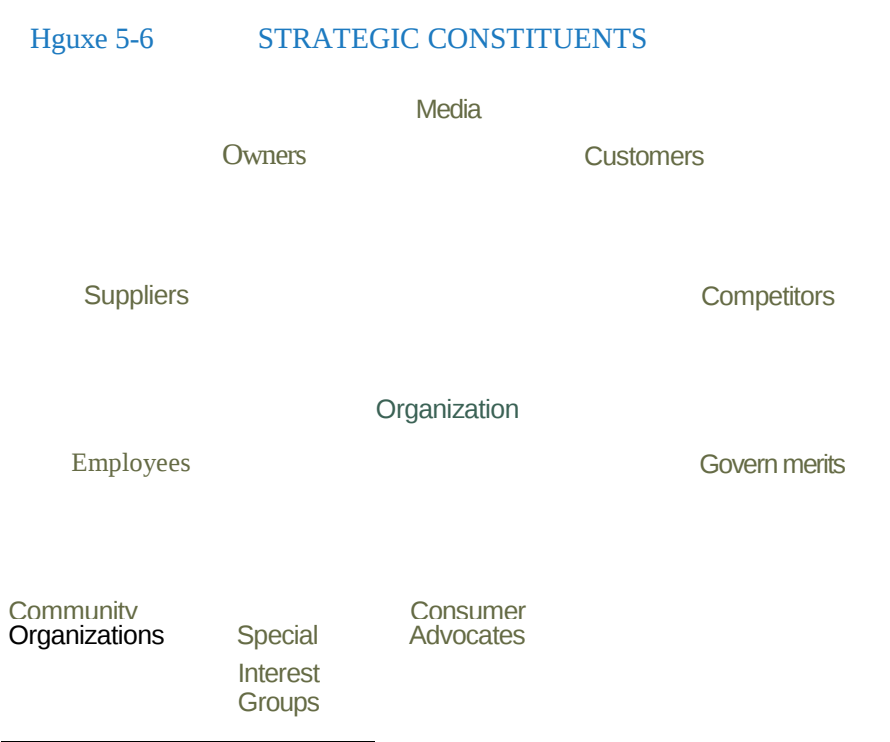
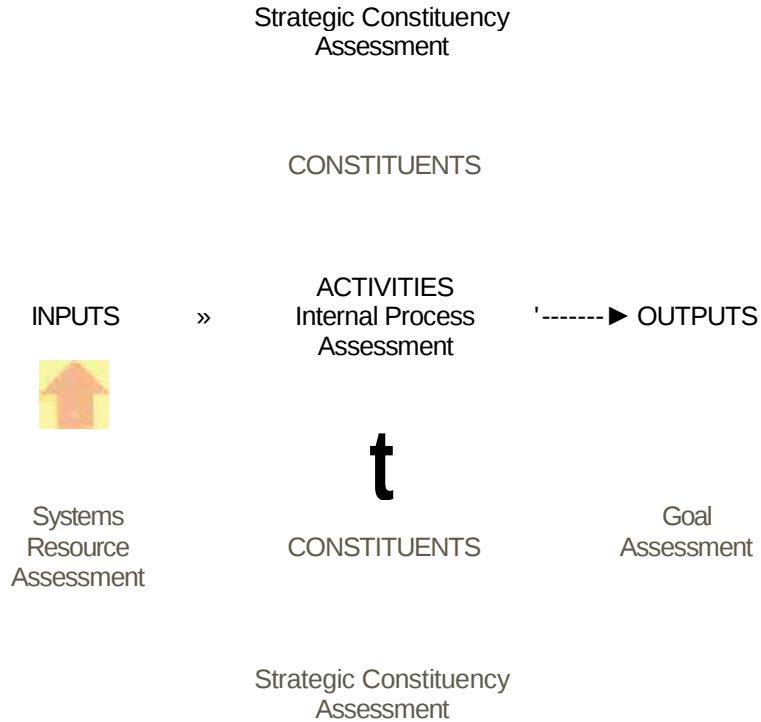


Figure 5-7 compares the four different types of effectiveness that managers can apply to their organizations. Managers are usually interested in assessing organizational effectiveness by all four approaches. At times, managers may focus on one type of assessment, depending on, circumstances. For instance, when inputs are difficult to obtain due to a lean resource environment, managers may emphasize systems resource assessment. A drop in production efficiencies may direct managers to an

Figure 5-7

COMPARISON OF FOUR APPROACHES FOR ASSESSING ORGANIZATIONAL EFFECTIVENESS



assessment of internal processes. Declining sales would require an assessment of output goals. A lessening of satisfaction among stockholders and communities would encourage an evaluation of strategic constituencies. Regardless, organization managers must recognize that the four different assessments of organizational effectiveness are interrelated. Adjustments of goals in one approach may require adjustments in other approaches to effectiveness.

Criteria for Assessing Organizational Effectiveness

Managers can raise and address several questions that will assist them in making their organizations more effective. These questions enable managers to understand and reformulate, if necessary, the criteria they use for judging effectiveness. Important questions for managers to consider are:¹³

13. R. M. Steers, "When Is an Organization Effective?" *Organizational Dynamics* (Autumn 1976), 50-63.

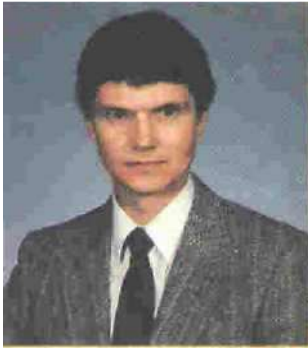
To what extent are we applying our limited resources toward *the* attainment of our various goals? In many instances, resources are allocated throughout the organization without recognizing that the goals may be independent of the allocation. As a result, goals may be "unfunded" or activities that fail to support a goal may be "funded." This may be the case, for instance, when quality control inspectors are hired to evaluate the product or service of an organization but funds necessary to travel to different plants may not have been allocated. Or, funds may be allocated to a research and development department to purchase new equipment that is unrelated to the development of new products.

Is there a clear relationship between the amount of resources we spend on the various goals and the importance of each goal? If the organization is committed to increasing profits and generating community support and these two goals are considered to be equal, is the commitment reflected in the allocation of resources? That is, sufficient resources should be provided to both goals to enhance the chances of their being accomplished. What kind of return on investment, per goal, are we getting on our resources? Some organizational goals considered to be more important may have a lower return on investment than lesser goals. Generally managers prefer that more important goals have a higher return on investment than those goals considered to be less important. Where returns are lower, managers must make decisions in terms of continuing the pursuit of the goal or locating methods that will increase the return on investment. For example, funding lobbying efforts in Congress to obtain favorable trade restriction laws may have a low return on investment, but the need to have contact with legislatures may outweigh the desire to obtain higher returns. Is the entire organization working together for goal attainment? It is often the case that departments or groups in the organization engage in activities that are more beneficial to them than to the overall organization. While this need not be a factor that reduces opportunities for goal attainment, management must determine its impact and make adjustments accordingly. For instance, marketing personnel may have a greater interest in conducting consumer research than in promoting sales as the former provides members more job autonomy and is more related to their skills. However, it may result in poor sales and revenue performance.

Is the "fit" between the organization and its environment changing? Environments are often unstable for organizations over time. As the environment shifts, so also should the goals of the organization. Managers need to raise questions continually about the nature of the environment and how the organization

Academic Profile

KIM S. CAMERON



Kim S. Cameron (Ph.D., Yale University) is Associate Professor of Organizational Behavior and Industrial Relations and of Higher Education at the University of Michigan. Professor Cameron's teaching and research interests include the study of organizational effectiveness and the evaluation of institutions of higher education. In addition to the authorship of several books, his research has been published in *Administrative Science Quarterly*, *Academy of Management Journal*, and *Academy of Management Review*. He is a consultant to many organizations in the public and private sectors. Previously, Professor Cameron was the director of the Organizational Studies Division at the National Center for Higher Education Management Systems.

Q: What are the most critical measures of organizational effectiveness that a corporate manager should understand?

A: It's important to understand that there are no universal measures of organizational effectiveness. The whole history of organization studies has been an analysis of the changing criteria of effectiveness. For example, an early perspective on organizations characterized them as bureaucracies and hierarchies where organizations were assumed to be effective if they were efficient, smoothly running, and rational. In reaction to that view, another perspective arose that shifted the emphasis to human relations in organizations where cohesion, morale, and individual development predominated. Different criteria of effectiveness were valued as people's definitions of an organization changed. Modern organizations are faced with multiple constituencies demanding attention to multiple (and often contradictory) criteria of effectiveness. No organization, according to my research, can satisfy all constituencies and meet all criteria. Therefore, savvy managers identify and legitimize the criteria of effectiveness on which their organization excels and on which they can personally get the most mileage in terms of resources, visibility, and career advancement. Q: In your discussions with corporate managers, what areas of concern seem to be most prominent and recurring? What problems in regard to effectiveness and the accomplishment of goals seem to be the most difficult to solve?

A: There are two different answers to these questions. One relates to the individual firm, the other to American industry in general. On the firm level, managers seem to be concerned about two main things. One is the lack of innovativeness and

creativity in their organizations, and the second is the dearth of interpersonal skills among middle managers. Skills such as interpersonal communication, motivation, and creative problem solving are seen as being too little in evidence in firms. On the industry level, some managers think that America is currently engaged in World War III, not on the battlefield, but in the marketplace. Unfortunately, many think that American industry is not coming out on top. The threat of global competition, the loss of our industrial base, and the short-term profit orientation of corporate America is beginning to emerge more and more as the central concern of senior managers in my conversations with them. Q: We are in a period when organizational effectiveness in the United States has become a central focus of concern among managers. How might managers better prepare themselves to maintain or increase levels of organizational effectiveness?

A: Recent articles in the popular press have identified the erosion of global market share and profitability among many industrial and manufacturing companies in America. One main reason for this erosion is ineffective management and inattention to multiple criteria of effectiveness. To counter this trend, managers need to increase their awareness of a variety of issues ranging from global competition to the strategic role of human resource management. One good way to increase such awareness is through management education and development programs offered through universities. Not only can such programs provide the latest theoretical and empirical work on management and organizational effectiveness, but sharing with colleagues from other organizations can also prove enlightening to managers.

is situated in relation to its competition. Iowa Beef Processors must continually monitor consumption patterns of consumers to determine shifts in beef consumption to chicken or fish consumption. If changes in consumption patterns appear to be developing, then the firm must reevaluate its goals and adjust them accordingly.

IMPLICATIONS FOR MANAGEMENT

Goals are important to members and nonmembers of the organization alike. As a manager, you should establish and communicate the organization's goals clearly to external constituents in order to obtain and maintain legitimacy for the organization's activities. Goals should be communicated clearly to members so they will understand how their tasks contribute to the organization and will recognize what are acceptable and unacceptable standards of performance. Many organizational activities fail or do not accomplish the goal they were designed to achieve, because managers have not communicated clearly their purpose or informed members of their importance. This emphasis on goal communication should not be confined to your immediate subordinates. Rather, you should be attentive to the way in which official goals at the top of the organization are translated down to the operational level as well.

The formulation of goals is a critical activity in the organization. Many managers fail to recognize that many external and internal contextual conditions influence the way goals are formulated. Before formulating a goal, you should first determine the competitive strength of your organization. If your organization is a dominant force in the industry, then goals should be formulated based on maintaining your competitive edge. If your organization is in an industry dominated by bigger competitors, you may want to formulate goals that will maintain cooperative agreements with suppliers and buyers.

As a manager you will want to identify which of multiple goals are of the greatest importance. It is useful, for instance, to prioritize goals based on what activities are most critical to the success of the organization. The prioritized goals should be discussed with other managers in order to achieve consensus as well as to inform them of activities that should receive greatest attention over the course of time. Be cognizant of when goals need to be changed, and be sure to inform other members of the organization why the change is being made.

Assess the effectiveness of the organization using different approaches. Use the systems resource approach for assessing input goals, the internal process approach for assessing activities in the production of

goods or services, the goal approach for assessing output goals, and the strategic constituency approach for assessing goals related to groups in the broader environment. You may find a large degree of success in three of the four approaches for assessing your organization's effectiveness, but poor effectiveness in the fourth approach may result in organization failure.

KEY TERMS AND CONCEPTS

bargaining
closed-end goals
coalition
competition
cooperation
co-optation
hierarchy of goals
legitimacy
mission
official goals
open-end goals

operational goals operative
goals organizational
effectiveness organizational
efficiency organizational
goal organizational slack
prior commitments
purpose side payments
strategic constituency

REVIEW QUESTIONS

1. What are the two major functions of organizational goals?
2. How do an organization's purpose and mission differ? How are they similar? How do goals lead to legitimacy of an organization? Who grants the legitimacy?
3. What five important types of information do goals provide members of the organization?
4. Identify the three types of organizational goals and tell where they are assigned along the management hierarchy.
5. What is the difference between an abstract and open-end goal versus a concrete and closed-end goal?
6. What are operative goals? Identify the eight types of operative goals that Peter Drucker found within most organizations.
7. Define the term *hierarchy of goals*.
8. Under what conditions are organization managers likely to formulate goals based on competitive considerations? Based on cooperative considerations?
9. Define the terms *side payments*, *prior commitments*, and *organizational slack*. How do they influence goal formulation within the organization?
10. Identify four techniques that managers can use for deciding which of several conflicting goals will be emphasized.
11. What are the reasons why actual member activities do not lead to intended goals?
12. Define organizational effectiveness. How does effectiveness differ from efficiency?

13. Identify the four approaches managers can use for assessing organizational effectiveness. What organization activities does each approach assess?
14. What are the five important questions that enable managers to understand and reformulate the criteria they use for judging organizational effectiveness?

CASE 5 ▲ America's Most Admired Corporations

Companies come and go in the ranks of the most admired U.S. corporations, but IBM marches steadily onward in the vanguard. It is No. 1 for the fourth year in FORTUNE'S annual survey of corporate reputations. Bringing up the rear as the least admired of 292 companies ranked is Financial Corp. of America, a diversified financial company.

The survey covers the largest companies in 31 industry groups, six more groups than were surveyed last year. Just behind IBM, five companies made repeat appearances among the most admired. Coca-Cola kept a place among the top ten, despite the drubbing its reputation for astuteness took after it first reformulated Coke to give it a new taste and then was forced to bring back the old formula, now dubbed Coca-Cola Classic. Other repeaters: Minnesota Mining & Manufacturing [3M], which replaced Coca-Cola as the second-most-admired company, Dow Jones, Merck, and Boeing. The rest of the top ten are new. They include Rubbermaid, the smallest company to ever rank that high (1984 sales: \$566 million); Exxon, the world's largest industrial company (1984 sales: \$91 billion); J. P. Morgan, the parent of Morgan Guaranty Trust Co. of

New York; and Procter & Gamble

Among the least admired companies, the repeaters in addition to Financial Corp. of America are Pan Am, American Motors, Manville, and Crown Zellerbach, back after a two-year absence. This is the fourth year in a row for American Motors and Pan Am, the third for Manville, and the second for Financial Corp. Joining these companies at the bottom of the list are Amax, BankAmerica, Bethlehem Steel, Control Data, and LTV.,.,.,

To rank corporate reputations, FORTUNE polled 8,000 executives, outside directors, and financial analysts. The response was good: about 50 percent. Those surveyed were asked to rate the ten largest companies in their own industry (or, for analysts, the industry they follow) on eight key attributes of reputation: quality of management; quality of products or services; innovativeness; long-term investment value; financial soundness; ability to attract, develop, and keep talented people; community and environmental responsibility; and use of corporate assets. Ratings are on a scale of 0 (poor) to 10 (excellent).

MOST ADMIRABLE	SCORE	LEAST ADMIRABLE	SCORE
Quality of Management:			
IBM	9.19	BankAmerica	3.40
J. P. Morgan	8.73	Control Data	3.41
Boeing		Financial Corp. of America	3.57

Quality of Products or Services:			
Dow Jones	8.98	Financial Corp, of America	4.24
Boeing Eastman	8.65	Pan Am America!* Motors	4.51
Kodak	8.52		4.82
Innovativeness:			
Citicorp	8.66	Aniast Bethlehem	3.76
Gannett	8.64	Steel	3.62
3M	8.33	BankAmerica	4.01
Long-Term Investment Value:			
IBM Coca-	8.74	American Motors' Financial	2.50
Cola	8.04	Corp; of America Control	2.54
Dow Jones	7.90	Data	2.62
Financial Soundness:			
IBM	9.40	Manville Financial Corp, of	1.90
Exxon Dow	9.02	America LTV	2.03
Jones	8.91		2.14
Ability to Attract, Develop, and Keep Talented People:			
IBM J. Pi	8.51	Beatrice "Cos. American	2.79
Morgan	8.21	Motors financial Corp.. of	3.09
Merck	8.14	America;	3.10
Community and Environmental Responsibility			
Eastman & Kodak	8.43	Financial Corp. of America	3.40
3M	7.92	Manville Union Carbide	3.61
Coca-Cola and Johnson & Johnson			3.80
Intel	7.88		
Use of Corporate Assets;			
IBM 3M	5.27	Financial Corp; of America	2.59
Amoco	7.94	Control Data Amax	2.97
	7.78		3.09

Source: Adapted from Cynthia Hutton, "America's Most Admired Corporations," Fortune [January 6, 1986], 16-27. © 1986 Time Inc. All rights reserved.

1. Identify the different approaches to effectiveness that each key attribute in the corporate reputation survey attempts to measure. Do the eight key attributes adequately measure an organization's effectiveness? Why or why not?

What additional information would you want to obtain in order to determine how effective an organization is? Would this information come from a survey or through other measurement technique

3. Examine this year's *Fortune* ratings (published in January of each year). What changes have occurred? What circumstances may have led to those changes in corporate scores among the eight key attributes;