

BUSINESS OPERATIONS BETWEEN EFFICIENCY AND EFFECTIVENESS

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Abstract: *The existence and development of organizations depends on achievement of requisite holistic efficiency and effectiveness of their operations and behaviour. But in theory (of organization and management) and business practice do not exist common understanding of efficiency and effectiveness, their relations and sinergies. When we try to investigate their definitions and relations we must take into account problems of many conflicts, which reflect their “different non-optimalty (unsuitability, inapproapriateness)”. This contribution discusses three theses: 1) how to more (requisitely) holistically understand relations between efficiency and effectiveness in the frame of business (its working and functioning), 2) how to understand their relations from the viewpoint of conflicts, and 3) one can create solution to remove a problem of different conflicts between efficiency and effectiveness in business.*

Keywords: *conflict, efficiency, effectiveness, fictitious conflict, real conflict.*

1. INTRODUCTION

The existence and the development of organizations depend on the achievement of adequate results in their operations and behavior [6; 21; 23]. In order for an organization to achieve such results, it needs to fulfill at least two basic conditions, i.e. to adequately use the available (given and potential) resources for the creation of its results and to achieve results meeting the needs and requirements of the customers [30; 26; 42; 34; 36]. Reaching the initial conditions within an organization, which is a complex and complicated phenomenon in objective reality, is, of course, neither simple nor effortless. It tackles to numerous issues, which are related to the selection and application of methods, methodologies and techniques of comprehension and treatment of the organization [12; 29; 35; 45].

In addition, the organization depends on achievement of requisite efficiency and effectiveness of its operations and behavior. During their examination, we face problems of different understanding of the content of the organization's operations and behavior as well as the variance of possible ways of its treatment [30; 26; 10; 31; 42; 34]. If the differences are (at least partly) justified analysis of both phenomena within different sciences, the variance of their analysis within individual sciences is less understandable (and justified). Significant differences in the understanding of efficiency and effectiveness exist even within the organization and management sciences [8; 40; 19; 17; 13; 9; 41].

Efforts for efficiency and effectiveness within the organization cause numerous conflicts [11; 43; 10; 14; 37; 7]. Conflicts reflect "non-optimality (unsuitability, inappropriateness)" of its constituent parts, relations (internal and external) and synergies. The following segments of the issue shall be discussed here, i.e. 1) the basic starting points and characteristics of conflicts within an organization, 2) possibilities for (requisitely) holistic treatment of the organization's efficiency and effectiveness, and 3) the characteristics of the conflict in the synergetic achieving of efficiency and effectiveness.

2. ORGANIZATION AND CONFLICTS

Human relations face constant conflicts. This is even truer for the organization as a specific form of human functioning and the most influential institution of a modern society. Conflict situations form an integral part of operations and behavior of the organization as a relatively autonomous entity / group of people and means. It attempts to reach common (i.e. organizational and personal) targets by the implementation of certain common activity [11; 22; 44; 43; 10; 16; 14; 7; 24]. The attempt to achieve various interests and goals both at the level of the entity (i.e. entirety of integral goals) as well as at the level of its constituent elements (i.e. individual and/or organizational goals) causes constant and various conflicts.

In most general terms, organizational conflict may be defined as (publicly) expressed behavior of participants within the organization that is the consequence of the belief, feelings and/or grasp of reality of an individual, the group and/or a number of groups that the needs (e.g. of an individual, a group, an environment) are not satisfied well enough and/or adequately [47; 5; 1]. The fundamental cause for the conflict inception is thus the difference in grasping, reasoning, emotions/values or goals by participants in the organization [31; 28; 39; 32; 33; 35].

Organizations may see the conflicts in different ways, namely:

- as negative (or destructive) phenomena that must be prevented or avoided; examples of fundamental characteristics of conflicts perceived as such include: conflicts uncover unavoidable problematic phenomena within the organization; they result from personal/personality problems of participants; they induce inappropriate reactions and are the main cause for unwanted and useless polarization in the organization;
- as positive (or creative) phenomena that enable the organization's development; examples of fundamental characteristics of conflicts perceived as such include: they present a possibility to activate participants; they encourage creation of new ideas and opportunities; they contribute significantly to introduction of changes; they enable additional forms of communication as well as present a significant form of hidden (or covert) tensions' resolution.

The treatment of the entire conflict topic reaches beyond the selected framework of this contribution. Here we shall discuss only the following segments: main conflict stages, a possible classification of conflicts, and the selected characteristics of inter-group conflicts within an organization.

Conflicts may be better understood if the entire process of an individual conflict and all its important stages are analyzed. Literature mentions the following stages of the conflict process [11; 10; 14; 13]:

- The stage of a covert conflict; in this phase the basic conditions for the conflict development already exist; yet the conflict is still not seen and/or recognized by the participants;

- The stage of the conflict recognition; in this phase participants recognize the conflict situation (and/or the reasons for its emergence or the characteristics of the conflict situation, etc.);
- The stage of the conflict initiation; in this phase the first tensions between the conflict participants emerge, but there is still no real confrontation among the participants;
- The stage of open (actual) conflict; in this phase an open (and clearly visible) conflict among the participants is evolving; at the same time the behavior of participants clearly indicates the existence of the conflict also in their relations and in their relation to the environment;
- The stage of conflict termination; in this phase the conflict is resolved, which leads to more adequate further co-operation and/or it stops (the conflict is lessened), which leads to the emergence of new conflicts.

The conflict process may include all or just some of the above mentioned stages. At the same time, there is a possibility that all participants do not understand the conflict equally and may evaluate the situation very differently (e.g. they recognize different stages of the conflict; they position themselves in different stages, etc.)

In terms of their content, the conflicts may be analyzed on the basis of different starting points and from different aspects. Our analysis is based on the presumption that all conflicts may be defined as personal, interpersonal and inter-group from the viewpoint of their participants.

The selected area of our analysis presents the inter-group conflicts, the characteristics of which are:

- group identification: the participants see themselves as members of their group, they co-operate and are psychologically aware of their inter-dependency;
- group distinction: ability of group members to identify themselves as members of a group in comparison to another group, which substantially differs from their own group;
- emergence of frustrations (needs, expectations): a frustration may be defined in broadest terms as the realization of the group members that the achievement of other group's goals (could) prevent the achievement of their group's goals; the conflict may be initiated solely by the existence of needs and/or expectations that an individual sees as perceived and of priority, i.e. influential for the definition of goals and effort for the achievement of goals including overcoming obstacles.

Inter-group conflict may therefore be defined in most general terms as the way of behavior among groups, whereby the participants identify themselves with one group and perceive that another group may block the achievement of goals or expectations of their group. The inter-group conflicts may occur among the groups within the horizontal (e.g. among departments) and/or vertical (among various organizational hierarchical levels of the organization) connection or confrontation within the organization.

The significant characteristics of organizational relations causing conflicts are, for example, incompatibility of goals, differentiation among groups, different understanding of the situation, work co-dependence, limited resources, etc.. Their emergence is influenced by various factors such as (social, business, economic, natural) environment, size, technologies, strategy, goals, organization structure, etc. At the same time, these factors

present the primary potential areas of conflict resolution. Various model solutions, such as rational and/or political behavior models may be used for resolution.

Individual conflicts impact organization in different ways (e.g. indirectly, directly) or are of different importance to its operations (e.g. highly, somewhat, less important). Based on their significance and influence on the organization, conflicts may be defined as real or fictitious [28; 25; 18; 34; 35; 36]. Their definition (comparable to the definition of fictitious and real problems) is founded on criteria of significance for participants, declination from goals, and not knowing the solution.

Among various conflicts within the organization, the dilemma about conflict situations in relation to its efficiency and effectiveness holds a significant position. It is primarily concerned with the understanding of the role and significance of efficiency and effectiveness for the organization's operations and behavior, for the definition of their relation as well as for resolution of conflicts within achieving efficiency and effectiveness.

3. EFFICIENCY AND / OR EFFECTIVENESS OF OPERATIONS

Various analyses and definitions of operations' efficiency and effectiveness are known within the organization and management sciences. They are defined by different authors as follows:

- in general, efficiency may be defined as the quantity of resources used per result unit; effectiveness presents the level at which the organization achieves its goals [12; 13];
- efficiency presents the level of different goals achievement within the limited available resources; effectiveness presents the level of the organization's ability to attain future goals – it thus includes efficiency and capability of adjustment to future circumstances [7];
- Efficiency is used to define (and measure) investments (or invested efforts) for the achievement of organization's aims and goals; effectiveness is used to evaluate consequences caused by the system in the environment (i.e. evaluation of social aims and goals of the organization) [20].

For the needs of our contribution, various perceptions and analyses may be divided into two basic groups [34; 35; 36].

The first group includes approaches and understandings which consistently separate efficiency from effectiveness. Their division is based on different criteria, such as investigation approach (e.g. narrow, broad), study aspect (e.g. individual, interdisciplinary), the study scope (e.g. entity, parts of the entity), etc.

Within this framework, efficiency is understood mainly as the concept of partial (or narrow) investigation of the organization focusing on the internal work of the organization. The broadest definition of efficiency is the relation between the quantity of resources (inputs) used (needed) per unit of acquiring (envisaged) result (output).

The concept of effectiveness attempts to study operations holistically (i.e. in a broader sense), namely based on the definition and understanding of organization's goals and strategies as well as adequate organization of its operations. In its broadest terms, effectiveness is seen as the level of goal achievement (entirety of goals and/or partial goals) within the selected area of investigation. In this case, the investigation focuses on the operations (and/or behavior) of the organization (as a whole and/or its parts) in relation to its (their) environment (and their goals, expectations, etc.)

The other group covers understandings and approaches which attempt to define efficiency and effectiveness as synergetic whole / entity within an integral investigation of the organization.

Efficiency and effectiveness are thus analyzed as two only seemingly different aspects of investigation of the organization. They are united in terms of content, linked in terms of synergy and co-dependent in terms of the organization's operations and behavior. The fundamental features of such understanding are primarily as follows: systemic investigation of the organization, understanding of synergetic wholeness of efficiency and effectiveness as well as formation of single methodology for their investigation.

The most general finding within this framework is that criteria of efficiency and effectiveness analyze appropriateness of organization's operations and behavior based on the definition of relationship between inputs and outputs. The subject of study may thus be: the factors (e.g. inputs, operations, behavior, and outputs), relations between the factors (internal, external) as well as their synergies.

Regardless of the chosen subject of analysis, during their investigation we encounter numerous issues related to content understanding, content definition, the selection of investigation area and the selection of appropriate methodological investigation [2; 27; 15; 4; 3; 35]. The above mentioned problems are at the same time fundamental causes of conflict emergence within the definition, implementation and management of organization's efficiency and effectiveness.

4. CONFLICT BETWEEN THE OPERATIONS EFFICIENCY AND EFFECTIVENESS

Literature on organization and management does not provide a common aspect on the relationship between the organization's efficiency and effectiveness and the level of conflicts in this relationship. Authors define this relationship as [34; 35; 36]:

- Real conflict: the conflict between the simultaneous definition and implementation of efficiency and effectiveness is justified by various conceptual views on (understanding and investigation) of the organization and/or limited availability of resources needed for the achievement of its purpose, aims and goals. Holistic view of the subject is weak or even absent. Specialists close their thought in their particular scientific fields.
- Real and/or fictitious conflict: their relationship is defined as conflict or non-conflict considering their understanding or the selected mode of investigation. The subject of their investigation is (subjectively) perceived, defined and investigated relationship and not the real content of this relationship. The real conflict may thus be significantly reduced (and/or eliminated) if the holism of investigation is increased and the aims, purpose and goals of the efficiency and effectiveness investigation are harmonized. The so called holistic view of the subject is partial. The specialists partly close their thoughts into their particular scientific fields and partly harmonize them.
- Only fictitious conflict: such reasoning stems from the cognition about the necessity of synergetic implementation and realization of operations efficiency and effectiveness. The starting point of such treatment lies in the understanding of the investigation and the implementation of purpose, aims and goals of operations, which also prevents (or eliminates) potential conflicts between the organization's efficiency and effectiveness. The conflict in the relationship is therefore not a result of content conflicts between the efficiency and effectiveness, but a

consequence of inadequate understanding, treatment and implementation of the organization's operations and behavior. Holistic view of the subject shows that the conflict is temporary. Specialists in the field take into consideration that they supplement each other and that the conflict presents the harmonization stage aimed at enforcing a common, i.e. 'objective' view.

Different perceptions of conflict situations in the relationship between the organization's efficiency and effectiveness are presented in Figure 1.

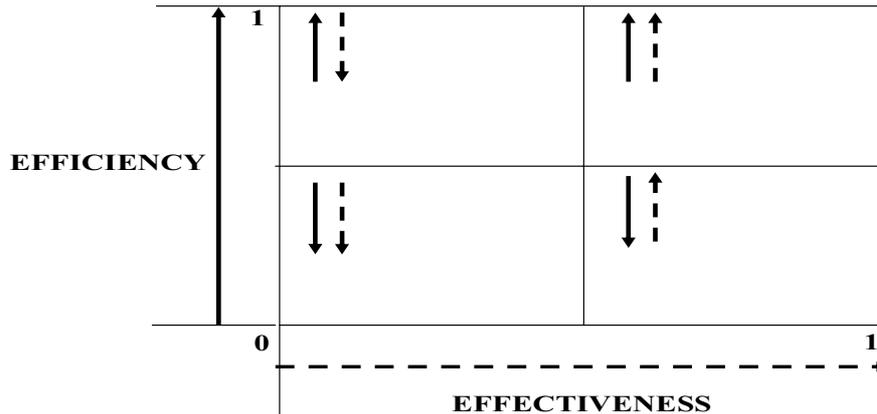


Figure 1: Relationships between the organization's efficiency and effectiveness

In principle, the organization and management literature determines that the organization can ensure (in the long term) its existence and development only on the basis of adequate synergetic running of its operations and behavior efficiency and effectiveness [8; 7; 9; 12; 23; 13; 41; 45].

During their operations, organizations are confronted with numerous problems, which cause digressions from the above-defined final state. The digressions present a potential source of conflicts only, when the behavior and operations of all participants is not adequately harmonized in a whole.

The definition of the organization's operations and behavior (as well as the comparison of different suitability among individual organizations) presents a complex and a complicated task. Namely, individual organizations differ in size, activity and internal operations structure. In addition, they carry out numerous activities in order to a large number of goals. Managers should therefore define suitable (more or less specific) foundations for the treatment, the implementation and monitoring of suitability in the organization. Here they are faced with two basic issues, i.e. how to assure adequate treatment of subjective factors of business operations and adequate wholeness of the treatment.

Two important approaches enabling the holistic treatment of the organization's operations and behavior are the contingency treatment and the treatment based on the balanced approach.

Within the contingency approach, the managers determine a segment of the organization, which they consider the most significant for achieving organization's effectiveness, they try then to study it as holistically as possible [42; 12; 13; 18; 9; 41]. For that reason the treatment is focused on the selected (significant) parts of the organization, i.e. on the inputs, internal activities and processes as well as outputs (See Figure 2).

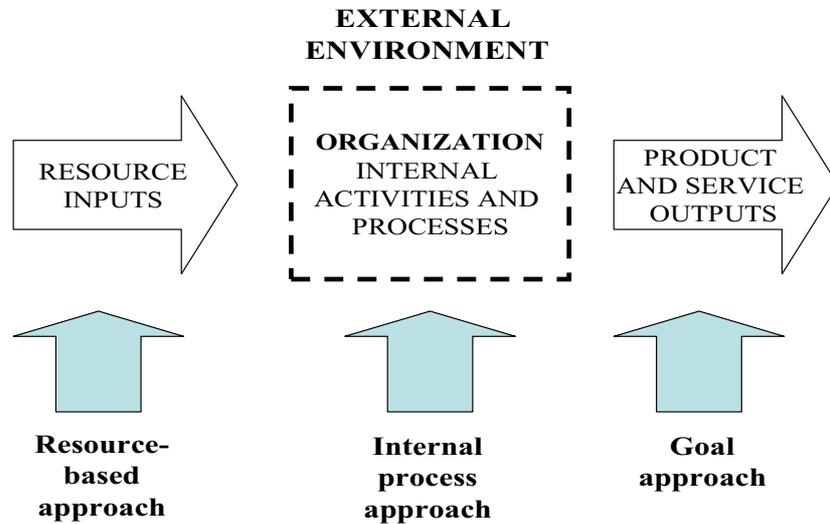


Figure 2: Contingency Approach to the Measurement of Organizational Effectiveness

The treatment of the organization's effectiveness based on the (output) goals is focuses on the output side and includes the identification of output goals and estimations to which extent the achieved (formal or real) goals are equal (or are similar) to the desired goals of the organization (regardless of the justifiability of the goal). The treatment of formal goals is more complex as they are, as a rule, more abstractly defined and are, therefore, more difficult to measure. The basic problems of such treatment include: the specific definition of the goal hierarchy for a particular organization (they are formed by the organization in compliance with its purpose and aims), multiple characters of goals, use of subjective evaluation criteria.

The resources based approach establishes the effectiveness by monitoring the initiation of the process and evaluates how appropriately the organization assures (suitable) resources needed for the desired implementation. From this viewpoint, the organization effectiveness reflects the ability of the organization (in the absolute and relative aspects) to acquire sufficient and adequate resources and use and manage them successfully. Such examination of effectiveness is effective when it is difficult to assure a holistic evaluation of the organization. This tackles mostly non-profit organizations, in which the measurement of output goals and internal operations effectiveness are difficult to measure. The fundamental drawback is a lesser consideration of the organization's connectedness to the needs of its customers and environment.

The internal process approach focuses on the internal operations of the organization (i.e. its activities and processes) and attempts to define the appropriateness of its resources management. The basic criteria of this approach are the organization's efficiency and its 'organizational health'. Its basic drawbacks are seen in the fact that the relationship between the organization and its environment is not evaluated, and the evaluation of its internal health and functioning is often very subjective.

Deriving from the contingency understanding of efficiency and effectiveness, it is possible to form the above mentioned three partial views of the operations effectiveness. They are more holistic, yet still separated and therefore also partial.

Moreover, there are approaches professional literature and business practice which attempt to treat the entirety of different parts of the organization holistically. They consider the stakeholders values approach, defined also as the constituency approach and the competing values approach.

The stakeholder's values approach focuses on the organization's stakeholders [46; 42; 12; 13; 18; 9; 41]. The suitability of operations is defined on the basis of the achieved level of stakeholders' needs (and demands) satisfaction (See Figure 3).

Stakeholders	Effectiveness Criteria
1. Owners	Financial return
2. Employees	Worker satisfaction, pay, supervision
3. Customers	Quality of goods and services
4. Creditors	Creditworthiness
5. Community	Contributions to community affairs
6. Suppliers	Satisfactory transactions
7. Government	Obedience to laws, regulations

Figure 3: Stakeholders and their criterions of effectiveness

The main advantage of the stakeholder's value approach is the balanced (and equal) treatment of internal and external success factors. It includes also the criterion of social responsibility, which is formally (and content-wise) not included in the contingency treatment. At the same time it emphasizes the belief that it is impossible to measure effectiveness with one criterion only; all or the majority of significant effectiveness criteria must be considered equal.

The competing values approach is based on the assumption that the organization goals and criteria for their evaluation are determined by the owners, top and middle management [42; 12; 13; 18; 9; 41]. The approach was developed by Robert Quinn and John Rohrbaugh; they combined different implementation indicators applied by managers and researchers to define competitive values and benefits in the organization's operations [38].

The above served as the foundation for a new approach to the effectiveness treatment, which includes two dimensions. The first dimension relates to the target area of effectiveness, which may be internal or external. The internal aspect reflects managerial concern for the adequate implementation of operations, while the external aspect represents how the organization's operation is evaluated by the environment. The second dimension is related to the organizational structure, which may be stable and/or flexible. The stable structure reflects managerial focus on the achievement of efficiency and top-down control, while the flexible structure reflects managerial focus on learning and change. The authors formalized their approach by elaborating a holistic model comprising four different (yet closely inter-related) effectiveness models (See Figure 4).

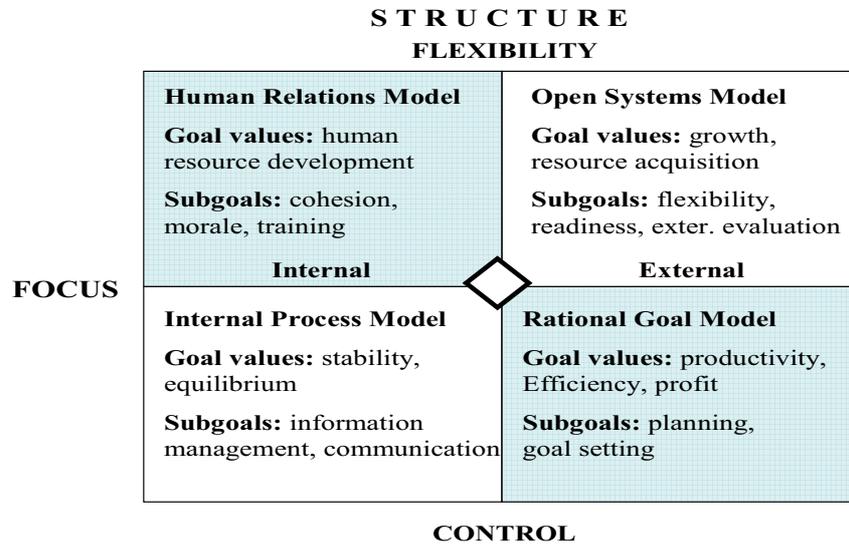


Figure 4: Four Models of Effectiveness Values [38]

Each model represents different managerial understanding of competitiveness based on specific structure and direction. Different competitive values and benefits within the organization coexist in business practice.

The advantages of the competing values approach are manifold, its most important one being the integration of different effectiveness concept into a quite holistic treatment. At the same time, it includes contingency treatment of effectiveness (i.e. the approach on the basis of resources, internal processes, and goals) and the human-resources-development based approach. The model explicitly emphasizes the significance of effectiveness criteria as managerial values and points to the possible simultaneous existence of opposing values in business practice.

Within the presented approaches to the treatment of the organization's operations and behavior effectiveness (i.e. the contingency approach based on resources, internal processes and goals, the stakeholders values approach and the competing values approach), the relationship between efficiency and effectiveness may be defined as non-conflict; it is founded on the proposition the one harmonized in the framework of the organization's operations and behavior.

Within this framework, efficiency is seen as a significant element of the holistic synergetic treatment of the organization's operations and behavior (and an important criterion for defining its suitability). Content-wise it presents an important partial aspect of the treatment enabling, together with other aspects, a holistic understanding of the studied reality. The relationship between efficiency and effectiveness may thus be defined as an example of the relationship between the whole entity and its part. The aim of the efficiency investigation is therefore to assure (important) partial realizations within the framework of the holistic treatment of the organization.

For example, within the contingency treatment we may use different criteria for the realization of suitability of the organization's operations and behavior.

Within the approach based on the (output) goals, the significant criteria include: profitability, market share, social responsibility, diversification, efficiency, financial stability, sustaining natural resources and development of management.

The main criteria of the resources-based approach are: efficiency of the goal achievement, our negotiation positions, the organization members' ability to evaluate the situation on purchase markets, the management's ability to adequately use material and non-material resources to achieve goals as well as its ability to react to the changes in the environment.

The internal processes approach is based on the application of criteria for the effective use of resources (economic efficiency) and harmonization of internal functions (i.e. organizational health).

5. CONCLUSION

The achievement of the desired results of the organizations' operations and behavior depends on the appropriateness of their use of available resources and their "production" of results, suitable for the needs and demands of customers. The endeavors for the achievement of the desired results are the basic cause for the emergence of (various and numerous) conflicts. The organization may see conflicts as negative and/or positive phenomena within its operations and behavior.

Among numerous conflicts within the organization, the dilemma about the conflict between its efficiency and effectiveness plays a significant part.

Organizational and management sciences understanding and define differ (and contradict). Namely, the authors treat them as totally independent concepts and/or as a conceptual synergetic entity within an integral treatment of the organization.

Different relationships between efficiency and effectiveness may be defined as real and/or fictitious conflict. When the operations and behavior are understood (and treated) holistically enough, then there are no content differences. Nevertheless, their realization is linked to numerous (actual or fictitious) conflicts arising from the inappropriate (subjective) understanding and treatment of the organization.

The organization may (in the long run) assure its existence and development by synergetic implementation of efficiency and effectiveness. The principal approaches enabling a holistic treatment of the appropriateness (i.e. efficiency and effectiveness) of its operations and behavior are, for example, the contingency approach, the stakeholder's values approach and the competing values approach.

These approaches stem from the non-conflict character of the efficiency-effectiveness relationship, which originates from their mutual harmonization and synergetic achievements. Within this framework, effectiveness is focused on the holistic treatment of the majority of significant factors, relations and synergies in an organization. On the other hand, the efficiency presents a (significant) partial aspect of the treatment, which supplements the treatment of other aspects in the organization.

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