

**Organizational Effectiveness = Corporate Performance?**  
**Why and How Two Research Traditions Need to be Merged**

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# **Organizational Effectiveness = Corporate Performance?**

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### **0 Abstract**

Organizational effectiveness and corporate performance research seem to deal with the same core construct: organizational effectiveness/performance. However, both research traditions have produced separate bodies of literature and have developed different strengths and weaknesses. Organizational effectiveness research has a rich conceptual tradition but recently shows a conspicuous inactivity in terms of empirical studies. Corporate performance research, on the other hand, is active in terms of empirical studies but faces criticism regarding its limited theoretical foundation and its narrow focus.

This paper confronts the existing approaches to organizational effectiveness with recent insights in performance research. Based on an examination of their core construct(s), we promote a merger of both research traditions that makes use of their complementary strengths and combines conceptual depths with a vivid empirical orientation. Moreover, we formulate requirements for future progress in the merged area of organizational effectiveness/performance.

### **1 Introduction**

Evaluations of organizational practices invariably use the notion of organizational effectiveness or performance. Without question, the notion plays a key role in organization science. Organizational effectiveness/performance is even the ultimate or superordinate dependent variable in much organization and management research (see also Cameron & Whetten, 1983). Despite the broad interest and a vast literature, both on organizational effectiveness and, separately, on organizational performance, little common ground seems to exist regarding conceptualization and measurement of this ultimate dependent variable.

The literature reveals a schizophrenic sort of split between the organizational-effectiveness camp and those using corporate-performance-type measures and sources.

Part of this problem results from terminological imprecision. Akin to organizational effectiveness or performance are a number of semantically related terms, such as organizational health, success, efficiency, productivity or excellence (just to name a few). Some authors use the terms interchangeably (e.g. Kanter & Brinkerhoff, 1981), often ostensibly in order to overcome, but in practice to contribute to, terminological confusion. Others come up with additional labels, such as 'organizational goodness' (Shenhav, Shrum & Alon, 1994), to encompass the above-mentioned terms. Such a varied handling of the key outcome variable, although understandable, provides a weak basis for cumulative research; it leaves unexplored the relationships (and potential differences) between the various constructs.

Of all the terms mentioned above, organizational 'performance' and 'effectiveness' most frequently have been utilized (Shenhav et al., 1994). Both concepts are rooted in different research traditions; organizational theory literature deals predominantly with 'organizational effectiveness,' strategy researchers focus on 'corporate performance.' Thus far, little effort has been spent to generate a cumulative body of knowledge encompassing these two research traditions with regard to their core dependent variable(s). To what extent is the use of these different concepts a sign of fundamental paradigmatic differences? To what extent are the different concepts merely the result of variations in jargon and focus between proponents of the two research traditions? This paper shows that recent developments in both research traditions have led to a conceptual convergence regarding their ultimate dependent variable. We no longer see any reason, therefore, not to merge the two distinct research areas of organizational effectiveness and performance. Both research traditions have their individual strengths that may need to be combined in order to make progress in the field of organizational effectiveness/performance research.

This paper aims to confront the research tradition on organizational effectiveness (rooted in organization theory) with corporate performance research (rooted in the strategy area). It proposes that a merger of both research traditions will enable organizational effectiveness/performance knowledge generation to occur in a more cumulative fashion. After first discussing the major approaches to studies of organizational effectiveness, the paper then reviews the representative corporate performance literature.

Key issues of merging the two research traditions -- without losing the good parts of each -- will then be outlined. Additional requirements for progress in future organizational effectiveness/performance research will be discussed. Finally, we present conclusions that summarize our major points.

## **2 The Ultimate Dependent Variable Divided over Two Research Traditions**

This section analyzes the conceptual development of the core dependent variable(s) in organization theory and strategy research: organizational effectiveness and performance. One major question guides this section: to what extent can one equate the core content of the key constructs of these two distinct research traditions?

### **2.1 Major Approaches to Studies of Organizational Effectiveness**

Since the early days of industrialization, the idea of measuring organizational effectiveness has been important in organization practice and theory. Minton & Lewin (1986) pinpoint the roots of the idea in Western philosophical thinking -- with its strong, persistent strain of improvement interest. In each of the classic management writings, they find either an implicit or explicit concern for organizational effectiveness. In the earliest days, following the machine analogy of organizations (Taylor, 1911), the term 'organizational effectiveness' referred mainly to efficiency (i.e. technical efficiency). Changing conceptions of the organization also altered the notion of efficiency-as-effectiveness. Recent decades have revealed much broader conceptualizations of organizational effectiveness; five major approaches to the idea of organizational effectiveness can be distinguished.

#### **2.1.1 Rational-Goal Approach**

The rational-goal or goal-attainment approach has its roots in the mechanistic view of the organization. This approach centers around the degree to which organizations realize output goals (such as profitability, growth, productivity). Given that individual business

firms do establish financial/economic goals and evaluate their performances based on goal accomplishment, the rational-goal approach is practically relevant. Yet, the application of this rational-goal approach to academic studies of organizational effectiveness has been complicated.<sup>1</sup>

The prime limitation relates to the content comparability of organizational goals. Given the multifunctional nature of organizations (see e.g. Ghorpade, 1970), multiple and even incompatible and implicit goals exist in organizations. Such goal constellations vary greatly -- not only over time, but also in the degree to which they are being taken seriously by key members or stakeholders of the organization (Tsui, 1990; Zammuto, 1984). The reliable identification of comparable and practically relevant goals within groups of organizational settings is thus a major challenge for effectiveness researchers. To rely merely on official or formal goals is misleading, for these goals are mostly incomplete or nothing more than window-dressing (see Ghorpade, 1970). Operative goals are a truer reflection of the aims organizations may have. While more difficult to identify, these goals are more valuable for assessments of organizational effectiveness<sup>2</sup>. But how can one deal with practically incompatible goals (such as high product quality and profitability) in research studies? And, in the measurement of operative organizational goals, how should these goals be combined in order to evaluate goal attainment precisely?

As Cameron (1984, 1986) concluded, the rational-goal approach to assessing organizational effectiveness applies only in those organizations that have clearly defined, time bound and precisely measurable operative goals. How many organizations have goals that meet these criteria? In the organizational-effectiveness literature, the answer seems to be unanimous: very few. The limitations in determining operative organizational goals make the academic and practical assessment of organizational effectiveness in terms of

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<sup>1</sup> An empirical example using the rational-goal approach to organizational effectiveness is the study of Turnipseed (1988). Several studies of Georgopoulos (see Georgopoulos & Mann, 1967; Georgopoulos & Matejko, 1967; Georgopoulos & Tannenbaum; 1957) combine a goal-attainment with an open-system approach of organizational effectiveness.

<sup>2</sup> An organizational-effectiveness approach including operational goals does not represent a pure rational-goal approach anymore because it acknowledges the possibility of contradictory goals. Moreover, an 'operational-goal approach' is difficult to distinguish from the remaining organizational-effectiveness approaches. An empirical example of an 'operational-goal approach' is the study of Raffée & Fritz (1990).

goal attainment less valuable than has been presumed. However, we will show in the following sections that the goal perspective continues to play an important role in the conceptualization of organizational effectiveness; in one way or another is the goal orientation reflected in all of the reviewed effectiveness approaches. It thus seems difficult to assess organizational effectiveness without somehow relating to an organization's goals.

### **2.1.2 System-Resource Approach**

The system-resource approach to organizational effectiveness (e.g. Yuchtman & Seashore, 1967) was formulated in reaction to the rational-goal approach.<sup>3</sup> Following a system perspective, this approach stresses input over output variables. It views most organizations as entities that operate in order to survive, all the while competing for scarce and valued resources (such as financial means and personnel). Survival (vs. death) of the firm is seen here as the ultimate criterion of organizational effectiveness. Because this can only be a long-term measure, multiple penultimate criteria (such as changes in volumes of various types of scarce resources) are to be applied (Yuchtman & Seashore, 1967).<sup>4</sup>

Two critical views question the merit of this system-resource approach. First, optimal resource acquisition itself can be regarded as a universal organizational goal. Consequently, the system-resource approach represents a mere variant of the rational-goal approach and thus cannot be seen as a distinctively different organizational-effectiveness approach (see e.g. Hall, 1972). The second critical view considers system-resource acquisition as a necessary means to achieve organizational goals. From this vantage point, the system-resource approach, in fact, does not deal with organizational effectiveness but rather with its predictors (see Hall, 1980). This juxtaposition -- resource-acquisition as a goal versus means -- crystallizes a key conceptual paradox of the organizational-

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<sup>3</sup> Several authors have compared the relative merits of the goal approach and the system-resource approach (e.g. Ghorpade, 1970; Hall, 1972; Price, 1972). An empirical comparison of both approaches, provided by Molnar & Rogers (1976), concludes that indicators of the two approaches are, at best, weakly related.

<sup>4</sup> An empirical example for a system-resource approach to organizational effectiveness is the study of Seashore & Yuchtman (1967).

effectiveness research tradition: the distinction between means and ends, or between so-called predictors and criteria of effectiveness. We will return to this issue later in the paper.

A problem of the system-resource approach is that a high volume of acquired resources does not guarantee effective usage. Moreover, it is difficult to define an optimal level of resource acquisition across different organizations. Similarly, it is unclear how to determine the relative survival importance of the various sets of resources (see also Bluedorn, 1980). Following Cameron (1984, 1986), the system-resource approach appears to be most useful in those organizations in which output goals are difficult to measure precisely, and when accurate input measures are available (such as in non-profit, budget-oriented or social welfare agencies). In general, however, a pure system-resource approach to measuring organizational effectiveness falls short for most organizations.

### **2.1.3 Internal-Process Approach**

The internal-process approach of organizational effectiveness has been formulated in reaction to a static output view of the rational-goal approach (Bennis, 1966). The approach is rooted in both the system and the human-relations models of organizations. It focuses on internal processes that increase the ability of organizations to cope with changes in the environment. Organizational effectiveness is defined here as smooth internal functioning and is assessed through criteria of internal health, such as adaptability, a strong sense of identity and the capacity to test reality (Bennis, 1966). Related possible effectiveness criteria are e.g. undistorted communication, strong corporate culture and positive work climate (Daft, 1992). Although the internal-process approach is mostly associated with human-relations-type criteria, some literature overviews subsume also other types of criteria, such as economic efficiency (see e.g. Daft, 1992).

The internal-process approach has never been as widely discussed and applied as the goal-attainment and system-resource approaches.<sup>5</sup> Some overview papers and

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<sup>5</sup> Although many empirical effectiveness studies use criteria that relate to internal processes (see Campbell, 1977; Heuvel, 1995), the internal-process approach is seldom explicitly stated as their theoretical basis. Several studies of Georgopoulos (see Georgopoulos & Mann, 1967; Georgopoulos & Matejko, 1967; Georgopoulos & Tannenbaum, 1957) could be subsumed under an internal-process (or open-system) approach, however, they are no pure examples, given that they also



textbooks do not even treat it as an independent organizational-effectiveness approach (see e.g. Bluedorn, 1980; Hall, 1980; Robbins, 1990; Weimer & Riemsdijk, 1994). Critics note that the internal-process approach, like the system-resource approach, cannot result in valid indicators of organizational effectiveness itself. Instead, it is considered to be an approach for studying its assumed predictors (Bluedorn, 1980). Just like the system-resource approach, the internal-process approach might apply only where comparable organizational outcomes can hardly be assessed precisely (such as, e.g., for private non-profit or public organizations).

#### **2.1.4 Multiple-Constituencies Approach**

Each of the three approaches reviewed thus far focuses on a fragment of the organization as a social system: on outcomes (outputs), resource-acquisition (inputs) or internal processes (throughputs), respectively. A needed integrative perspective is provided by the multiple-constituencies approach to organizational effectiveness (see e.g. Conolly, Colon & Deutsch, 1980), which focuses not so much on characteristics of the organization but on the parties involved in assessing organizations' effectiveness.<sup>6</sup> The multiple-constituencies (or stakeholder) view takes explicitly into account that organizations serve multiple goals: each type of organizational constituency (such as owners, employees, customers, the community, etc.) is supposed to have different interests vis-à-vis the organization, and will therefore apply different evaluation criteria.

While several variants of this approach exist, the core of all variants is that an organization is effective to the extent that it satisfies the needs of various relevant organizational constituencies (Tsui, 1990). If an organization performs poorly in the eyes of its constituencies, it is not effective. The approach clearly presumes various organizational domains on which the organization must score in order for its constituencies to be satisfied. In fact, all three previously described effectiveness approaches can be seen

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include goal-attainment criteria.

<sup>6</sup> An early multiple-constituency approach to organizational effectiveness is taken in the study of Pickle & Friedlander (1967); more recent examples can be found in the studies of Tsui (1990) and Wilderom & Press (1994).

from a constituency point of view. The outcome-oriented, rational-goal approach tends to reflect the perspective of shareholders and/or top-management. The input-oriented, system-resource approach is usually taken seriously by constituencies linked to important resources (such as suppliers and financiers). The throughput-oriented, internal-process approach would emphasize the interests of internal constituencies (e.g. personnel).

Given its integrative character, the multiple-constituency approach inherits also some of the problems of the earlier approaches: How to deal with the potentially competing goals of the various constituencies within an organization? How to balance long-term and short-term goals? And, especially, how to handle the means-ends (predictors-criteria) issue? In order to resolve these issues, researchers need to examine the interrelationship of effectiveness criteria in terms of constituencies' levels of satisfaction. Under what circumstances, for instance, can the satisfaction of employees be regarded as a means to acquire shareholder or top-management satisfaction?

It is the merit of the multiple-constituency approach that it brought to the foreground a great deal of the complexity involved in assessing organizational effectiveness. In general, the constituency or stakeholder view of organizations has become commonplace -- both in the effectiveness as well as in the strategy literature (see Donaldson & Preston, 1995; Preston & Sapienza, 1990; Tsui, 1990).

### **2.1.5 Competing-Values Approach**

In order to capture the construct of organizational effectiveness, some researchers proposed an empirical approach (e.g. Mahoney, 1967; Seashore & Yuchtman, 1967). As put by Steers, "a meaningful way to understand the abstract idea of effectiveness is to consider how researchers have operationalized and measured the construct in their work" (1975, p. 546). The most conspicuous attempt along those lines is the competing-values approach of Quinn & Rohrbaugh (1981, 1983).

Quinn & Rohrbaugh used expert ratings to order a list of effectiveness criteria published by Campbell (Campbell, 1977). Their resulting taxonomy reveals three dimensions with competing foci: (1) external vs. internal, (2) control vs. flexibility and (3) means vs. ends. They combined the first two dimensions into four different perspectives: (1) the rational-goal perspective (emphasizing external factors and control),

(2) the open-system perspective (emphasizing external factors and flexibility) (3) the human-relations perspective (emphasizing internal factors and flexibility) and (4) the internal-process perspective (emphasizing internal factors and control). Within each of these four perspectives, effectiveness criteria can relate either to means or ends (the third dimension of Quinn & Rohrbaugh's taxonomy).<sup>7</sup>

All three traditional approaches to organizational effectiveness are reflected in the competing-values approach; Quinn and Rohrbaugh's rational-goal and open-system perspective relates directly to the rational-goal and system-resource approaches to organizational effectiveness. Both Quinn & Rohrbaugh's human-relations and internal-process perspective reflect the internal-process approach to organizational effectiveness.

The four perspectives can also be seen as reflecting the interests of different organizational constituencies (see Quinn & Cameron, 1983). However, some recently recognized important external constituencies (such as customers, competitors or representatives of the society as a whole) are not represented in the model. This might be due to a shift in relative importance since the 1970s. Interestingly, 'output quality,' the only consumer-oriented effectiveness criterion in Campbell's 1977 criteria list, fits into none of the four postulated perspectives (Quinn & Rohrbaugh, 1983). Hence, even though Quinn & Rohrbaugh argue that 'output quality' may be an important element of all four perspectives, their model, one could conclude, is not comprehensive.

The competing-values approach has been combined with the organizational life-cycle approach (Cameron & Whetten; 1981; Quinn & Cameron, 1983). It is assumed here, e.g., that organizations in the entrepreneurial stage may find most crucial open-systems criteria (such as resource acquisition, flexibility and growth). The collectivity stage is seen as especially associated with both open-system and human-relations criteria (such as morale, cohesion and human need satisfaction). Organizations in the formalization stage tend to emphasize criteria pertaining to the internal-process (e.g. information management, control) as well as the rational-goal (e.g. planning, productivity) approach. The so-called elaboration-of-structure stage is likely to emphasize open-system criteria and, to a lesser

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<sup>7</sup> Empirical examples using the competing-values approach to organizational effectiveness are the studies of Doty, Glick & Huber (1993), Edwards, Faerman & McGrath (1986), Ostroff & Schmitt (1993), and Rohrbaugh (1983).

extent, internal-process, human-relations, and rational-goal criteria.

The competing-values approach is not entirely original, but is rather a systematization of earlier organizational-effectiveness approaches. It points to the dynamic nature of organizational effectiveness by relating the various criteria to organizational life-cycle stages. Even though introducing a means-ends dimension, it leaves the means-ends issue unsolved. The question still remains: should variables that traditionally have been seen as organizational means (such as planning, control or flexibility) be considered as effectiveness criteria? The mere fact that these variables were used as effectiveness criteria in previous studies, is of course no proof of their status as a criterion rather than a predictor. The well-structured competing-values approach has been adapted also to the study of leadership roles, organizational decision making, organizational culture, etc. Its major upshot for both practitioners and researchers is that it detects (potential) conflicts between competing organizational goals or effectiveness criteria in the different organizational domains. For organizational-effectiveness research, this approach has been another valuable but largely historic illustration of the complexity of its key construct.

## **2.2 Research on Corporate Performance**

Strategy research, the second research tradition under discussion here, focuses on performance consequences of strategic choices. Unlike their counterparts in organizational effectiveness, researchers in this tradition have spent little effort to theoretical elaborations of its major dependent variable. For quite a while, corporate, organizational or firm performance has almost unanimously been equated with financial/economic performance. Recently, however, broader conceptualizations of performance are being discussed. These recent conceptualizations do not reject financial/economic performance measures but rather question their exclusive use, i.e. their comprehensiveness for evaluating organizations.

### **2.2.1 Financial/Economic Performance**

Studies examining performance effects of strategic decisions use predominantly financial/economic measures of corporate performance. These studies assume financial/economic goals to be the only ultimate organizational goals (Venkatraman &

Ramanujam, 1986; Zahrlly & Reuning-Elliott, 1994). Performance is usually assessed with accounting-based measures (e.g. profitability measures such as return on assets, return on investment, return on sales, return on equity), market-based measures (e.g. stock market returns) or a mixture of accounting- and market-based measures (e.g. price-earnings ratio).<sup>8</sup> Accounting-based criteria are common in performance evaluations. Popular management journals (such as *Business Week*, *Management Today*) use profitability criteria for performance-league tables. Also, in academic performance studies profitability measures are the most often used (see Hubbard & Bromiley, 1995; McGuire, Schneeweis & Hill, 1986). At the same time, such accounting-based measures have been subject to a considerable amount of criticism (see e.g. Brown & Laverick, 1994; Doyle, 1994; Eccles, 1991; Habel, 1992; Kaplan & Norton, 1992; McGuire et al., 1986). Accounting-based figures can be misleading because they might have been manipulated to look good. A lack of consistency in corporate accounting methods (e.g. with regard to the treatment of inflation, inventory valuation, depreciation or intangible assets) and a lack of standardization in international accounting conventions makes interpretations as well as comparisons between organizations difficult. A further shortcoming of all accounting-based performance measures is their backward-looking focus (Habel, 1992; Kaplan & Norton, 1992). Data of past years reveal little about the future potential of a firm. The 'short-termism' (Doyle, 1994; Eccles, 1991) of the accounting-based measures relates to another point of criticism. Profit can easily be raised in the short-term by cutting expenditures (e.g. for advertising or R&D), but that kind of practice might be harmful in the long-run. Thus, the question is if 'firm performance' is truly assessed when merely relying on accounting-based measures.

Given the criticism with regard to accounting-based measures, several authors propose market-based measures as better overall performance indicators (see e.g. Habel, 1992; McGuire et al., 1986). Stock-market data are assumed to reflect investor's estimations of future firm potential and thus focus on the long-term value of the enterprise. Under the assumption that investors evaluate firms appropriately (perfect

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<sup>8</sup> In general, there is not much agreement on which specific measures to employ for the assessment of financial/economic performance. Hubbard & Bromiley (1995) found that researchers as well as practitioners employ highly diverse financial performance measures.

markets), stock-market data are seen as sensible indicators of corporate performance for listed firms. However, the idealistic assumption of perfect markets and the high percentage of unlisted firms pose serious limitations to their widespread use.

The relation of market- and accounting-based measures is unclear. A number of empirical studies have found accounting- and market-based measures of performance to be essentially uncorrelated; factor analyses revealed two independent dimensions of financial/economic performance (see Meyer & Gupta, 1994). Other studies, however, found correlations between the two types of measures (Douma & Kabir, 1995), as well as a single underlying construct of firm financial performance (Rowe, Morrow & Finch, 1995). The convergence of accounting- and market-based performance measures seems to depend on time and context factors: Fryxell & Barton (1990) found a higher convergence in times of uncertainty; Douma & Kabir (1995) found a significant correlation only for large firms. Further research in this area has to solve this issue of dimensionality. In general it can be said that both types of measures have their limitations and -- where possible -- should be combined.

## **2.2.2 Broader Approaches to Corporate Performance**

Discontent with financial/economic performance indicators and the oncoming quality movement in the 1980s induced a rethinking of performance measurement in corporate practice and research. Following the line of reasoning that corporate performance is more than output-oriented financial/economic performance, broader perspectives with non-financial performance indicators became a matter of discussion among strategy researchers.

### **2.2.2.1 Operational Performance**

In addition to financial/economic performance criteria, Venkatraman & Ramanujam (1986) propose operational performance measures such as market share, new product introduction, product/service quality and marketing effectiveness. Comparable approaches are the balanced scorecard (Kaplan & Norton, 1992) or the business-model approaches (see Meyer & Gupta, 1994), which include financial as well as operational criteria relating to value for

customers, innovation and internal business improvement. These models promote the linking of data from several financial and operational measures in order to see if improvement in one area has been achieved at the expense of another. The latter presumption relates exactly to the main point made by the (earlier discussed) competing-values approach.

Operational performance indicators come close to what other authors label 'critical success factors' (see e.g. Hoffmann, 1986; Wijn, Hofenk, Hoekstra & Hengeveld, 1994). There is, however, a conceptual difference: operational performance variables are conceived as indicators of the performance construct itself, whereas critical-success-factors are regarded as predictors of performance. This conceptual difference relates to a crucial issue both in organizational effectiveness and in corporate performance research: defining the boundaries of the construct including the distinction between predictors (means) and criteria (ends). This issue, apparently common in both research traditions, will be addressed in more detail toward the end of this paper.

#### **2.2.2.2 Stakeholder Satisfaction/Social Performance**

Recent corporate performance literature especially reflects the multiple-constituencies or stakeholder approach (e.g. Brown & Laverick, 1994; Chakravarthy, 1986; Doyle, 1994). As stated by Brown & Laverick (1994), the more an organization depends on the co-operation and goodwill of others (workforce, suppliers, customers), the stronger the argument becomes for the inclusion of multiple constituencies in performance assessments. This view holds that financial/economic superiority is only one part of corporate performance. Social performance -- in terms of stakeholder satisfaction -- is seen as the other complementing part and can be operationalized as the firm's reputation on social issues. Reputational rankings through informed external experts have gained popularity (Brown & Laverick, 1994). *Fortune's* annual survey is a well known example of such a reputational ranking. Here, executives and industry analysts are asked to use eight dimensions to evaluate the relative success of leading American organizations. The dimensions are assumed to represent the interest of shareholders, employees, customers and the community at large (Preston & Sapienza, 1990).

It has been shown that the *Fortune* reputational ratings are highly correlated with

financial performance measures (e.g. Fombrun & Shanley, 1990; Preston & Sapienza, 1990). Whereas Preston & Sapienza (1990) conclude that excellent firms satisfy their multiple stakeholders, other authors draw a different conclusion. They depict *Fortune* ratings as heavily influenced by the raters' knowledge about the firms' previous financial performances (Brown & Perry, 1994; Fombrun & Shanley, 1990; Fryxell & Wang, 1994; Rowe et al., 1995). As concluded by Rowe et al. (1995), *Fortune* ratings are actually a perceptual measure of firm's financial performance and valid as such. Caution, however, is needed when interpreting these ratings as sole indicators of stakeholder or social performance (Szwajkowski & Figlewicz, 1995). *Fortune* ratings have been criticized because the raters focus too narrowly on financial interest (Fryxell & Wang, 1994). Moreover, some argue that it is not clear if the dimensions studied are exhaustive and if they should be weighted equally to form the overall index: -- like *Fortune*'s annual survey does (Szwajkowski & Figlewicz, 1995). As concluded by Fombrun & Rindova (1994), most currently reported reputational ratings in the academic and business press have a limited or unknown validity. The authors advise (1) that better reputational surveys have to be constructed, (2) that the informational inputs should be systematically collected; and (3) that the comparison processes need to be standardized. If these conditions are fulfilled, reputational rankings could become a powerful way of evaluating firms' relative success in meeting stakeholders' interests.

Recently, the stakeholder or social performance notion has become a widely discussed topic in strategy research (see e.g. Clarkson, 1995; Evan, 1993; Wood, 1991; Wood & Jones, 1995). The importance of an enlarged understanding of the construct of corporate performance is generally acknowledged. However, any broader notion of corporate performance is rarely found in the empirical strategy literature (Preston & Sapienza, 1990; Venkatraman & Ramanujam, 1986). These few cases make heavy use of reputational ratings of popular business journals (see e.g. Chakravarthy, 1986; Preston & Sapienza, 1990; Rhihi-Belkaoui, 1992<sup>9</sup>). At this time we know of no in-depth strategic

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<sup>9</sup> This study is especially confusing in its terminology. It refers to 'organizational effectiveness,' 'social performance' and 'firm performance' without defining these constructs theoretically. 'Organizational effectiveness' is operationalized through expert ratings on all *Fortune* reputational dimensions, 'social performance' through expert ratings on one single *Fortune* reputational dimension and 'firm performance' through firm net profit.



studies with various performance indicators based on both internal and external stakeholders' evaluations.

### **2.3 Organizational Effectiveness = Corporate Performance?**

We now come to the core question of this section: what is similar about the ultimate dependent variable of organizational effectiveness and strategy research?

As a starting point, both research traditions share the rational-goal approach, which maintains that organizational effectiveness/performance is equivalent to the attainment of particular (most often financial/economic) outcomes. Since the early 1960s the organizational effectiveness literature has questioned the exclusivity and measurability of this perspective. The subsequent approaches enlarged the notion of organizational effectiveness.

Within strategy research, the rational-goal approach, emphasizing shareholder or top-management interests, has always remained the dominant approach. The nearly exclusive focus on listed for-profit organizations has reinforced a reliance on financial/economic performance measures. Recently, in order to overcome the limitations of the approach, researchers have proposed an incorporation of operational performance criteria (such as product/service quality, new product introduction, innovation). This enlargement is still comparable to the goal-attainment approach of the organizational-effectiveness research tradition which focuses on operational goals. The emphasis on dealing simultaneously with different -- and potentially competing -- organizational goals resembles the competing-values approach of organizational effectiveness.

In terms of the most recent conceptual development in both research areas, the multiple constituency or stakeholder approach stresses that organizations have to fulfill the demands of their various strategic constituencies. This approach, in fact, evaluates the ability of organizations to handle effectively a variety of problems as a condition for long-term survival. For the strategy research tradition, the adoption of this approach represents a clear paradigmatic shift away from an exclusively financial and shareholder or top-management-oriented performance perspective. For effectiveness research, the multiple-constituencies approach represents an integration of previously viable effectiveness approaches.

It can be concluded that the degree of similarity between the constructs of organizational effectiveness and performance has varied over time. Being initially defined within the rational-goal approach, both constructs shared common roots. They developed, however, in different ways. While 'corporate performance' has for a long time been exclusively associated with financial performance, 'organizational effectiveness' has been broadened. Recent developments in strategic performance research, with a broader notion of performance, show a recurrent convergence. The parallel embracing of the multiple-constituency or stakeholder perspective, has made both constructs interchangeable.

### **3 The Merger: Use of Strengths of Both Research Traditions**

Given the convergence in recent conceptualizations of 'organizational effectiveness' and 'corporate performance,' we plead for a merger of both research traditions. Making use of their well-documented individual strengths will enhance progress in the field of organizational effectiveness/performance research. Within the organizational effectiveness research tradition, for example, a lot of energy has been expended towards theory or conceptual development. Strategy research, on the other hand, has followed a rather empiristic orientation; little attention has been paid to conceptual questions.<sup>10</sup> The majority of performance studies provide no explicit or carefully crafted account of the performance measures employed (Shenhav et al., 1994). In its regard of conceptual issues, thus, strategy research could certainly benefit from effectiveness research, particularly with regard to selecting the most appropriate set of effectiveness/performance criteria and measures. Furthermore, effectiveness research is more advanced in the handling of non-financial measures. Given the recent shift towards broader conceptualizations of corporate performance, the organizational effectiveness research tradition is of importance to future strategy research.

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<sup>10</sup> Almost every textbook on organizations (e.g. Daft, 1992; Evan, 1993; Robbins, 1990; Scott, 1992) and quite a number of scholarly papers (e.g. Bluedorn, 1980; Cameron, 1986; Hall, 1980; Hitt, 1988; Kanter & Brinkerhoff, 1981; Lewin & Minton, 1986; Weimer & Riemsdijk, 1994) as well as books (e.g. Cameron & Whetten, 1983; Goodman & Pennings, 1977; Steers, 1977; Zammuto, 1982) discuss conceptual questions of organizational effectiveness; this is hardly the case for the area of corporate performance.

Strategy researchers have spent quite a lot of effort (almost exclusively) on the development of various indicators of financial/economic performance (see e.g. Douma & Kabir, 1995; McGuire et al., 1986). Some of those indicators (such as stock-market data) could be incorporated into the organizational effectiveness research tradition, where possible. Another advantage of the strategy research tradition is their terminological distinction between financial/economic performance, operational performance and stakeholder or social performance. Such a terminological distinction with clear (theoretical and operational) definitions of the respective subsets of organizational effectiveness/performance criteria even seems a precondition to progress in the field.

Both research traditions could thus benefit from a move towards the other. Yet, since the late 1970s corporate performance has become the dominant term in the academic literature (Shenhav et al., 1994); empirical organizational effectiveness research has lost popularity. This is notable in the many scholarly overviews on organizational effectiveness that refer mostly to literature published in the early 1980s, indicating implicitly that progress in the area has diminished since then (e.g. Bluedorn, 1980; Cameron, 1986; Hall, 1980; Hitt, 1988, Kanter & Brinkerhoff, 1981; Lewin & Minton, 1986; Weimer & Riemsdijk, 1994). As formulated by Meyer and Gupta (1994), the question of what organizational effectiveness in essence is has slipped off the research agenda. Lately, in the nineties, virtually no original conceptual or empirical work can be found on the topic of organizational effectiveness. The perceived complexity of the area has obviously discouraged such work. Corporate performance researchers, however, seem less bothered by complexity. Guided by considerations of practicability, they have shown a tendency to measure what is easy to measure. Consequently, criticism leveled at their studies points to convenience, short-termism and narrowness (see also Shenhav et al., 1994). A merge of both research traditions, resulting in a better balance between conceptual depth and empirical practicability, could help to improve our insights on the elusive ultimate dependent variable in organization and management research. Such a merger, of course, requires that organizational effectiveness/performance researchers recourse to the two separate bodies of literature, to overcome the variations in focus and jargon and to work towards a joint body of knowledge.

## **4 Requirements for Progress in Future Organizational Effectiveness/Performance Research**

A merger of organizational effectiveness and corporate performance research is one important step for making progress in the field. It will, however, not resolve all problems at once. Progress in future organizational effectiveness/performance research demands that researchers deal with important aspects that have been rather neglected in both research traditions. We believe these include the following: the distinction of predictors and criteria, subjectivity in the assessment of organizational effectiveness/performance, and the attainment of a cumulative knowledge build-up. At the end of this section we will review the necessary components of high-quality studies in the emerged field.

### **4.1 Distinction of Predictors and Criteria**

Disentangling the means-end issue (the distinction between predictors and criteria) is vital for future organizational effectiveness/performance research. None of the existing conceptual approaches has dealt explicitly with this -- although we have shown it to be a subliminal issue in most of them. Identical variables are in some publications introduced as criteria, and in others as predictors of organizational effectiveness/performance. How could the line between these types of variables be traced more unequivocally?

Scott (1977) distinguishes outcome (results), process (activities) and structural criteria (capacities) of organizational effectiveness. We agree with other authors (e.g. Bluedorn, 1980; Goodman & Pennings, 1979) that outcome variables should have precedence as criteria of organizational effectiveness/performance. The general rule we propose with regard to the criteria-predictors issue is that effectiveness/performance criteria must have a commonly accepted and empirically supported close relation to economic performance or survival of the organizations studied. Variables like 'efficient communication' or 'participation in decision making,' while sometimes used as effectiveness criteria, would then have to be dropped in most organizational contexts, given the lack of evidence of high interrelationship with unambiguous goal- or outcome-type organizational effectiveness/performance criteria (see also Campbell, 1977; Kanter & Brinkerhoff, 1981). In other words, a non-outcome-type variable can only become a true

criterion of organizational effectiveness/performance if it is shown to be an attribute of (a particular type of) organizations, without which they would cease to exist. Hence, a much smaller number of true organizational effectiveness/performance criteria can be endorsed than those enumerated in the traditional organizational effectiveness literature.

## 4.2 Dealing with Subjectivity

In assessments of organizational effectiveness/performance, subjectivity comes into play in two major ways. First, subjectivity as a threat to the validity of organizational effectiveness/performance measurement becomes especially important when dealing with perceptual data. In the organizational effectiveness research tradition, it is quite common to employ perceptual measures that reflect the judgements of constituencies or experts. Recently, the area of strategy research has also begun to be interested in perceptual measures. The recent call for reputational assessments or stakeholder audits (Evan, 1993; Fombrun & Rindova, 1994) may increase the actual usage of perceptual measures, in addition to the conventional ones. Moreover, the high correlations of perceptual and non-perceptual measures of financial performance reported in the literature (Dess & Robinson, 1984; Rowe et al., 1995) provide support for the validity of perceptual measures. However, a mere item like: "How would you judge the overall effectiveness/performance of the organization?" is too vague or ambiguous,<sup>11</sup> leaving it up to the respondent to interpret what is meant by 'effectiveness/performance.' Dealing with the challenge of constructing valid and reliable perceptual measures has a long tradition in the behavioral sciences. For the development of sophisticated perceptual organizational effectiveness/performance measures, one may learn from research literature on managerial effectiveness (see e.g. Mahoney, Jerdee & Carroll, 1965; Tsui, 1994), employee effectiveness (see e.g. Bommer, Johnson, Rich, Podsakoff & MacKenzie, 1995) or team effectiveness research (see e.g. Ancona & Caldwell, 1992; Goodman, 1986).

Second, a lack of standards leaves space for subjectivity in the choices researchers/evaluators have to make during the assessment of organizational effectiveness/performance. As previous sections indicated, a commonly agreed-upon

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<sup>11</sup> Recent examples of studies using such an unspecified item are Greenley (1995), McCabe & Dutton (1993) and Tosi & Gomez-Meija (1994).

standard for the choice of criteria and their operationalization does not exist. The choice of adequate sources of information (objective data and/or perceptual data of one or several constituencies) is also without general standards. Moreover, space for subjectivity exists when choosing a standard of reference for the evaluation of organizational effectiveness/performance (see Cameron & Whetten, 1983). And, finally, also the judgement of whether a performance figure is too high or too low bears subjective elements regarding the definition of cut-off points (see Harrison, 1994).

Even without yet talking about so-called subjective data, subjectivity is thus present in effectiveness/performance evaluations. In order to gain useful results, researchers need to be explicit -- not only about their effectiveness/performance perspective (e.g. regarding financial, operational or stakeholder effectiveness/performance), but also about their employed measures, their sources of information, the standard(s) of reference and the chosen cut-off point(s). These factors clearly influence the findings on organizational effectiveness/performance. It is thus worthwhile to make carefully reasoned choices in this respect -- more careful and explicit than we have seen in most publications within both research traditions.

### **4.3 Attainment of a Cumulative Body of Knowledge**

Organizational effectiveness/performance has been operationalized in so many different ways that results of the many various empirical studies can hardly be called cumulative. The majority of empirical organizational effectiveness/performance studies thus far does not provide the reader with a theoretical definition of the concepts under investigation (Shenhav et al., 1994). Shared understandings seem to be assumed, although it is meaningless to speak about organizational effectiveness/performance without specifying the domain(s) under consideration (e.g. financial or social performance). As a first indispensable step for a cumulative knowledge build-up, researchers must begin to use clear-cut, specific and similar terminology and, even more crucial, define their concepts theoretically.

Furthermore, it must be acknowledged that no general approach exists to the study of organizational effectiveness/performance. Hence, differences in research aims and type, size or life-cycle of the organizations studied, account for a large part of the variability

found in organizational effectiveness/performance operationalizations. A more systematic link between specific organizational settings, relevant organizational constituencies and effectiveness/performance criteria has yet to be established. Review studies, which play an important role in the attainment of a cumulative body of research, have thus far revealed only inconsistencies (see e.g. Campbell, 1977; Hubbard & Bromiley, 1995; Shenhav et al., 1994; Steers, 1975). Progress in the field requires a clustering of studies that are comparable in terms of approaches and organizational settings under consideration.<sup>12</sup> That way, areas of consensus among researchers can be detected and meaningful conclusions for the clusters can be drawn.

#### **4.4 Necessary Components of High-Quality Organizational Effectiveness/Performance Studies**

Urgently required, thus, are high-quality studies in the important field of organizational effectiveness/performance. Here we will formulate a proposition that summarizes the necessary components of high-quality research in this field.

Proposition:

High-quality studies of organizational effectiveness/performance require the following: (1) a theoretical delineation of the construct under investigation and clear-cut terminology that is also well grounded in previous academic work, (2) multiple criteria that are unambiguously different from potential predictors, (3) criteria reflecting the perspectives of multiple constituencies, (4) multiple and psychometrically sound measures (i.e. financial and non-financial, perceptual and non-perceptual, short- and long-term), (5) multiple sources of information and (6) careful reportage of standards of reference and cut-off-points for the organizational effectiveness/performance judgement.

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<sup>12</sup> In an analysis of 15 recent organizational-effectiveness studies (Heuvel, 1995), a cluster of five studies with comparable approaches and comparable organizational settings could be identified.

## 5 Conclusions

The most recent and comprehensive approaches within research on organizational effectiveness are the multiple-constituencies and competing-values approaches. These stress that different and contrasting influential forces simultaneously pull the organization. Following this view, assessments of organizational effectiveness require multiple respondents and criteria, reflecting the various perspectives of constituencies.

A comparable trend towards constituency or stakeholder models of corporate performance can be observed in the area of strategy research. The dominance of the shareholder/top-management oriented financial/economic performance model has been questioned and broader conceptualizations of performance are currently being discussed (Brown & Laverick, 1994; Doyle, 1994; Kaplan & Norton, 1992; Preston & Sapienza, 1990); following the stakeholder theory, the purpose of the firm has to be redefined in terms of a vehicle for coordinating stakeholder interests (Donaldson & Preston, 1995). Thus, success in satisfying multiple stakeholder interests, in addition to meeting conventional financial/economic criteria, constitutes the ultimate test of corporate performance.

A decrease in empirical studies, yet an extensive conceptual tradition, makes the area of organizational effectiveness fit for an alliance or cross-fertilization with a comparable area of study. The empirically strong corporate performance tradition seems to be a promising complement. In their most recent developments, both research traditions share the same foundation. A merger of their historic strengths would result in conceptual depths combined with a vivid empirical orientation.

Progress in the field of organizational effectiveness/performance requires that a researcher, originally coming from one of the research traditions, carefully learns from the literature of the other tradition. Moreover, researchers have to deal with the remaining issues: the distinction of predictors and criteria, subjectivity in the assessment of organizational effectiveness/performance and the attainment of a cumulative knowledge build-up. Our proposition relating to necessary components of high-quality studies in organizational effectiveness/performance should guide not only researchers, but also editors and reviewers. Especially these latter two could best fulfill the promise of the required merger of organizational effectiveness and corporate performance research.



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