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ORGANIZATIONAL ASSESSMENT: EFFECTIVENESS VS. EFFICIENCY

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Abstract

Purpose – Organizational assessment has always been the key element of the discussion among scientists as well as business people. While managers are striving for better performance results, scientists are reaching for best ways to evaluate the organization. One of the most common ways to assess the performance of the entity is to measure the effectiveness or the efficiency of the organization. Those two concepts might look synonymous, yet as the findings revealed they have a distinct meaning. The purpose of this article is to reveal those differences and explore organizational assessment within effectiveness and efficiency plane.

Design/methodology/approach – Scientific literature analysis, comparative and summarization methods will be used during the research to better understand the challenges of the issue.

Findings – Effectiveness and efficiency are exclusive performance measures, which entities can use to assess their performance. Efficiency is oriented towards successful input transformation into outputs, where effectiveness measures how outputs interact with the economic and social environment.

Research limitations/implications –In some cases effectiveness concept is being used to reflect overall performance of the organization, since it is a broader concept compared to the efficiency. It gets challenging to explore the efficiency factor if it is included under effectiveness assessment.

Practical implications – The assessment of the organizational performance helps companies to improve their reports, assures smoother competition in the global market and creates a sustainable competitive advantage.

Originality/Value – The paper revealed that organization can be assessed either within effectiveness or efficiency perspective. Organization striving for excellent performance should be effective and efficient, yet as the findings revealed, inefficient, yet effective organization can still survive yet at a high cost.

Keywords: organizational assessment, effectiveness, efficiency.

Research type: conceptual paper, scientific literature review.

Introduction

Organizational performance stimulation has always been a priority in private as well as in public sectors, since it is directly associated with the value creation of the entity. Organizations are constantly striving for better results, influence and competitive advantage. However, most organizations are struggling to get it right. Management is not always aware of the adequate assessment of their organizational performance. Plethora of models, frameworks or methods for conducting entities valuation creates unnecessary stress for management to select the path that is congruent with organizations believes and cultural philosophy (Richard, 2009).

Common measures of the organizational performance are effectiveness and efficiency (Bounds at all, 2005; Robbins, 2000). For managers, suppliers and investors these two terms might look synonymous, yet, according to Mouzas (2006), each of these terms have their own distinct meaning. Most organizations assess their performance in terms of effectiveness. Their main focus is to achieve their mission, goals and vision. At the same time, there is plethora of organizations, which value their performance in terms of their efficiency, which relates to the optimal use of resources to achieve the desired output (Chavan, 2009). The question is, whether there is a difference if the organization is effective yet inefficient and visas versa. Also, is it important for the entities to understand the disparity?

The aim of the research is to discuss organizational performance within entities effectiveness and efficiency perspective. **The objectives**: 1) to identify the features of the efficiency and the effectiveness concepts; 2) to explore the differences and proximities between effectiveness and efficiency. **Research methods** – conceptual paper, scientific literature review.

The assessment of the organization

Today's organizations face unprecedented challenges assessing their performance. Globalization, requirement for social responsibility, innovative technology and new strategic thinking are just a few of the aspects required in nowadays competitive economy.

According to American Management Association Global Study of Current Trends and Future Possibilities 2007-2017[1], a high performance organization maintain consistent strategies that closely bind with organization's philosophy and believes. Such organizations implement strong customer oriented policies (American Management Association, 2007). Customer information is the main factor for developing new products

[1]American Management Association Global Study of Current Trends and Future Possibilities 2007-2017 http://www.opm.gov/WIKI/uploads/docs/Wiki/OPM/training/i4cp-coaching.pdf

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and services, they strive for a long term relation between customer and organization, which means that social responsibility, quality of the production and post-purchase service must have high standards. Usually high performance organizations have strong upper management and human recourse standards are set in place. Because of high organizational expectations, right people are being hired to fulfill the positions. Employees are well aware of the performance measures and the importance to achieve the excellence in their duties. Due to a high level of employee involvement in the organizational processes, the entity is awarded with staff commitment which reduces rotation level and the cost associated with the hiring and training processes (Demartini, 2011). Employees that are devoted to the organization are well aware of necessary knowledge, skills and experience to create unique solution for customers (Harris, 2000).

Organizational assessment is a usual practice in high performance organizations. Because of their high standards they must continuously strive for better results, which can be achieved by constant benchmarking and self-evaluation. Today's organizational assessment has been taken to a higher level. In order to sustain a high performance organization, managers are no longer implementing traditional valuation indicators, even if they successfully have been used for years. Khademfar and Amiri (2013) suggest a model of high performance organization, which maintains five major approaches: Strategic, Customer, Leadership, Processes and Structure and, Values and Beliefs. Strategic approach takes the organization to a higher plane of maturity with a clear vision where the entity is going. Customer approach strives for clientele loyalty, whether Leadership approach is associated with management knowledge to transfer the strategy to employee level, which will have a direct impact on their behavior and believes. The fourth block is associated with organization's processes and structure. High performance organization should strive for implementing innovative policies to support the strategy. The last component of the model is Value and Believes which translates into organizations ability to implement the strategy. All pieces are linked to each other, since change to one provides changes in the others.

According to 2013 -2014 Baltridge Performance Excellence Program[1], it is crucial for organizations to self - assess their performance, since it can help the organization to achieve the excellence in their operations

Achieving high levels of organizational performance is a multidimensional process. Knowledge, associated with self-assessment is not enough to assure high performance of the organization. The challenge that most managers are facing in today's rapidly changing economy is to address right tools to evaluate their own performance against rival results (Villegas and Valldares, 2005).

[1]2013 -2014 Baltridge Performance Excellence Program http://www.nist.gov/baldrige/publications/criteria.cfm

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Why self – assess?

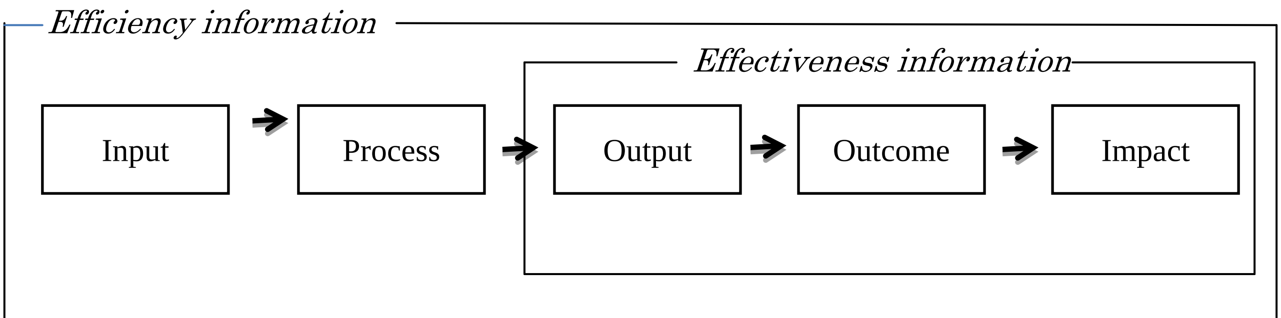
- Customers and/or competitors are driving a need to change.
- The industry or environment is changing.
- The organization is among the best; therefore it is important to make sure it stays that way.
- Performance is efficient, and it is crucial to keep it that way.
- The drive to enhance organizational learning.

How will organization benefit?

- Is able to identify successes and opportunities for improvement.
- Knows how to initiate changes or energize current initiatives.
- Learns how to energize the workforce focus on common goals.
- Efficiently utilizes benchmarking strategy.
- Aligns the resources with the strategic objectives
- Delivers world-class results

Effectiveness vs. efficiency

There are various opinions regarding valuation of the organization. Mouzas (2006) emphasized two indicators to assess the performance: the *efficiency* and the *effectiveness*. For managers, suppliers and investors these two terms might be synonymous, yet, each of these terms have their own distinct meaning. The findings revealed that efficiency information provides different data compared to effectiveness one (See Figure 1).



Source: adopted from Frey and Widmer (2009).

Figure 1. Chain of effects

Effectiveness oriented companies are concerned with output, sales, quality, creation of value added, innovation, cost reduction. It measures the degree to which a business achieves its goals or the way outputs interact with the economic and social environment. Usually effectiveness determines the policy objectives of the organization or the degree to which an organization realizes its own goals (Zheng, 2010). Meyer and Herscovitch (2001) analyzed organizational effectiveness through organizational commitment. Commitment in the workplace may take various forms, such as relationship between leader and staff, employee’s identification with the organization, involvement in the decision making process, psychological attachment felt by an individual. Shiva and Suar (2010) agree that superior performance is possible by transforming staff attitudes towards organization from lower to a higher plane of maturity, therefore human capital management should be closely binded with the concepts of the effectiveness.

According to Heilman and Kennedy – Philips (2011) organizational effectiveness helps to assess the progress towards mission fulfillment and goal achievement. To improve organizational effectiveness management should strive for better communication, interaction, leadership, direction, adaptability and positive environment. Back in 1988, Seiichi Nakajima has introduced the concept of Total Productive Maintenance, which has been widely applied in the plants and covered the entire life of the equipment in every department including planning, manufacturing, and maintenance (Fu-Kwun Wang, 2006; Muthiah and Huang, 2006). The system allowed assessing overall performance of the plant, since it covered:

1. Total effectiveness (productivity, quality delivery, safety, social responsibility and morals);
2. Total maintenance system (maintenance prevention system, maintainability improvement);
3. Total participation of the employees (the increase of the effectiveness of the plant depends on the involvement of the staff, regardless of the department they belong to).

According to Porter (1996), Total Productive Maintenance system could be applied as a tool not the strategy for managers to ensure operational effectiveness. The author stressed out the fact that effectiveness management tools and techniques such as benchmarking, time based competition, outsourcing, partnering are slowly taking the place of the strategy. It is a result of organizations’ frustration of their inability to translate goals into sustainable profitability.

Efficiency measures relationship between inputs and outputs or how successfully the inputs have been transformed into outputs (Low, 2000). To maximize the output Porter’s Total Productive Maintenance system suggests the elimination of six losses, which are: (1) reduced yield – from start up to stable production; (2) process defects; (3) reduced speed; (4) idling and minor stoppages; (5) set-up and adjustment; and (6) equipment failure. The fewer the inputs used to generate outputs, the greater the efficiency.

According to Pinprayong and Siengthai (2012) there is a difference between *business efficiency* and *organizational efficiency*. Business efficiency reveals the performance of input and output ratio, while organizational efficiency reflects the improvement of internal processes of the organization, such as organizational structure, culture and community. Excellent organizational efficiency could improve entities performance in terms of management, productivity, quality and profitability. The Pinprayong and Siengthai (2012) introduced seven dimensions, for the measurement of organizational efficiency:

- Organizational strategy;

- Corporate structure design;
- Management and business system building;
- Development of corporate and employee styles;
- Motivation of staff commitment;
- Development of employee's skills;
- Subordinate goals.

Effectiveness and efficiency are exclusive, yet, at the same time, they influence each other; therefore it is important for management to assure the success in both areas. Pinprayong and Siengthai (2012) suggest that ROA is a suitable measure of overall company performance, since it reveals how profitable organizations assets are in generating revenues.

Organizational performance = effectiveness x efficiency;

Total asset turnover ratio measures the ability of a company to use its assets to efficiently generate sales; therefore it can be treated as efficiency. Profit margin ratio is an indicator of a company's pricing strategies and how well it controls the costs, also it is a good measure for benchmarking purposes; therefore it could be treated as effectiveness. As a result, overall performance can be measured by quantifying the efficiency and the effectiveness.

Efficiency is all about resource allocation across alternative uses (Kumar and Gulati, 2010) (See figure 1). It is important to understand that efficiency doesn't mean that the organization is achieving excellent performance in the market, although it reveals its operational excellence in the source of utilization process.

Effective yet inefficient organization?

Organizations can be managed effectively, yet, due to the poor operational management, the entity will be performing inefficiently (Karlaftis, 2004). Inefficient and ineffective organization is set for an expensive failure. In such case there is no proper resources allocation policy and there is no organizational perspective of their future. Organization has leadership issues, high employee turnover rate and no clear vision where the organization will be standing tomorrow.

If the organization is able to manage its resources effectively, yet it does not realize its long term goals, it will bankrupt slowly. This strategy is cost efficient but it is not innovative and creates no value. Management has no clear customer oriented policy set in place, which leads to constant focus on efficiency. Such organization uses all its efforts to implement strict resource allocation policy, which translates into strict staff cost control, training cost reduction or even elimination. These actions lead to low morale of the organization high turnover rate of the employees and low customer satisfaction. Efficient but ineffective organization cannot be competitive and it will bankrupt eventually.

In both cases, inefficient – ineffective and efficient – ineffective, organization is set for failure. Therefore a conclusion reveals that an organization cannot survive without effectiveness policy (See Figure 2).

	Effective	**Ineffective**
Efficient	Succeds at minimum cost. The company thrives.	Cost under control but fails to succeed. The company is bankrupting slowly.
Inefficient	Succeeds at a high cost. The company exists.	An expensive failure. The company is bankrupting fast.

Source: adopted from Zokaei, 2006.

Figure 2. The characteristics of effectiveness and efficiency.

If the company is inefficient but effective it might survive, but the cost of operational management, processes and inputs will be too high. Cost inefficient organizations do not have proper resource allocation management. From the accounting perspective they might break even or have very little profit. Although, such organizations have excellent long term perceptions of the degree of the overall success, market share, profitability, growth rate, and innovativeness of the organization in comparison with key competitors (Zokaei, 2006). Inefficient – effective organizations should consider the assessment of their recourse allocation. Usually, the morale in such entities is high. Delicate changes brought in the operations and introduced in a subtle manner should result the increase in the efficiency, which would lead organization to desired competitive advantage.

High effectiveness and high efficiency organizations are well known as high performance entities. They demonstrate excellence in their operational performance as well as strategic planning. Their outcome is productive, cost management is under control, tasks distributed and completed in a timely matter. Usually such organizations have high morale and staff commitment, which also results the highest quality of the outcome. Employees are well aware of the tasks they have been delegated to perform, they are also well informed of the indicators, which are used to assess their outcomes. Their performance and their attitudes lie along company's long term goals and vision.

Conclusion

The fundamental difference between organizational assessment using either effectiveness or efficiency measuring methods lies in the fact, that effectiveness is much broader perspective, which takes into account quality, creation of value added, employee satisfaction, output interaction with the social and economic environment. While efficiency measures the relationship between inputs and outputs or how successfully the inputs are being transformed into outputs.

Effectiveness and efficiency are exclusive performance measures, yet, at the same time, they influence each other. As the findings revealed, effective yet inefficient organization might survive, while efficient yet ineffective one will bankrupt slowly. In order to achieve the excellence in competitive performance, organizations should strive to increase the efficiency and effectiveness indicators evenly.

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