solution is to do more of what led to success in the past. Nadler and Shaw (1995, p. 11) refer to the organization becoming 'learning disabled'. Managers become incapable of looking outside, reflecting on success and failure, accepting new ideas and developing new insights. If unchecked, the ultimate outcome of this trap of success can be what they refer to as the 'death spiral' (Figure 4.3).

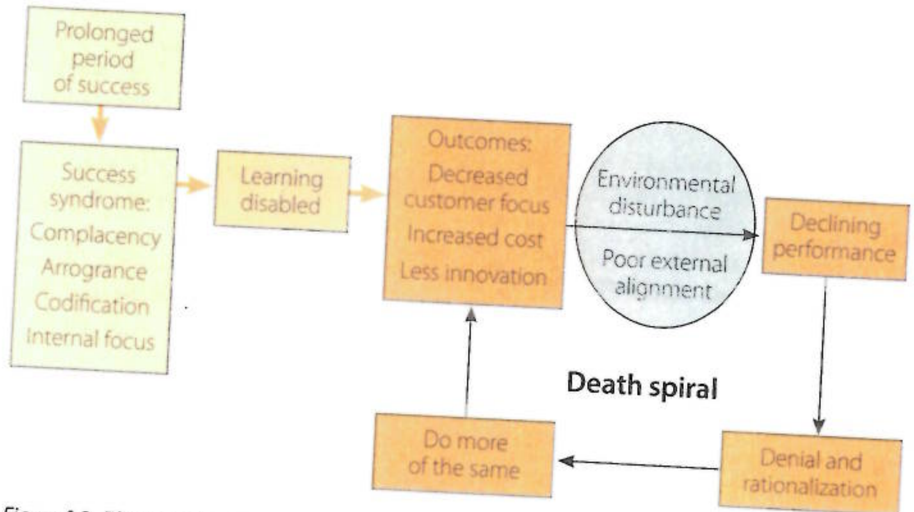

Figure **4.3** ***The trap of success***

Source: Adapted from Nadler and Shaw, 1995, p. 11

Improving the organization's ability to sense the need for change

Sensing a need for change and formulating a change agenda begin when individuals notice and respond to what they perceive to be significant external or organizational events. Pitt et al. (2002) observe that sometimes the signals or events that cause individuals to sense that an issue is important or urgent may be relatively weak but, based on their intuition and context-specific experience, some individuals are able to anticipate the implications of these signals.

Attending to indicators of effectiveness

Managers are responsible for ensuring that the organization, or the part of the organization they manage, performs effectively. Discrepancies between actual and desired levels of performance signal a need for change, but problems can arise when discrepancies are not recognized because managers restrict their attention to a narrow range of indicators and fail to pay attention to others that may be equally or even more important.

Exercise **4.1** *Indicators of effectiveness*

Before reading on, make a note, in the space provided below, of the indicators that you believe are used to assess whether or not your organization – and your department or unit within the organization – is effective. If you are a student with little work experience, do the same for your department or the university as a whole.

Indicators of effectiveness

Organization

Department/unit

When you have completed this chapter, you might like to review these indicators and consider whether any of them need to be revised.

Some of the factors that managers might need to take into account when assessing performance include:

- *Purpose:* Many commercial organizations use profit as one of the main indicators of effectiveness, but this indicator might not apply to all organizations. While financial viability may be necessary for the survival of organizations such as religious orders, universities, hospitals or charities, profit might not be viewed as a critical indicator of effectiveness. The effectiveness of hospitals in the British NHS, for example, might be judged on indicators such as waiting times and mortality rates rather than 'profit'. Change managers need to attend to performance indicators that reflect the purpose of their organization.
- *Stakeholder perspective:* Different stakeholders often use different indicators to assess an organization's effectiveness. Profit might be more important to shareholders than to workers. Suppliers, customers, employees and people in the wider community affected by the products and services (and pollution) produced by an organization will all have their own views on what should be taken into account when assessing whether or not it is effective. When John Birt joined the BBC, he felt that programme makers were neglecting some of the corporation's key stakeholders and this neglect was threatening the organization's survival (see Case study 3.1).

- *Level of assessment:* Effectiveness can be assessed at different levels, for example the organization, subunit or individual employee. Only paying attention to overall performance might result in major inefficiencies within the organization going undetected.
- *Alignment:* Assessments of effectiveness need to be aligned up, down and across the organization. Indicators of individual and group effectiveness need to be aligned with indicators of departmental effectiveness, which, in turn, need to be aligned with indicators of organizational effectiveness.
- *Time perspective:* It has already been noted that, in some cases, profitability can be a useful indicator of organizational effectiveness. However, just because organization A is currently more profitable than organization B does not mean that A is the most effective organization. Organization B might be incurring higher costs and lower profits today in order to invest in new plant, product development and staff training in the belief that this will help to secure survival and growth over the longer term. The implication of this is that organizational leaders need to take account of the time perspective when assessing the effectiveness of particular departments or the organization as a whole.
- *Benchmarks:* Often, effectiveness is assessed in terms of some output-to-input ratio, such as the number of units produced per man-hour. It is assumed that any increase in output with constant or decreasing inputs represents greater effectiveness and vice versa. When making this kind of assessment, reference needs to be made to a standard or benchmark. For example, all producers within a given product category or industrial sector may have experienced efficiency gains because of the introduction of a new and widely available manufacturing system. In this context, the assessment of whether one particular producer has maintained or improved its effectiveness might need to include a comparison of this producer's performance relative to the performance of others. A company may have improved its output-to-input ratio, and therefore improved its efficiency, but may have achieved smaller improvements than other comparable producers. In these circumstances, the company may be deemed to be more efficient than it used to be but less effective than comparable companies.
- *Constraining and enabling factors:* Account also needs to be taken of any constraints that inhibit performance, or enabling factors that boost performance relative to comparable other organizations. The new manufacturing system referred to above might produce levels of toxic emissions greater than the levels permitted by environmental regulations. These regulations may only apply to a minority of producers located in a particular region or country. In these circumstances, while a producer faced with strict environmental regulations might not improve output-to-input ratios as much as some of its competitors, it might achieve considerable success in modifying its production processes in a way that enables it to adopt the new manufacturing technology and improve efficiency enough to produce sufficient profit to survive. A failure to respond in this way may have resulted in the company going out of business. In terms of its ability to minimize the effect of the constraint imposed by environmental legislation, it might be deemed to be an effective organization.