

# A new magical lamp to rub? : the multiple constituency approach : a potentially useful framework for research on the organizational effectiveness construct

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# ***A new magical lamp to rub? The multiple constituency approach: a potentially useful framework for research on the organizational effectiveness construct***

Jeroen Weimer & Maarten J. van Riemsdijk

*In this paper, the construct of organizational effectiveness is revisited. Effectiveness is a construct of central importance in the literature on organizations. But it has its problems. A major theoretical problem in research on this construct is the lack of consensus about its meaning and substance. This paper attempts to diminish this theoretical problem by summarizing research on the different approaches to effectiveness that have been developed over time. It is further argued that the multiple constituency approach might be a potentially useful framework for employing effectiveness research. The paper then describes the general characteristics of the multiple constituency approach through a cumulation of insights available from the literature on organizations. As a result, we opt for a refinement of the approach by introducing a nuanced power perspective. Finally, a number of remarks on the application of the approach are made, incorporating some of the critiques that effectiveness research has been subject to.*

## **1. Introduction**

There are those who question the effectiveness of organizational effectiveness studies, but the construct itself is deeply embedded in the organizational literature. Goodman and Pennings (1977, ch.1) have argued that effectiveness is a central theme in almost all organizational analyses and that it is difficult to conceive of a theory of organization that does not include the construct. Improved effectiveness is claimed as the desired end in the applied fields of organization design (Kilmann et al., 1976) and organization development (French et al., 1978). But despite its apparent importance to the development of organization theory, the construct is not without its problems - to say the least. In an ascending order of munificence, Steers (1975), Hannah and Freeman (1977), and Bluedorn (1980) have criticized the usefulness of organizational effectiveness research.

Leijten (1992, p.15 ff.), summarizing the critique, discerns two major shortcomings of effectiveness research. One concerns a theoretical, the other a methodological problem. The

theoretical problem is a lack of consensus about the meaning and substance of the effectiveness construct. The methodological problem is reflected in the ease with which most researchers attempt to generalize their results over different organizational forms. In this article we dig into the first problem. We will attempt to clarify the meaning and substance of the construct from the existing literature and we will present a potentially useful approach to effectiveness research. The second problem deserves separate attention and will not be dealt with here; the reader is referred to Miller and Mintzberg (1983).

In section 2, the different approaches that have been developed for employing research on the organizational effectiveness construct are summarized. It is our position that the multiple constituency approach might be a useful framework for research in this area. Therefore, in section 3 this approach is elaborated upon. In section 4 a number of remarks on the application of the approach are made, at the same time concluding the paper.

## **2. Approaches to research on the effectiveness of organizations**

### *2.1 Introduction*

According to the Longman dictionary of the English language (1991, p.500), the meaning of 'effective' is straightforward enough. It means 'producing a decided, decisive, or desired effect'. Effective, effectual, and efficacious all mean 'capable of producing results'. However, in the literature on organization theory different groups of authors have introduced different meanings of effectiveness. These are accompanied by different concepts of the organization, different assumptions, operationalizations, research methods and techniques, and a variety of organizational situations to which the proposed effectiveness models could be applied. The reasons for these apparent divergencies are listed by Cameron (1978). But still, researchers are stuck with a legacy that is difficult to grasp because of its sheer vastness.

A number of overviews of effectiveness approaches have been made in the past (e.g., Scott, 1977; Rieken and Baaijens, 1982). In some textbooks concise overviews are given (e.g., Daft 1989; Robbins, 1990; Bedeian and Zammuto, 1991). To the best of our knowledge however, it has been over a decade since a relatively extensive one was published (by Cameron, 1984). Therefore, in this section we present an updated overview of the effectiveness approaches that have been

developed in the course of time, with an emphasis on the last decade. Each following subsection contains a description of an existing approach to organizational effectiveness. The order of the subsections is chronological. It is retrospectively derived from the moment in time an important (c.q., frequently cited) article on the specified approach was first published. The approaches are distinguished by their use of different conceptions of the organization, the effectiveness definition they apply, and the situation in which they might most appropriately be applied. Hopefully, the reader will have a better understanding of the intricacies of the effectiveness construct at the end of this section.

The different effectiveness approaches are neither necessarily mutually exclusive nor antithetical. Rather, they are distinguished as a result of a shift in the conceptual framework of organizational effectiveness. However, there is an essential difference pertaining to the so-called *traditional* and *contemporary* effectiveness approaches (Daft, 1989). The traditional approaches share the crucial assumption that it is possible, and desirable, to arrive at a *single* set of evaluative criteria and consequently at a single statement of organizational effectiveness. Both the *goal* approach (covered in section 2.2) and the *system-resource* approach (section 2.3) could be labelled traditional in this sense. The aforementioned assumption is relaxed in the contemporary *multiple constituency* approach (section 2.4) and the *competing values* approach (section 2.5). They share the view that *different*, as opposed to single, statements on an organization's effectiveness can be made. Hrebiniak (1978) proposed that it may be useful to think in terms of effectivenesses (plural). Consequently, in the contemporary approaches judgment as to whether an organization is effective or not is dependent on the answer to the question: effective *to whom?*

## 2.2 The goal approach

The goal approach is probably the most commonly used and widely discussed approach for assessing organizational effectiveness, expectedly as a result of the inherent relationship between organizations and goals. According to Morgan (1986, p.23), the word 'organization' etymologically stems from the Greek *οργάνων*, literally meaning 'instrument' or 'tool'. In a number of theories of organization this instrumental view is manifest in the sense that - formal - organizations are considered as an instrument for attainment of goals that cannot be realized through individual action. Etzioni's (1964, p.3) definition of the organization clearly reflects this: 'organizations are social units (or human groupings) deliberately constructed and reconstructed to

seek specific goals'. Daft (1989, p.89) is emphatically to the point, claiming that 'organizations are goal-attainment devices'. The importance of goals in the theories of organizations is also stressed by Gross (1969, p.277) who suggests that 'goals are *the* central factor in the study of modern organizations' (Gross' italics).

According to Bedeian and Zammuto (1991) the origin of research on the organizational effectiveness construct adheres to the focus on organizational goals and is associated with Barnard (1938, p.59): 'When a specific desired end is attained we shall say that the action is effective'. The distinctive feature of this goal approach is that it defines effectiveness in terms of goal attainment: the greater the extent to which the organization's goals are met or surpassed, the greater its effectiveness. Only minor differences can be discerned when several definitions of organizational effectiveness from the goal perspective are considered. Etzioni (1964, p.8) states on the relationship between effectiveness and goals that 'the actual effectiveness of a specific organization is determined by the degree to which it realizes its goals'. Reddin (1970, p.3) contends, more directly: 'effectiveness is the extent to which an organization attains its goals'. Price (1972, p.3) argues with regard to the goal approach: 'the goal approach to effectiveness consists of identifying an organization's output goals and assessing how well the organization has attained those goals'. Especially from the latter reference it becomes clear that the goal approach to effectiveness of organizations is primarily *output-oriented*.

But despite the apparent relevance of organizational goals, academicians have been confronting severe conceptual problems associated with organizational goal theory. It is outside the framework of this section to treat all of these difficulties in depth. However, some of the more fundamental ones simply have to be mentioned. We focus on the limitations of the goal approach to effectiveness of organizations as it was developed up to the end of the seventies.

First, the goal approach seems to assume that organizations are rational, goal-seeking entities. Simon (1957) has convincingly introduced the concept of bounded rationality, implying that human behaviour is 'intendedly rational, but only limitedly so' (p.xxiv). In addition, Simon (1964) shed light on the conceptual peril of granting an organization human characteristics, i.e. *reifying* it. Cyert and March (1963, p.26) also clearly reject the temptation to attribute goals to the organization itself. The organization is essentially a mental abstraction and has no existence independent of its members; 'people (i.e., individuals) have goals, collectivities of people do not'. At this point, a problem emerges for effectiveness research from the goal approach. When assessing how well an organization has attained its goals, whose goals are we talking about? A

possible solution of the reification problem is a compromise of goals at the organizational and individual level. The establishment of goals *for* the organization might be associated with the presence of a *dominant coalition* (Thompson, 1967, ch.9). This concept will be elaborated upon in section 3. Only for reasons of readability we will use the term 'organizational goal' throughout the remainder of this section, without implying that such a goal is consensual or holds for the organization as a collectivity per se.

Second, as Bedeian and Zammuto (1991, p.63-64) spell out, goals are ideal states. Organizations tend to be less consistent and less perfect in actual performance than initially anticipated. Some discrepancy between goals (an ideal state) and performance (a real state) is almost inevitable. So to judge effectiveness solely in terms of complete, or even substantial, goal attainment is to virtually assure a disappointing conclusion in most cases. Resembling Simon's notion of satisficing behaviour, Cyert and March (o.c., p.28) suggest that organizational goals take the form of an *aspiration level* rather than an imperative state.

Third, what an organization states officially as its goals does not always reflect the organization's actual goals. Because this creates a problem to effectiveness research from the goal perspective, *official* organizational goals should be distinguished from *operative* goals. Perrow (1961, p.855) states that official goals are 'the general purposes of the organization as put forth in the charter, annual reports, public statements of key executives, and other authoritative pronouncements' and that operative goals 'designate the ends sought through the actual operating policies of the organization; they tell us what the organization is actually trying to do, regardless of what the official goals say are the aims'. Stated simply, official goals are what the organization *says* it wants to achieve while operative goals are what the organization is actually *trying* to achieve. Official goals tend to be influenced by standards of social desirability. Therefore, their ability to contribute to an understanding of what the organization is actually trying to do is quite restricted. Thus, if one wants to judge the effectiveness of an organization by checking on its results as far as the official goals are concerned, one might miss the point completely.

The fourth limitation of the goal approach occurs once the time horizon is taken into consideration. Statements on organizational effectiveness in terms of goal attainment are subject to modification as time progresses. Lawrence and Lorsch (1967, p.35) discuss this difficulty in terms of conflicting time horizons, while Katz and Kahn (1966, p.252) point out the difficulty of balancing means and ends at some optimum point. Basically, organizational goals are subject to

change as a result of either goal *succession* or goal *displacement*. As a basic form of goal change, goal *succession* refers to the deliberate replacement of an organization's primary goal, once it has been achieved, with a new goal. In the literature, the case of the National Foundation for Infantile Paralysis is almost always used as an illustration of goal succession. Goal *displacement* arises when an organization substitutes for its legitimate goal another goal for which it was not initially created (Warner and Havens, 1957). Here too, the researcher of organizational effectiveness using the goal approach has a problem to solve. One has to decide what time horizon to accept and which goals are the ones that have to be attained for an organization to be considered effective within that time frame. Quinn and Cameron (1983) demonstrate empirically that criteria for effectiveness shift according to the stage in the life cycle the organization is in.

Fifth, it is sometimes stated that an organization may in reality be ineffective even when substantially accomplishing its goals, viz. if the goals are too low, harmful, or otherwise misplaced. Mansfield (1986) provides a number of illustrations of this statement. But then, implicitly, with this statement one has introduced an 'outside criterion' for the assessment of the effectiveness of an organization. This criterion might be the survival of the firm, or its performance relative to that of similar organizations. But regarding the aforementioned limitation, the *goals* of the organization are scrutinized, not the effectiveness of the organization in achieving them.

Sixth, organizations seem to pursue multiple goals that at times might appear incompatible. Effectiveness in attaining one goal may be inversely related to effectiveness in attaining others. For instance, obtaining market share might appear not consistent with the goal of generating profit; the depreciation of the investments needed to build market share are costs, putting pressure on profitability. A part of this limitation is explained by the aforementioned time frame employed in effectiveness research, in particular the issue of means versus ends. For example, obtaining market share might be considered as a means to attain the end of generating profits - in the long run. In addition, Cyert and March (o.c., p.36) explain that organizational goals might be incompatible only to outsiders and that they are instead attended to in a *sequential* manner; 'the sequential attention to goals is a simple mechanism. A consequence of the mechanism is that organizations ignore many conditions that outside observers see as direct contradictions. (...) If we assume that attention to goals is limited, we can explain the absence of any strong pressure to resolve apparent internal inconsistencies'. Although conceptually appealing, the idea of sequential attention that is given to goals still poses problems to the researcher assessing effectiveness by



evaluating the attainment of organizational goals or by attempting to select a single set of evaluative criteria.

The aforementioned limitations of the goal approach all stem from the assumption that organizations have clearly formulated goals, on which the ascertainment of its effectiveness could be based. It is not quite likely that this assumption holds. Organizations somehow do have goals, but the goal approach to effectiveness does not sufficiently clarify how they come about and which relative importance should be attributed to them. This observation could be interpreted as a set of arguments to reject research on the effectiveness of organizations starting from the goal approach. But quite on the contrary, it is intended to provide some clarity about the intricacies pertaining to the goal approach, hopefully encouraging efforts to obtain more knowledge about the challenging concept of organizational goals. In concordance with Hall (1980, p.538), we believe that the goal approach remains dominant to the study of organizational effectiveness. In its traditional form it might be applied to organizations when goals are clearly defined, time bound, and measurable (preferably quantifiable). In the lion's share of organizational situations however, it is required that the goal approach as described above is supplemented by other insights. An attempt to do so is given in the sections 3 and 4. But first, let us turn the attention to another effectiveness approach, which emerged in the late sixties.

### *2.3 The system-resource approach*

Probably the most frequently cited article on the system-resource approach to organizational effectiveness, the second traditional perspective, was published by Yuchtman and Seashore (1967). In addition, the most important insights presented in their article were partially based on Georgopoulos and Tannenbaum (1957), Katz and Kahn (1966), Bowers and Seashore (1966), and Seashore and Yuchtman (1967). Later, the system-resource approach was extended by Barton Cunningham (1978). This approach views the organization as a system as defined in general systems theory (Boulding, 1956; Von Bertalanffy, 1968). The system-resource perspective explains that the organization's effectiveness hinges on the obtainment of needed scarce and valued resources from its external environment. Consequently, Yuchtman and Seashore (o.c., p.898) define organizational effectiveness as 'the ability of the organization, in either absolute or relative terms, to exploit its environment in the acquisition of scarce and valued resources'. In contrast with and as a reaction to the goal approach, the analytical emphasis shifts from an

orientation on the output of the organization to an *input* orientation. This shift involves the relationship between the organization and its external environment. Whereas from the goal perspective relatively little attention is devoted to the contingency factors determining or influencing organizational goals and thereby effectiveness, the system-resource approach explicitly recognizes the relevance of environmental characteristics to organizational effectiveness. Molnar and Rogers (1976) provide an empirical comparison of the goal and system-resource approaches.

The presence of organization-theoretical insights available in different effectiveness approaches is demonstrated by the work of Barton Cunningham (1978). He incorporates Cyert and March's notion of organizational *slack* into the system-resource approach. Cyert and March view the organization as a coalition, which is considered viable if the so-called side payments made to the various coalition members are adequate to keep them inside the organization. Slack consists of side payments to members of the coalition *in excess* of what is required to maintain the organization. Many forms of slack typically exist; money, personal treatment, policy commitments, authority, and so forth.

From the system-resource perspective, slack is a necessary prerequisite for organizational effectiveness. The organization is considered to be effective if it can maintain a greater intake than is required to produce its output, implying that the procurement and transformation of inputs and their subsequent distribution serve as the focal frame of reference in the system-resource approach. From this point of view, liquid financial assets such as cash, marketable securities, untapped borrowing power, and strategic reserves are perhaps the most utilitarian forms of slack. Barton Cunningham also encapsulates Cyert and March's bargaining model in the system-resource approach, supported by the argument that the structuring of coalitions and the intensity of their bargaining are directly related to the availability of resources. This availability, in turn, depends upon the state of the organization as a whole; if the organization has a resource surplus (slack), the different coalitions can afford to be generous in the bargains they strike. If the organization has a resource deficit, hard bargaining is likely to take place with the result that the desires of weaker groups are sacrificed. Accordingly, an organization is most effective when it maximizes its bargaining position *and* optimizes its resource procurement. In addition, Barton Cunningham suggests that effectiveness is dependent on the ability of the organization's decision makers to perceive and correctly interpret the real properties of the external environment, the maintenance of day-to-day organizational activities, and the ability of the organization to respond

to changes in the environment.

While the system-resource approach is appealing because it takes into account that organizations are dependent on their surrounding environment for the acquisition of resources, it has not been without its critics. First, Cameron (1980, p.68) provides supportive arguments for his observation that the system-resource approach is not universally applicable in evaluating effectiveness, exemplifying that an organization can be effective even when it does not possess a competitive advantage in the marketplace or when the most desirable resources are not obtained. It seems to provide little guidance as to what constitutes 'optimum' resource exploitation. Second, the approach does not provide an effectiveness criterion that can be operationalized or applied to actual organizations in a general sense (Price 1972, p.8). Third, the approach lacks an explicit input-output relationship and does not elaborate upon the internal allocation of obtained resources. The rate of resource flow and the internal distribution of resources over time are likely to be at least equally important to an organization's effectiveness as the sheer ability to garner needed resources (Bedeian and Zammuto 1991, p.68). A fourth problem with the system-resource approach is associated with the means-ends issue; the approach focuses on the means necessary to achieve effectiveness rather than on organizational effectiveness itself. This shortcoming could be limited by applying a relatively lower level of abstraction, i.e. considering resource obtainment itself as a goal. Viewed in this way, the aforementioned criticism might be replied to by applying ... the *goal* approach!

Although the academic interest in the system-resource approach has declined since the 1970s, it serves an important role in providing a contrast with the goal approach. It has been valuable in directing attention toward the interconnectedness of an organization and its environment in determining effectiveness, specifically toward the importance of input factors. This fundamental insight is incorporated in the multiple constituency approach, as we will see later on. In its traditional form it might still be applicable when the relationship between the organization's input and output can be clearly identified and measured.

### *2.3 The multiple constituency approach*

As opposed to the traditional goal and system-resource approaches, the so-called contemporary multiple constituency and competing values approaches provide an integral view on

organizational effectiveness. Integral, because both insights stemming from the goal and system-resource approaches are taken into consideration. In the multiple constituency approach, the abstraction of the organization in its environment is a set of interest groups or *constituencies*. Conolly et al. (1980) might be denoted as the ones that gave this point of view its name. But, obviously, in fact the emergence of the multiple constituency approach can be considered as the outcome of an evolutionary process in which both the goal and the system-resource approach played an important role. In the course of the process, several authors published resembling insights within a relatively short period of time (e.g., Hickson et al., 1971; Goodman and Pennings, 1977; Pfeffer and Salancik, 1978). Indeed, Conolly et al. do elaborate upon the integration with views that had already been developed (p.213-214). It is therefore only logical that the multiple constituency approach does not reject or replace the traditional approaches, but instead supplements them.

The basic logic of the multiple constituency approach is as follows. Depending on the level of analysis, individuals, groups of individuals, or organizations, i.e., *constituencies* become involved with a focal organization for various reasons. These reasons are reflected in their preferences and expectations for the organization's performance. The multiple constituencies have interests that they attempt to satisfy through the organization. Effectiveness is defined as the extent to which the multiple constituencies are satisfied with an organization's performance. In the words of Tsui (1990, p.458): 'while several variants of the MC model exist, the central tenet across all the variants is that an organization is effective to the extent it satisfies the interests of one or more constituencies associated with the organization'.

A fundamental difference with the traditional approaches now becomes plain. It is proposed that different - as opposed to single - statements on an organization's effectiveness can be made. Conolly et al. (o.c., p. 212) state: 'we propose to relax this [the singularity, JW&MvR] assumption. Specifically, we propose a view of organizational effectiveness in which several (or, potentially, many) different effectiveness statements can be made about the focal organization, reflecting the criterion sets of different individuals and groups we shall refer to as constituencies'. Like the goal approach, the multiple constituency perspective directs attention to the outcomes of an organization's performance. Moreover, the multiple constituency approach explains that organizations have multiple goals because they have multiple constituencies. As Robbins (1990, p.64) notes: 'No goal or set of goals that management selects is entirely value-free. Each implicitly, if not explicitly, will favour some constituencies over others'. Obviously, Robbins

discerns a specific constituency, the management, which selects the organizational goals, whereby a certain relationship is presupposed between constituencies and the goals of an organization. We will return to this relationship in section 3.3.

In concordance with the system-resource approach, the multiple constituency approach focuses on the organization's relationships with its environment. Apparently, there are constituencies linked to important resources. These constituencies should be at least minimally satisfied before scarce resources can be acquired. Consequently, the demands of constituencies such as the suppliers, the employees, the financiers, and other groups must be met. Summarizing, it seems that the multiple constituency approach incorporates most of the earlier insights that were developed about the effectiveness of organizations in a meaningful way.

The observation that the multiple constituency approach is not a radical departure from the preceding effectiveness approaches means that it inherits some of the problems of these earlier theories as well. A major matter of concern with regard to the multiple-constituency approach is the question of *whose* interests should be satisfied in order for an organization to be considered effective. Back in 1962, Blau and Scott already wondered '*cui bono?*' (to whom the good?); admittedly in a different setting, but in fact using the same fundamental insight in the functioning of organizations as the one that is now used in the multiple constituency approach. The *cui bono* debate is going on to date. Zammuto (1984) distinguishes four approaches to this problem, labelled the relativistic, power, social justice, and evolutionary perspectives. We will come back to those in section 3, wherein the multiple constituency approach is elaborated upon and we will choose from the multitude of possibilities to resolve the question of whose interests should be satisfied for an organization to be considered effective.

#### *2.4 The competing values approach*

The fourth approach to research on the effectiveness of organizations is the competing values approach and was developed by Quinn and Rohrbaugh (1983). Like the multiple constituency model, it does not attempt to assess organizational effectiveness by one measure. The approach has originated from the attempts to define effectiveness criteria which would pertain to *any* organization. Campbell (1977, p.15) defines 30 such effectiveness criteria. Campbell concluded that 'since an organization can be effective or ineffective on a number of different facets that may

be relatively independent of one another, organizational effectiveness has no operational definition'. Quinn and Rohrbaugh used Campbell's list of effectiveness as the basis for their investigation. Their study is quite unorthodox in the sense that its focus is on *the cognitive structure of organization theorists themselves*, not on the operational structure of organizations. This point of departure adheres to the observation that effectiveness is a construct - and not a concept. Whereas concepts are abstractions from observed events of which the characteristics are observable or measurable, constructs are inferences at a higher level of abstraction of which the meaning cannot easily be conveyed by pointing to specific occurrences. Quinn and Rohrbaugh (o.c., p.364) think that 'the highly abstract nature of the construct and the lack of agreement as to its structure accounts for a major portion of the confusion in the effectiveness literature'. Provided that effectiveness is a socially constructed, abstract notion carried out in the minds of organization theorists, Quinn and Rohrbaugh conducted a study to assess how theorists actually think about the construct of effectiveness. Their conclusion (o.c., p.369) was that 'organizational researchers share an implicit theoretical framework, and, consequently, that the criteria for organizational effectiveness can be sorted according to three axes or value dimensions'.

The first value dimension was interpreted as reflecting a different organizational *focus*. This dimension represents the contrast between an internal, person-oriented emphasis, and an external, organization-oriented emphasis. The second value dimension was interpreted as reflecting different preferences for the *structure* of the organization, by representing the contrast between an interest for stability and control on the one hand, and flexibility and change on the other. The third dimension was interpreted as reflecting the degree of closeness to desired organizational outcomes or as a *means-ends* continuum, by representing the contrast between a concern for ends (e.g., profit, productivity, efficiency, and growth) and a concern for means (e.g., flexibility, planning and resource specifications, and stability).

The value dimensions of structure and focus are illustrated in figure 1. The means-ends dimension is verbally represented, reducing the model to two dimensions. The combination of values provides four models of organizational effectiveness. Each model reflects a different emphasis concerning the basic value dilemmas. One effectiveness criterion, output quality, is an isolate in figure 1. Output quality does not fit into one particular model of organizational effectiveness and its underlying value structure alone. It may be an important criterion to any or all. Quinn and Rohrbaugh discuss their findings as they relate to the Parsonian (1959) framework of organizational analysis and to Gouldner's (1959) rational and natural systems model.

Like the multiple constituency approach, the competing values approach has a supplementary rather than an opposing significance to the traditional effectiveness approaches. Note that the resemblance of the competing values perspective and the traditional approaches is most prominent in the rational goal model (goal approach) and the open systems model (system-resource approach). The human relations model is elaborated upon by Leijten (1992). The internal process model is considered as a separate effectiveness approach by some authors (e.g., Scott 1977; Rieken and Baaijens 1982), but we agree with Coulter (1979) and Bluedorn (1980) that it is actually a part of the system-resource approach. The competing values approach stresses, in accordance with the value-based and subjectivistic nature of organizational effectiveness, that no single statements on organizational effectiveness can be made. Instead, such statements depend on the values which an effectiveness evaluator employs to his specific research problem.

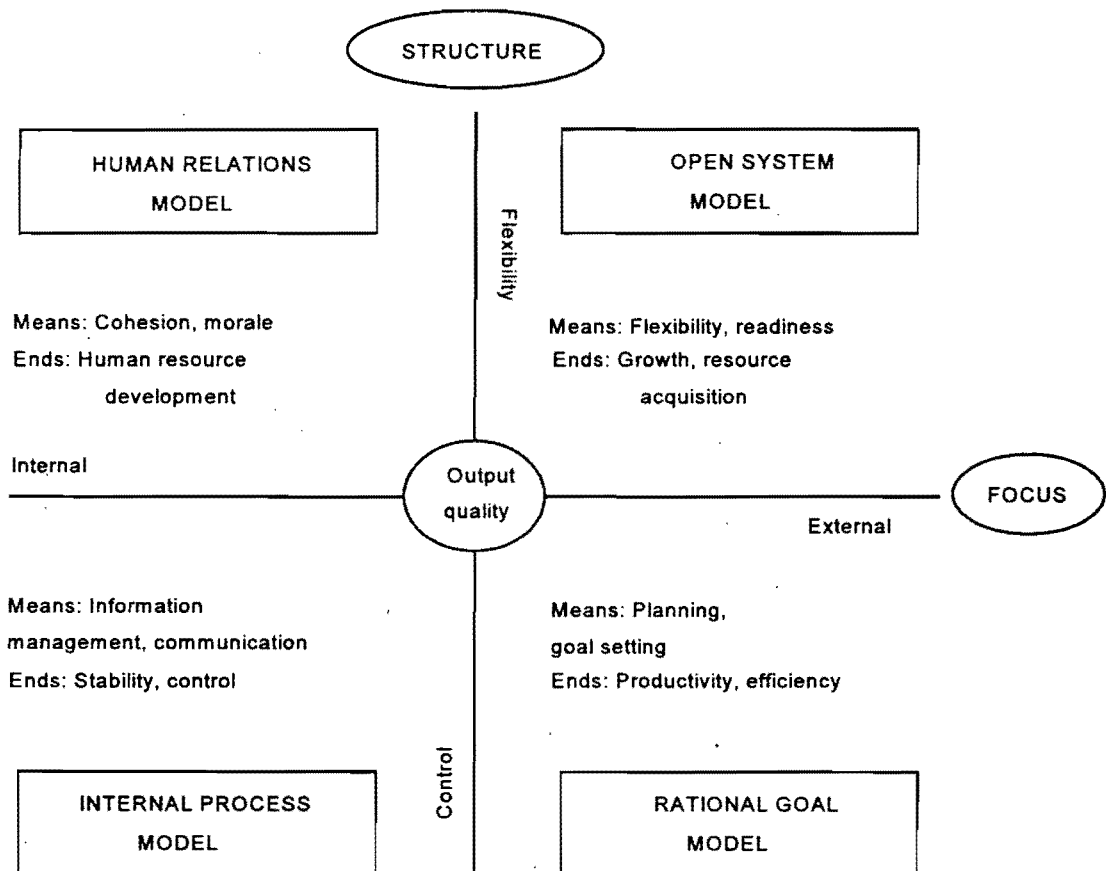


Figure 1: A typology of value-determined effectiveness models. Source: adapted from Quinn and Rohrbaugh (1983, p.375).

There are two major differences between the multiple constituency approach and the competing values approach. The first is that the competing values approach derives effectiveness models from the cognitive structure of organization theorists, whereas the multiple constituency approach uses an abstraction of the organization for its line of reasoning. The second difference is that the former has *a priori* defined the criteria underlying the effectiveness construct, whereas the latter provides flexibility in the sense that virtually any constituency value can be taken into consideration.

In table 1, the approaches to research on effectiveness of organizations that were covered in this section are concisely described.

<i>Approach to effectiveness</i>	<i>Definition of effectiveness (conception of the organization)</i>	<i>Most applicable when</i>	<i>Main literature sources</i>
Goal approach ('traditional')	The extent to which an organization attains its goals (the organization is considered as a rational, goal seeking and hence output-oriented entity)	goals are clearly defined, measurable (preferably quantifiable), and a time frame is specified	Barnard (1938), Etzioni (1964), Reddin (1970), Price (1972)
System resource approach ('traditional')	The extent to which an organization has the ability to exploit its environment in the obtainment of scarce and valued resources (the organization is considered as an open system)	an explicit relation between the organization's input and output can be established	Yuchtman and Seashore (1967), Barton Cunningham (1978)
Multiple constituency approach ('contemporary')	The extent to which an organization satisfies the interests of one or more constituencies associated with the organization (the organization in its environment is considered as a set of interest groups)	a set of constituencies that attempt to satisfy their interests through the organization can be identified	Conolly et al. (1980), Zammuto (1982, 1984), Tsui (1990)



the system-resource approach with the multiple constituency approach are elucidated. We will return to the question of whose interests should be satisfied in order for an organization to be considered effective in section 3.4. In that section, four perspectives from which that question might be answered are put forward. One of these perspectives, the so-called power perspective, is more extensively treated in section 3.5.

### *3.2 Constituencies, stakeholders and reference groups*

A constituency of an organization might be an individual, a group of individuals, an organization, or a group of organizations that is 'associated' (Conolly et al., 1980; Tsui, 1990) with that organization. When employing an effectiveness research from the multiple constituency perspective, it is imperative that the level of analysis is clearly established. Because of the general importance of the relationship between an organization and its external environment, in this section the level of analysis will be inter-organizational. The intra-organizational level will also be discussed, but to a much lesser extent. Tsui (1990) discerns constituents from constituencies. Based on that distinction, constituents are defined as the elements on the next lower level of analysis. For instance, at the inter-organizational level shareholders are a constituency, whereas the individual persons and organizations holding shares are the constituents of that constituency. At the intra-organizational level a constituency might be the marketing department, whereas the constituents are the individuals in that department.

According to general systems theory and as outlined by Zammuto (1984), a constituency of an organization is always 'associated' with a constituency of any other organization. It could be argued that the activities of an employee of a museum in Teheran exert an influence on a secretary working at Royal Dutch Shell; 'everything has to do with everything'. Therefore, constituencies should be classified for a focal organization. We discern *stakeholders* from *reference groups*. Stakeholders are those constituencies having an exchange relationship with the focal organization. They exchange *contributions* for *inducements* (Simon et al., 1950, p.381-382). March and Simon (1958) elaborate upon this contribution-inducement relationship and argue that it originates from the theory of organizational equilibrium developed by Barnard (1938) and Simon (1947). In March and Simon's (o.c., p.83) words: 'the Barnard-Simon theory of organizational equilibrium is essentially a theory of motivation - a statement of the conditions under which an organization can induce its members to continue their participation, and hence assure organizational survival'.

Contributions are the input factors of the focal organization. From an economic perspective, they are classified as land (including raw materials), labor, and capital. Less narrowly defined, the government is also a stakeholder. Its contribution is the legal recognition of the organization, whereas the organization's inducements are adherence to laws, payment of taxes, and provision of employment. Inducements resemble what Cyert and March (1963) have termed 'side payments' and are highly diverse, such as money, personal treatment, compliments, and promises about the future. The nature of the inducements is dependent on the values of the constituency taken into consideration, that is the specific interests it attempts to satisfy. Contributions and inducements are interchangeable; a contribution of one constituency is an inducement for another. Stakeholders always exert an influence on the focal organization through the process in which contributions and inducements are exchanged. Consequently, the focal organization also exerts an influence on its stakeholders.

The line of reasoning around the contribution-inducement concept is termed the *quid pro quo* ('something for something') concept by March and Simon (1958). Stakeholders as defined here are equal to March and Simon's 'participants'. *Internal* stakeholders are the management or Board of Executive Directors, the Supervisory Board or Board of non-Executive Directors, and the employees. A general division of *external* stakeholders is customers, suppliers, financiers, the government, and sometimes the society as a whole. The stakeholders also include the organizations representing them or acting on their behalf. For instance, a union is part of the stakeholder 'employees' and a trustee is a part of the stakeholder 'financiers'.

The distinction between internal and external stakeholders is less stringent than it might seem. In fact, most internal stakeholders have an external counterpart. In the previous example, unions might be considered as the external counterpart of the internal stakeholder 'employees'. Generally, it might be argued that at the intra-organizational level the organization's departmental structure reflects its most important external stakeholders (contingency hypothesis). For instance, the financiers are the internal finance department's external counterpart. Analogously, a relatively large sales department would indicate a relatively high importance attached to the external stakeholder 'customers'.

*Reference groups* are constituencies that do not have a contribution-inducement relation with the focal organization themselves, but who either intendedly try to exert an influence on the organization for some reason or exert an influence on the decisions of the stakeholders whether or

not to establish or continue their exchange relationship with it. A reference group that is important to any non-monopolistic business organization is the set of competitors. They can exert an influence on the stakeholder 'customers' not to continue their exchange with the focal organization, for instance by lowering prices or differentiating their products. Other reference groups are generally very diverse. Their identities depend highly on the organization taken into consideration. By example, environmentalists are a reference group for organizations in the chemical industry and some agricultural industries. Consequently, reference groups might be very difficult to locate. When organizations employing genetic research or abortion clinics are taken into consideration, all kind of groups in society at large and 'single issue' or 'special interest' groups pop up. Mintzberg (1983, p.43) labelled them 'publics', groups outside the organization who feel to be sufficiently involved with the organization to attempt to exert their influence on it.

### *3.3 Multiple constituencies, multiple goals*

Given the importance of the concept of organizational goals in the study of organizational effectiveness, we elaborate upon it in as far as it relates to the multiple constituency approach. In his political metaphor of the organization, Morgan (1986, p.154) stresses that the multiple interest groups (constituencies) constituting an organization lead to its characteristic of the presence of multiple goals: 'organizations (...) comprise groups of managers, workers, shareholders, customers, suppliers, lawyers, governmental agents and other formal and informal groups with an interest or stake in the organization, but whose goals and preferences differ. The organization as a coalition of diverse stakeholders is a coalition with multiple goals'. We also presuppose that constituencies have goals and that they are striving after the attainment of those goals. The attainment of their goals equals the satisfaction of their interests. *Stakeholders* of the focal organization think that establishing or continuing a contribution-inducement relationship with the focal organization is a better way - according to *their* values - to satisfy their interests than through individual action or through other organizations. They will be providing their contribution as long as the inducements of the organization are sufficient to them. Therefore, when that requirement is met, *all stakeholders have an interest in the continuity of the organization*. In other words, the common goal of the stakeholders is the continuity of the organization *as long as it offers sufficient inducements*. We shall refer to this observation as the assumed presence of a *conditional common goal*. This observation departs from the characteristics of Lammers' parties models of the organization and from Morgan's political metaphor when these are stringently

interpreted, that is if the absence of a common goal is presupposed, even a conditional one. *Reference groups*, on the contrary, seldomly have an interest in the organization's continuity. Competitors do not necessarily want the focal organization to continue its activities, precisely because they do not receive inducements from it satisfying their interests. In other words, the reference groups do not strive after their goals through providing contributions to the organization in exchange for inducements. However, because the reference groups (by definition) are sometimes able to affect the contribution-inducement related decisions of the stakeholders, they *do* have the ability to exert an influence on the organization's continuity, although it is indirectly.

The conditional common goal of all stakeholders is the continuity of the organization. But the different stakeholders might have very dissimilar goals on a lower level of abstraction. Given that constituencies strive after the satisfaction of their self-interest, there is a process going on in organizations in which the stakeholders compete fiercely for the inducements an organization could render. Based on Cyert and March (1963), this process is termed a *bargaining process*. It is obvious that not every goal from any stakeholder can be met on an equal basis. Some of them might even be in direct competition. For example, the goals of financiers might be opposed to those of the employees. Whereas the former satisfies its interests through a high return on investment, the latter would be satisfied by a sufficient salary. Because personnel costs are generally a relatively high portion of total costs, attainment of the employees' goals might hinder the realization of those of the financiers. This implies that there has to be a mechanism by which organizations are able to make decisions about which stakeholder gets what benefits and in what quantities.

There are of course, as we have seen before, several ways in which organizations can try to side step this problem. One such way is by attending to different and possibly conflicting claims in a sequential manner, as is described by Cyert and March (1963). Generating profit might be given priority to a rise in salary, thereby meeting the goals of the financiers first, those of the employees second, and only after the level of profitability is considered high enough (by the financiers) to do that. Another way would be called 'satisficing' (Simon, 1957), e.g., not meeting any of the different demands fully, but only in as much as would be necessary to ensure further cooperation of the stakeholders involved. But still, at the end of the day, even with these side stepping strategies, decisions will have to be made on who gets what. How might the decision making process be conceptualized?

The ultimate decisions on who gets what or, stated in terms of the multiple constituency model, the distribution of inducements among stakeholders equalling the satisfaction of their interests, leading to their continued contribution, and hence to organizational survival, is supposed to be determined by a *dominant coalition* (Thompson 1967, ch.9). As Morgan (1986, p.154) puts it in his political metaphor: 'in many organizations there is often a dominant coalition that controls important areas of policy. Such coalitions usually build around the chief executive or other key actors in the organization, each participant making demands on and contributions to the coalition as a price of the participation'. Note the implicit reference to Simon et al.'s *quid pro quo* concept in the last phrase. Because the structure of the dominant coalition would be highly diverse in different organizational situations, it might also be referred to as the *top management*. The top management is the formal organizational unit, as opposed to the possibly informal structure of the dominant coalition, that bears responsibility for formulating the organizational goals and additionally provides policy guidelines to lower management levels in order to attain them. Moreover, the top management is much easier to locate than the dominant coalition.

It is characteristic to the work of most authors that their analytical emphasis is on stakeholders (those who are already able to influence organizational goals because they offer contributions) rather than on what we have termed reference groups (those who attempt to influence organizational goals but generally do not succeed as much as stakeholders, with the possible exception of competitors). Burrell and Morgan (1979, p.204-388) discern three different views of organization within the political metaphor, whereby the relationship between the individual and the society is paralleled by the relationship between the individual and the organization. They are termed the unitary, pluralist, and radical frames of reference. We adhere to the pluralist frame of reference. On the level of organizations, it emphasizes the plural nature of the interests that shape organizational activities. In politics the term 'pluralism' refers to the characteristics of idealized liberal democracies where potentially authoritarian tendencies are mitigated by the free interplay of diverse groups of individuals or organizations trying to promote their interests. Applied to the multiple constituency approach, we have the position that the interests of reference groups other than competitors deserve more attention than is now commonplace in the literature. This position is also held by Zammuto (1984) and Van Riemsdijk (1994). Consequently, we will consider the attempts of reference groups to exert an influence on organizational goals also as a part of the aforementioned bargaining process. As noted before, the reference groups might be able to influence organizational goals indirectly through their influence on the contribution-inducement related decisions of the stakeholders. Of course, their bargaining position is relatively weak, precisely because the reference groups do not have any contributions to offer.

In figure 2, the material covered in sections 3.2 and 3.3 is graphically represented. For reasons of clarity the contribution-inducement is depicted separately from the bargaining process, but in fact these are exchanged *as a part* of this process. The figure is supposed to express the dynamic nature of goal formulation and the bargaining process through the inclusion of the organization's real outcomes. Stakeholders and reference groups continuously evaluate the real outcomes of the organization. Real outcomes can take many forms. Examples are dividends, working conditions, market share, pollution, type of products, political involvement in developing countries, and so on. The stakeholders make their decisions on providing contributions based on the inducements, which are a part of the organization's real outcomes. The reference groups do not have an contribution-inducement relationship with the organization and therefore base their decisions on attempts to exert an influence on the real outcomes only. Depending on the values of the constituencies who are affected by the organization, those outcomes might serve as arguments in the bargaining process. TM/DC is an abbreviation of the top management and the dominant coalition.

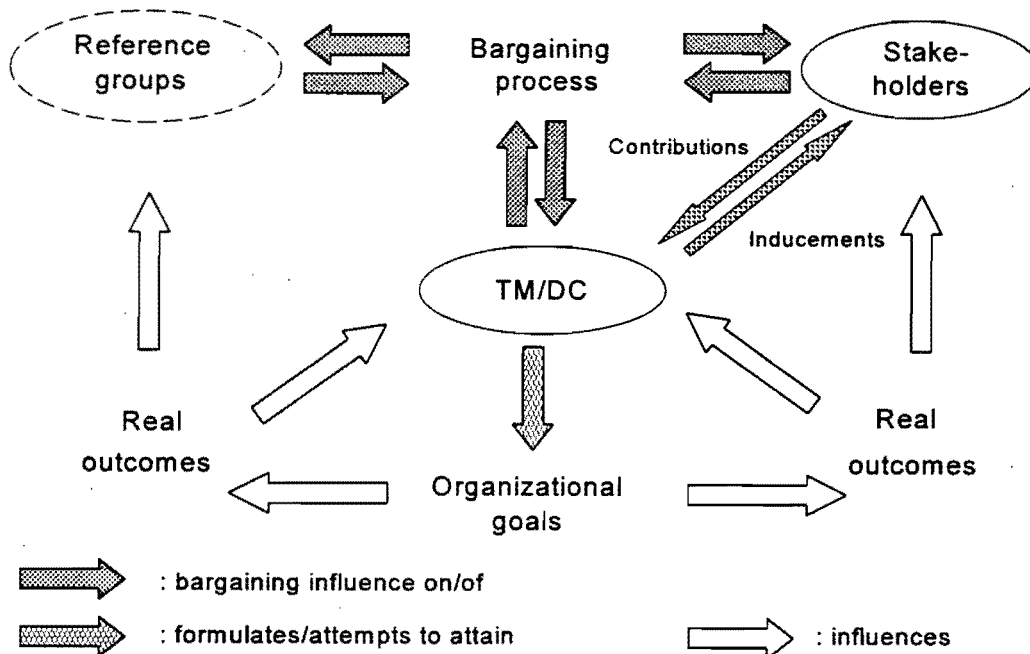


Figure 2: An image of the multiple constituency approach.

### 3.4 Whose interests should be satisfied?

There seem to be four approaches to the most fundamental question in the multiple constituency approach; whose interests should be satisfied, given that many constituencies are associated with the organization? Related to this question, when might the organization be considered effective? Or, as Pfeffer and Salancik (1978, p.87) put it: 'who wants what and how important is it that the demand be satisfied?' Zammuto (1984) discerns four perspectives for answering this question and labels them the relativistic, power, social justice, and evolutionary perspective. The *relativistic perspective* is most closely associated with the model of Conolly et al. (1980). These authors adopt to what they call the 'conceptual minimalist approach', denoting that it is arbitrary to label one of the constituencies preferences as *a priori* the correct one, because each represents a valid point of view (o.c., p.213). An observation which seems to us to be fundamentally true. There is no way telling up front which of the claims made by each and every constituency is the most valid.

Notwithstanding this observation, it becomes an altogether different matter if the continuity of an organization as a whole is taken into account. The question then becomes which constituencies are paramount to the organization's survival. This criterion imposed, it is obvious that some constituencies are more relevant than others. The *power perspective* addresses the relative importance of constituencies when the continuity of the organization is taken as a criterion. The power perspective is most closely associated with the dominant coalition model proposed by Thompson (1967) and elaborated upon by Pennings and Goodman (1977), Pfeffer and Salancik (1978) and Hrebiniak (1978). Defining power is difficult. Perrow (1970, p.ix) even thinks defining power is 'the messiest problem of all'. We adhere to Mintzberg's (1983, p.4) ideas about power: 'essentially, I stand for simplifying the problem [of defining power, JW&MvR] as much as possible to avoid debating abstractions. Power is defined (...) simply as the capacity to effect (or affect) organizational outcomes'. Mintzberg circumvents the possibly negative connotation of power by using the term 'influence' interchangeably.

The power perspective suggests that an effective organization is one that satisfies the interests of the most powerful stakeholders, whose representatives would be termed the dominant coalition by Thompson. In Pfeffer and Salancik's point of view, 'powerful' constituencies would mean those having control over scarce resources the organization needs in order to survive, approximately the same insight as is used in the 'traditional' system-resource approach. Hence, when the interests of

the most powerful stakeholders are satisfied (through inducements), they will continue their support through the provision of resources they control (contributions). Consequently, the probability of the organization's continuity would be retained or increased. Such an organization would be considered effective from the power perspective. In addition, an organization distributing *just enough* inducements for lasting contributions from stakeholders could be considered *minimally* effective.

The *social justice perspective* is most closely associated with Keeley (1978) and House (1980). It originates from Rawls' (1971) theory of justice. In Keeley's opinion, an effective organization seeks to minimize constituency regrets over the actual consequences of their association with the organization. Comparatively, the most effective organization is the one that satisfies the interests of their most disadvantaged constituencies.

Zammuto (1982) proposes an *evolutionary perspective* that views evaluations of organizational effectiveness as a selection process in societal evolution. Effective performance from the evolutionary perspective is defined as that which increases the adaptability of the organization by relaxing environmental constraints on performance. This, in turn, is seen as increasing the organization's ability to satisfy the changing demands imposed by its various constituencies. The question of *whose* preferences should be satisfied at a given time is transformed into *how* divergent preferences can be satisfied over the long run.

It is not an easy task selecting one of these perspectives on whose interests should be satisfied as the most promising one for effectiveness research. The fundamental choice we make in preferring one of them is to impose the goal of *continuity* on any organization. *In order to survive* organizations will have to satisfy the interests of their most powerful stakeholders, i.e., those whose contributions to the organization are essential to its survival. While accepting the relativistic position that it is virtually impossible to determine *a priori* which claims of different constituencies are the most justified, we nevertheless adopt the power perspective as we think it is essential to understanding the continuity of organizations.

We do find, however, that seemingly powerless constituencies can *become* quite important for the organization's continuity. The reference groups of today might be tomorrow's stakeholders and they might influence the stakeholders' contribution-inducement related decisions. Therefore, there is merit in Zammuto's evolutionary perspective. In an ethical sense, we would agree with the



social justice point of view that organizational conduct should not harm even the least powerful constituencies. But we would not consider this a sufficient criterion for effectiveness. For instance, a penitentiary organization adopting the social justice perspective would be considered effective when it would minimize the regrets for delinquents over being affected by the organization. This would mean that the penitentiary organization is probably most effective ... when it releases them!

### 3.5 *The power perspective*

The power perspective erupts the question which characteristics of the stakeholders enables them to exert a substantial influence on decision making by the dominant coalition. An answer to this question is formulated by Hickson et al. (1971) and Goodman and Pennings (1977) in the form of three properties of the constituencies involved. They are the centrality of the stakeholder, its substitutability, and its level of institutionalization. These are the properties outlined by Goodman and Pennings at the inter-organizational level, whereas Hickson et al. introduced them in a somewhat other manner at the intra-organizational level.

Hickson et al. (o.c., p.221) define *centrality* as 'the degree to which its [the constituency's, JW&MvR] activities are interlinked into the [organizational] system'. In terms of the material that was covered up to this point, centrality is related to the significance of the contribution of a stakeholder with regard to the continuity of an organization. It denotes the importance of what it has to offer for the functioning of the organization as a whole. Hence, the centrality of reference groups is zero. Within the group of stakeholders, the less important the contribution, the less central is the stakeholder and the lower is its position in the decision making hierarchy of the dominant coalition. Low centrality would mean less 'strategic importance' (Hickson et al.) to the organization, hence a low probability that the goals of the specific stakeholder will become part of the organizational goals.

Hickson et al. (o.c., p.221) define *substitutability* as 'the ability of [one constituency] to obtain alternative performance for the activities of [another constituency]'. Substitutability has to do with how easy one stakeholder's contribution can be replaced by that of another. Hence, substitutability is an irrelevant property of reference group to indicate their ability to influence the organizational goals. In as much as it is easy to replace the contribution of one stakeholder by that of another, its

position will be less strategically important and less dominant in the decision making hierarchy of the organization. Easily substitutable would mean strategically unimportant and therefore of little consequence in the formulation of the goals of an organization. Hickson et al. state that for a constituency to influence the decision making of organizations substantially, it would have to be both central and non-substitutable. At the inter-organizational level, Goodman and Pennings (o.c., p.155-156) describe substitutability and centrality as follows: 'the term substitutability refers to the replaceability of [constituencies] from the point of view of the focal organization. The term centrality refers to the importance and degree of connectivity of these actors to the focal organization'.

At the inter-organizational level, Goodman and Pennings (o.c., p.156) add a third property indicating the power of stakeholders, viz. their level of *institutionalization*. They define it as 'the level of structuring or organization of the actor'. In addition, a stakeholder should be *aware* of its power in order to influence the organizational goals substantially. It is very well possible that a large group of people in an organization perform a very similar and quite central task and that they would be very difficult to replace, but they would have to know this about one another and they would have to be organized in order to be able to exert any influence on organizational decision making in a - for them - desirable direction. No institutionalization, no power, no influence on the goals of the organization. Interestingly, the level of institutionalization might also be an indicator of the power of reference groups, as opposed to the centrality and substitutability. By example, it is likely that Greenpeace has the ability to exert a greater influence on organizational goals than most other environmental interest groups, precisely because of its high level of organization. Stakeholders that are central to the functioning of the organization, difficult to replace or substitute, and sufficiently organized to exert their influence would be of strategic importance to the continuity of the organization involved. In order for the organization to survive, these stakeholders' demands would have to be adequately met by the organization. The dominant coalition might be considered as a decision making hierarchy of the stakeholders, determined by their centrality, substitutability, and level of institutionalization. In order for the organization to survive the interests of all strategically important stakeholders should be represented in the dominant coalition.

The representation of the interests of the reference groups would generally not be found in the dominant coalition. The reference groups are difficult to spot if one sticks to a *pure* power perspective of constituencies, that is only assessing stakeholders' centrality, substitutability, and

level of organization. Relaxing the pure power perspective, the reference groups might still be of strategic importance because of their ability to exert an influence on the contribution-inducement relationship the stakeholders have with the focal organization. Such influence might be indicated by the level of institutionalization of the specific group. Taking a moral point of view, e.g., a social justice approach to effectiveness, would make it much easier to locate the reference groups. It is our position that the effectiveness of an organization depends primarily on the satisfaction of the interests of the most powerful stakeholders, but we think the evaluation of its performance by reference groups should not be overlooked. Moreover, given the dynamic nature of centrality, substitutability, and level of institutionalization, in order for the organization to survive it is essential for the dominant coalition to reflect such changes. We term our position a *nuanced power perspective*.

In figure 3 the material covered in this section is graphically represented.

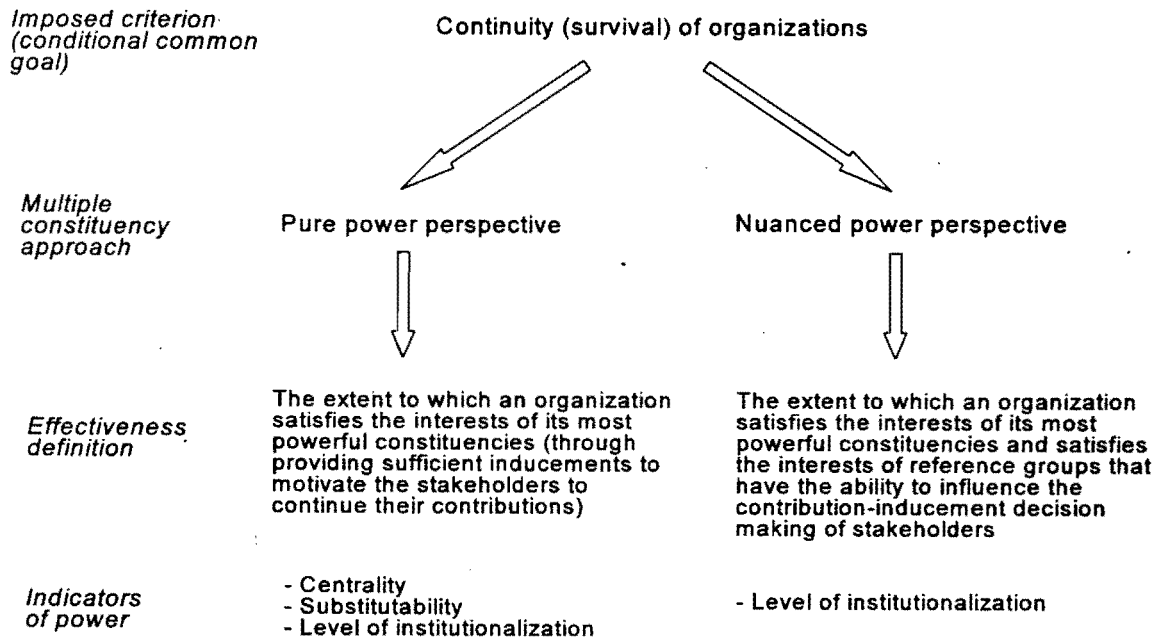


Figure 3: An elaboration upon the multiple constituency approach from the power perspective.

## 5. Some remarks on the application of the multiple constituency approach

Given the theory described in the previous sections, a logical question would be: 'how might a researcher apply the multiple constituency approach and assess the effectiveness of an organization operationally?' Rieken and Baaijens (1982) and Tsui (1990) have applied the approach, but instead of discussing the empirical results and its strengths and weaknesses at the operational level, we would like to make a number of remarks about applying the approach taking the critiques to organizational effectiveness research as a point of departure. A both general and very illustrative critique is given by Bluedorn (1980, p.488), by means of the legend of Aladdin and his magical lamp. Aladdin's lamp contained a genie who would appear to Aladdin after he rubbed the lamp. Upon appearing the genie would say to Aladdin: 'Ask, oh my lord, whatso thou wantest'. Aladdin would then make a specific request of the genie for gold, food, jewels, and the like. In the legend, Aladdin never told the genie 'bring me what I want'. This could mean one of two things. First, the request could be unfulfillable - if the genie would not have known what Aladdin wanted. Second, the request could be unnecessary - if the genie would have omnisciently known what Aladdin wanted in the first place. According to Bluedorn (o.c., p.488), 'much of the work on organizational effectiveness (...) has taken the 'bring me what I want' approach. Yet, the 'specific request' approach already exists, and it avoids the conceptual and methodological pitfalls associated with the attempts to construct a general theory of effectiveness. By 'specific request' approaches, it is simply meant that research and theory construction are underway, and have been for some time, on specific phenomena, which are often goals of organizations'.

We adhere to this critique in as far as it is our position that the level of theory development of the multiple constituency approach as to date does not allow the leap to operationalize the effectiveness construct yet. That would be the 'bring me what I want' approach. Instead, researchers should indeed focus on 'specific requests'. These requests might be derived from the descriptive effectiveness models in the literature. For instance, before the effectiveness of an organization from the multiple constituency approach using a power perspective should be ascertained empirically, the specific request should be met whether the centrality, non-substitutability, and institutionalization of stakeholders indeed lead to organizational goals that satisfy these powerful constituencies when they are attained. And, are there perhaps other properties of stakeholders that make them powerful? Using a nuanced power perspective, the effectiveness of an organization should not be assessed before we have more knowledge about the properties of external reference groups enabling them to influence the contribution-inducement

relationship that stakeholders have with the focal organization. Does such influence really result from their level of organization? We also need to know much more about the structural characteristics of the bargaining process through which the organizational goals are established and about the process through which organizational goals change over time.

We disagree with Bluedorn's critique in as far as organizational research should be involved with 'specific requests' *only*. The value of descriptive models of organizational effectiveness such as the one that was described in this paper lies in their indication of those specific requests, but *ultimately* the pile of specific requests should discharge into cumulative progress in the direction of a more general theory of organizational effectiveness. Even Bluedorn (o.c., p.489) recognizes that 'much of the research on organizations has either directly or indirectly addressed the effectiveness topic'. We hope to have clarified in this paper that we believe that the multiple constituency approach from a nuanced power perspective might be useful in that respect, without implying that it would be the one and only peg to hang specific requests on. There might be other ways to finally arrive at a justified 'bring me what I want' request and researchers certainly do not need to rub a magical lamp to accomplish that.

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