

Organizational Effectiveness

The Role of Psychology

Edited by

Ivan T. Robertson

Manchester School of Management, UMIST, UK

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Preface

This book originates from a gathering of senior practitioners and researchers in the field of work and organizational psychology which was held at Manchester School of Management, UMIST, UK, in September 1999. The purpose of the seminar was to discuss an open question—what is the impact of individuals' performance on overall organizational effectiveness? Of course, given that psychology is the study of individuals, the answer to that question is also about the potential applications of psychology to the pursuit of organizational effectiveness.

What emerged from the discussions that day were the beginnings of some answers to what was recognized as being a very difficult question. The difficulty is, as the following chapters testify, that while psychological knowledge and approaches hold many responses to this question, they have not really been placed together before.

Some of the most common fields of activity in work and organizational psychology have rarely been evaluated for the impact they have at the level of the organization, with intervention and evaluation remaining firmly at the level of the person. While we cannot claim to be in a position yet where we can develop a neat and coherent model, specifying elegantly the path by which individual people make organizational outcomes, collectively, the contributors have assembled a detailed picture depicting much of how individuals create the group level phenomena that make an effective organization and the psychological interventions that can aid them. The richness and breadth of the book's content is testimony to the quality, expertise and diversity of the professionals we were able to assemble for this task.

The authors' starting point was the seminar discussions, the Introduction written by the Editors, and a deadline. It is testament to their ability and effort as scholars and writers that these chapters can be seen as a collection. Each chapter can be read independently, or in the context of our collective endeavour.

The Contents of the Book

The Editors' Introduction presents a general framework of organizational functioning incorporating the role of the individual within which a psychological approach to organizational effectiveness can be viewed. Effectiveness is

characterized as a multidimensional construct and a range of criteria are organized into four broad categories. The role of various stakeholders in the organization in defining effectiveness is also discussed. The potential relevance of psychological intervention at various levels of organizational functioning, from global to individual, is highlighted. Finally, the discussion, which then continues throughout the book, is opened. This discussion concerns the path by which individuals' knowledge, skills, abilities and other characteristics lead to behaviours and, collectively, to organizational level outcomes that may be considered as more or less "effective". This is discussed using the concept of competencies.

In Chapter 1, Paul Sparrow and Michael West argue that psychological research has already demonstrated a "powerful linkage between the individual, team and organizational effectiveness". The authors review research on three facets of effectiveness—productivity, innovation and mental health—at two levels of analysis—individual and group—moving on to the level of the organization and the link between HRM and organizational performance.

The next two chapters focus on some of the key issues surrounding the effective translation of research knowledge into action in organizations. The process of application and intervention is viewed as a critical area of discussion in itself because it is only through this process that the potential benefits of psychological research can be delivered.

In Chapter 2, Gerard Hodgkinson and Peter Herriot provide a thoughtful exploration of some issues in identifying opportunities to carry out psychological work in organizations. They describe some structural features of the profession of psychology that constrain and shape the type of questions addressed. They comment on the reasons why psychology has not been at the forefront of research aimed at improving organizational effectiveness, identify what they see as its real strengths for that purpose, and suggest future directions that might be taken.

Chapter 3, by Mary Dalglish and Rick Jacobs addresses some of the practical aspects of doing psychology in organizations. With the aid of some illustrative case studies of real interventions in which they have been involved, they first identify the kinds of organizational impact that can be demonstrated and then outline a process model for psychological intervention, showing how that impact may be enhanced and maintained.

Part II of the book contains seven chapters, each specifically addressing a significant area of psychological research and practice in organizations and explaining its products in relation to their contribution to overall effectiveness.

In Chapter 4, Kevin Murphy and Dave Bartram provide a comprehensive review of the strengths and shortcomings of the most substantial area of psychology at work—recruitment and personnel selection. The assumptions underlying research on this topic are subjected to critical appraisal, particularly focusing on how those assumptions differ from the reality of how selectors make personnel decisions. The authors examine attempts to demonstrate the utility of selection at the organizational level and identify some of the problems associated with linking selection test validity with organizational effectiveness.

Phyllis Tharenou and Eugene Burke begin Chapter 5 by voicing the doubts that many organizations have about whether training does actually pay off in

significant ways. In what appears to be the first published review of research addressing this question, the evidence of the impact of training on a range of individual and organizational effectiveness outcomes is described. Some explanations are then offered for the impact that training does appear to have on overall effectiveness. The final section of the chapter outlines some approaches organizations might take in order to maximize the positive benefits that accrue from training.

In Chapter 6, Richard Williams and Clive Fletcher review the area of performance management. Three types of model that come under the description of performance management are identified and described. Some issues surrounding the definition of performance are discussed. The authors distinguish between the antecedents and determinants of performance, viewing performance as being determined by the interaction between multiple person and system factors. Finally, the impact of work psychology-based interventions that come under the banner of performance management is considered.

The topic of motivation is covered by John Arnold and Wouter Schoonman in Chapter 7. The authors first trace the history of motivational concepts and approaches and then take a critical look at their usefulness. They go on to describe how some of these ideas might be applied to some conditions of modern workplaces, and highlight some areas of potential conflict between individual and organizational goals and motivations that may impact on overall effectiveness. Some new directions in the field are also outlined—in particular, a concern about the lack of attention that has been given to the self and identity in motivation research. A case study focused on individuals' values is offered as an example of a more self-orientated approach to the topic of motivation.

In Chapter 8, Sue Cartwright and Helen Baron examine the various definitions and concepts of organizational culture and some of the ongoing debates within the field about how culture is best described. The use of cultural concepts to analyse differing perceptions between organizational members is illustrated in three cases studies, each addressing a different problem. The authors also discuss cultural assessment methods, and the potential consequences of cultural consistency between individuals and organizations. They suggest some of the future challenges that may impact on the management of organizational culture.

In Chapter 9, Beverly Alimo-Metcalfe and Gill Nyfield discuss the impact of leadership on organizational functioning and review the history and progress of leadership research. The effect of gender and cultural dominance on the research process and the interpretation of findings is discussed. The authors go on to outline the new directions leadership research and practice is now taking. Issues covered include an increased focus on leaders' self-awareness and the subsequent development of 360-degree, multi-rater feedback assessment instruments, as well as the relative contribution of stable and learnt qualities to leadership ability and the implications for organizations' selection and development practices.

The final chapter in Part II, by Rainer Kurz and Dave Bartram, extends and develops the ideas presented in the Introduction on competency and performance. It presents an attempt to outline a model of performance at work that

integrates academic theory and occupational assessment practices into a unifying framework that can be used as the basis for human resources management in organizations.

In Part III, the Editors have written a concluding chapter which attempts to bring together some of the themes and conclusions that have emerged in the individual chapters.

INTRODUCTION

A Framework for Examining Organizational Effectiveness

Dave Bartram, Ivan T. Robertson and Militza Callinan

This Introduction outlines an overall structure within which to consider the impact of individual performance on organizational effectiveness. The structure provides the framework for demonstrating how psychology can provide, through appropriate modes of intervention at the individual level, the means of enhancing organizational effectiveness.

ORGANIZATIONAL EFFECTIVENESS

In order to explore ways in which the behaviours of individuals at work can impact on organizational effectiveness, we first need to define what we mean by “organizational effectiveness”. Both words need consideration.

There are many ways in which we could define an organization. Typical dictionary definitions focus on a number of key features:

- Organizations are structured, orderly systems—they are “organized”.
- They are constructed to serve a particular end or set of objectives.
- They provide the means of controlling performance in the pursuit of those goals.
- They are primarily social arrangements—organizations are organized goal-oriented collections of people.

Within organizations, the role of individual members is varied; but for the organization to be effective, the members need to gear their activities towards defining and attaining shared goals (i.e. the organizational goals). An organization’s effectiveness can be judged by the extent to which its members are successful in this endeavour. We can distinguish between primary and secondary organizational goals.

- Primary goals reflect the organization's *raison d'être*, and will generally be described in commercial terms (market share, profit levels etc.).
- Secondary goals are about how to achieve the primary goal, and often focus on internal organizational criteria (levels of job satisfaction, developing the "right" culture, effective internal communication and so on).

Organizations are more than just a collection of people in pursuit of some common objectives. From the perspective of individuals, their organizations have a physical dimension (it is their place of work) and provide them with physical space and resources for their work. They also provide more or less effective communication channels (formal and informal) and may be more or less effective in providing people with the information and knowledge they need as and when they need it. As has already been noted, organizations are social arrangements. This means not only that they consist of collections of people, but also that the effectiveness of the organization will be dependent on the nature and quality of relationships between those people. Organizational structures, training, selection procedures etc. can all impact on the quality of the social environment within which people work.

While the realization of collective organizational goals is dependent on the performance of people in organizations, organizations also provide people with the opportunity to meet a range of individual needs (see, for example, Fryer & Payne, 1986).

Specifically, organizations can provide people with:

- money and physical resources
- power, authority and control
- status, prestige and self-esteem
- security, support and protection
- order and stability
- meaning, relevance and purpose.

From the perspective of employees, the extent to which an organization can provide satisfaction of the needs associated with this range of variables is a major consideration in judging the effectiveness of that organization.

While the collective approach towards the pursuit of common goals is easy to identify within small organizations, as organizations increase in size, so job positions become increasingly specialized and each individual has a proportionately smaller impact on the overall effectiveness of the organization. In addition, each individual will "see" only a small part of the organization and have increasing difficulty in owning general organizational goals and objectives.

As a consequence, individuals will tend to identify with their own particular part or section of their organization. As an organization increases in size, so issues of controlling individual performance in the pursuit of collective goals become more and more complex. It may also be the case, that the goals themselves become more diffuse and complex. Not only does this make it more difficult to describe what the organization's purpose is, but it also becomes more difficult to communicate that purpose effectively to all those who work in it.

Kaplan and Norton (1992) proposed the use of a balanced scorecard approach to dealing with the need for multiple indicators of performance effectiveness. However, their approach tends to conflate stakeholder groups with categories of effect (economic or social). Kaplan and Norton proposed the measurement of performance in terms of four perspectives: Financial, Customer, Internal Process, and Growth and Innovation. Atkinson et al. (1997) have argued that this approach ignores some key stakeholder groups (notably suppliers, employees and the broader community within which the organization operates and on which it can have indirect but significant effects).

The model proposed here extends their approach and makes a separation between who is affected and how they are affected. Key to developing a framework for the consideration of organizational effectiveness is two questions.

1. What are the characteristics of an effective (as opposed to an ineffective) organization?
2. Which groups of people are affected by the success or otherwise of an organization?

These are related, in that each stakeholder group will have a different view on what may be regarded as “effective”.

- Investors and shareholders look to the organization to provide a good return on investment, long-term stability and growth.
- Customers want value for money, quality of product or service, good support and after-sales care.
- Suppliers want to work with an organization that is dependable and provides them with long-term stability as a market and reliability in payment, and is aware of the constraints on the suppliers’ ability to supply.
- Employees look for job satisfaction, stability of employment, career prospects, personal development, good pay and rewards.
- Others look for the impact of the organization’s activities on their environment and way of life (economic, social, political, and cultural) to be positive and beneficial.

Broadly speaking we can break down effectiveness criteria into four categories:

1. *Economic*. This is fundamental, as commercial organizations that are economically ineffective will not survive. As with all other criteria, the effectiveness or otherwise of an organization in economic terms is inextricably linked with the external economic environment. Effective organizations must be able to adapt to changes in the economic climate.
2. *Technological*. Organizational effectiveness requires use of technology for internal communication as well as for service and product development and delivery. The nature of the business will impact on the roles technology can play, but effective use of technological resources can be as critical in organizational success as effective use of people.

3. *Commercial*. The nature of the commercial environment within which an organization operates is critical to its success. In this sense, one could identify competitors as another stakeholder group. Effectiveness can be defined in terms of finding or developing a specific market niche, or confronting the competition head-on and taking market share.
4. *Social*. This is intended as a broad notion of social, to include socio-political, ethical and cultural measures of effectiveness. Organizations are not only collections of people, but also impact on people (customers, suppliers, shareholders and the public at large). The effects of economic success or failure are social effects (employment, standard of living and quality of life). Organizational goals may have ethical, social and political dimensions. As such, they may conflict with purely economic goals.

Finally, we need to consider the scope of each of four categories of criteria for each of the stakeholder groups:

- internal to the organization
- within the immediate local environment of the organization
- national
- international.

By combining these various categories together we end up with a three-dimensional matrix containing 80 cells, of which most are meaningful stakeholder-by-environment-by-scope combinations.

Organizational effectiveness is a complex multi-dimensional construct. While there are some essential criteria (e.g. maintaining financial viability) for effectiveness, organizations will differ in their overall concept of “effectiveness”. They will differ in terms of the emphasis they place on factors such as: internal levels of job satisfaction; pursuit of an ethical sales policy; contribution to the social development of third-world countries, and so on. Such differences will be reflected in an organization’s espoused values and missions. Each organization constructs its own definition of effectiveness and its success needs to be evaluated in terms of that construction. Although each organization constructs its own success criteria, these criteria may, in some cases, be externally influenced or imposed. For example governments may prescribe effectiveness criteria for public sector organizations.

IS EFFECTIVENESS AN ORGANIZATIONAL CONSTRUCTION?

The above discussion could be taken to imply that effectiveness is a purely relative term: that there are no absolute criteria that could be applied. While it is clear that organizations differ in the degree of emphasis they place on different criteria, much of this variation can be related back to the overall nature and purpose of the organization (public or private, large or small, production or service oriented etc.). Perhaps the organization’s capability to choose and balance various

effectiveness criteria is in itself a contributor to overall effectiveness. Clearly, both the clarification of criteria within an organization and decisions about differences in emphasis are actually achieved through the actions of organizational members.

When we consider the characteristics of an effective organization we tend to find common themes emerging. For example, Dunphy (1981) provided the following list of characteristics that define an effective organization:

- clearly-defined goals
- structure related to goals
- constant scanning of the environment and appropriate adaptation
- consistent clear procedures that evolve purposefully
- exercise of power in a manner that recognizes mutual influence
- flexible, participate decision-making
- information openness
- initiative in external relations
- well-defined concept of social responsibility
- meaningful, varied work with learning opportunities
- commitment to personal growth (planned skills development)
- mutual trust, respect and support
- accurate timely performance feedback
- just and equitable rewards.

These can be summarized in terms of five main areas:

1. goal specification
2. clarity of goals and clear communication of objectives throughout the organization
3. awareness of the commercial environment and ability to change and evolve within it
4. a management structure that facilitates goal-related performance
5. a well-motivated workforce, valued by the organization, with competencies that are aligned with the goals of the organization.

Organizations may become ineffective in achieving their espoused goals for one of a number of reasons associated with problems in these areas. While the role of psychology might appear to be most obviously relevant in the last of these areas, psychology has a contribution to make in all of them.

INTERVENING AT DIFFERENT LEVELS

In considering organizational effectiveness, we need to look at problems that can arise at a number of levels of social aggregation, which relate to the areas outlined above.

- *At organizational level:* are the strategies being followed the appropriate ones for achieving the corporate goals, has the wider commercial and socio-political environment been understood and taken into account?

- *At inter-group level:* do the various work groups within the organization communicate and co-operate effectively and share a common understanding of the corporate goals?
- *At intra-group level:* does the organization provide the environment and resources necessary for groups to work effectively?
- *At the individual level:* is each individual role defined in a way that does not create overlap or confusion and are individual needs and competencies considered and managed?

While these may reflect different functional levels and impact on increasingly larger numbers of people within the organization, they are all fundamentally concerned with the performance of individual people.

- It is people who perform at the individual level.
- It is people within organizations who are responsible for providing the working environments for work groups.
- It is people who manage the communications within organizations.
- It is people who manage organizations, from Board level downwards.
- It is people who set the strategy, and define the goals and objectives.

Although it can be helpful and sometimes illuminating to consider organizations as a whole, it is important to remember that the “behaviour” of organizations as entities is determined by the actions of individual members, or groups of members. Organizations, as such, do not take action. Consideration of concepts such as the strategy of an organization, or the state of readiness of an organization, should not lead to the false view that organizations may be treated as independent entities, without recognition of the key causal role of the people who make up the organization.

To change an organization, you have to operate at the level of changing the behaviour of the people who make up that organization. While the role and breadth of impact of the CEO may be different from that of the receptionist, both have an impact on the effectiveness of the organization and psychologists can play a role in enhancing that impact in both cases.

HOW IS ORGANIZATIONAL EFFECTIVENESS DELIVERED THROUGH THE PERFORMANCE OF INDIVIDUALS?

At the heart of the process of managing individual behaviour is the need to direct that behaviour toward the production of results that help build towards realizing the organization’s objectives.

Competencies have become an integral part of modern people management throughout the world. To manage people effectively, managers need a way of accurately assessing each individual’s strengths, development needs and potential contribution. Competencies have become popular because they meet the need for increasingly sophisticated measures, while remaining firmly linked to observable behaviour.

By defining constructs in terms of clearly specified behaviours, competencies have become a powerful tool for assessing the performance of people. In addition competencies have given managers and their people a common language for discussing development and career potential issues, and a way to express the culture and values of the organization in terms of the behaviour expected of employees.

WHAT DO WE MEAN BY “COMPETENCY”?

We define competencies as *sets of behaviours that are instrumental in the delivery of desired results or outcomes.*

It is important to note the focus here is on behaviours, not on results or personal attributes. The present competency model (Figure A) distinguishes four main sets of variables:

- 1. *Competencies* themselves—defined as sets of desirable behaviours, where “desirable” is defined in terms of the outcomes to which such behaviours lead. Competencies reflect the behaviours that a person does in order to achieve specific business objectives—these objectives can either be actions to achieve business results or actions to support the general operation of the organization. The goal of a competency approach is to provide specific guidance regarding which behaviours organizations are encouraging among their members.
- 2. *Competency potential*—the individual attributes necessary for someone to produce the desired behaviours. These attributes are not always reflected in actual behaviour, since the behaviour that an individual displays is moderated by

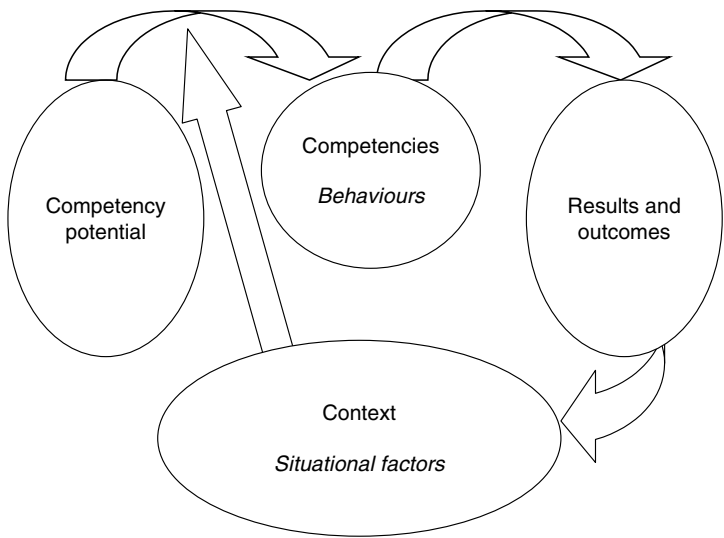


Figure A A model of competency

the *context*. For example, an operative may have the capability to work more effectively and increase output but will not do so, because the rewards (such as recognition, praise or additional pay) are not available.

3. *Context*—the implicit and explicit situational factors, which influence individuals within a work setting to behave in certain ways and not to behave in others. In addition to instructions (e.g. the line manager's setting of an individual employee's goals), a wide range of contextual and situational factors in the work setting will also influence an individual's effort and affect the individual's ability to produce the desired sets of behaviour. Important situational factors in the workplace include: work colleagues; supervision; reward systems; physical environment. There are also situational factors outside the direct work setting which can have an impact on the competencies displayed by an individual. These include: domestic relationships and leisure pursuits.
4. *Results*—the outcomes or goals of behaviour, which have been defined either explicitly or implicitly by the individual, their line manager or the organization. The distinction between results and behaviour is important and serves as a reminder that sometimes people may be displaying many of the necessary competencies but things go wrong—perhaps due to unforeseen external events.

It is only when an individual performs within a setting that we can judge whether they are displaying the competencies required to generate the outcomes needed. As that may be too late, we need to provide organizations with effective methods of measuring competency potential.

Competency Potential

A person's potential, or capability, to behave competently in the workplace is partly a function of their personal attributes. These include underlying aspects of the individual (aptitudes, interests, values, motives and personal style) as well as their knowledge and their skills. Campbell et al. (1993) have similarly distinguished between "antecedent" person factors (personality and abilities) and "determinants" (knowledge, skills and motivation) of job-relevant behaviour.

The concept of competency potential is important in that it enables us to draw a distinction between measures that *predict* competency and measures of competency. This is a crucial difference that many other approaches blur. It can also appear to be blurred by the use of common language. For example, some personality questionnaires use terms such as "persuasiveness" and there are competency definitions using the same term. The new model requires us to be very clear in differentiating these: the trait describes a propensity to act in certain ways, the competency is based on evidence that a person does act in those ways.

Situational Factors

The differences between competency potential and competency arise from the impact of situations on behaviour. In any work setting, there are factors that

tend to facilitate or encourage some behaviours, and factors that will inhibit or discourage other behaviours. These factors range from the communication of instructions down from line management to the physical arrangements of space within the work setting; from the relationships between work colleagues to the provision of the necessary resources and materials.

Situational factors can be divided into two types: *drivers* and *barriers*. As their names imply, drivers act to encourage or increase the likelihood of desirable behaviours being elicited. Barriers, on the other hand, act to reduce the likelihood of these behaviours occurring. In short, the same person may be able to act competently in one work setting but unable to do so in another. This is not because he or she lacks the necessary knowledge, skills and other attributes, but because the situation makes it difficult to impossible for them to be displayed. As a consequence, the desired outcomes or results are not achieved.

Characteristics of the work environment act as barriers to or drivers of behaviour both formally (e.g. through training, provision of equipment, objectives setting) and informally (e.g. through social relations, ease of communication, work place design influences on activities and so on).

The environmental factors that affect an individual's ability to demonstrate competency, given a clear set of performance objectives, range from physical and geographical factors, through provision of resources, to organizational culture and the patterns of formal and informal person relationships within the work setting.

Relationships represent the social structures that make up the surrounding of each individual. Relationships moderate the objective work demands by providing multiple perspective of authorities, peers, dependants and external relations that may be supportive of each other or conflict. Their operation is central to understanding and managing performance at work. The formal and informal structure combine to set the framework against which behaviours are shown and judged.

SUMMARY

This book is focused on building a detailed picture of how organizational effectiveness stems from the actions of individuals, and, consequently, how psychological interventions can aid its achievement. This Introduction has sketched out the structure and boundaries of a broad framework within which the link between people and their organizations can be viewed. In the following chapters, the authors have addressed the issues within the framework that relate to their own areas of knowledge and expertise.

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