Six Conditions of Organizational Effectiveness

by Stephen R. Covey

In every field of endeavor, we make assumptions regarding the ultimate nature of reality. If the fundamental assumptions or premises are wrong, the conclusions will also be wrong, even when the reasoning process from those premises is right.

Sound conclusions can only come from consistent reasoning based on a correct premise or assumption.

Often people forget this simple, almost self-evident truth. An entire field of so-called "objective" knowledge may be based upon subjective assumptions. In our respective fields, we would be wise to question and to validate as far as possible through research and literature review the assumptive base upon which our particular field of knowledge is founded.

For instance, psychology is based on certain assumptions regarding human nature. Executives, whether they realize it or not, are practicing psychologists in the sense that all of their attempts to motivate people are based on assumptions of human nature.

In his recently published Autobiography, Lee Iacocca writes that in addition to all the engineering and business courses he had in college, he also studied four years of psychology and abnormal psychology. "I'm not being facetious when I say that these were probably the most valuable courses of my college career. The focus of one course (at the state hospital psychiatric ward) was nothing less than the fundamentals of human behavior: what motivates that guy?"

Even though it's an oversimplification, I believe that we can trace the evolution of motivation theory and practice through three distinctive stages of assumption regarding human nature.

First, the economic man assumption. This basically means that we are primarily motivated by our quest for economic security. The manager who operates on this assumption would simply wield the carrot and the stick. If the assumption is complete and correct, people would respond consistently to make a living for themselves or provide a livelihood for themselves and their families.

We might characterize such a motivational strategy or management practice as authoritarian. An authoritarian manager makes the decisions and gives the commands, and the workers conform and cooperate, perform and contribute as requested to receive the economic rewards of pay and other benefits. This is the meaning of the economic man assumption. Many organizations and managers work on this assumption. From time to time, they may give lip service to an enlarged view of man's nature, but they fundamentally see themselves as manipulating an economic reward package in order to get the behavior they want.

Second, the socio-economic man assumption. At this stage, a manager would recognize that in addition to having economic needs, people also have social needs. We all need to be treated well, to be liked and respected, and to belong. This represents a greatly increased view of human nature compared to the purely economic or physical model. It is, in fact, the basis for the human relations movement.

Under this assumption, we not only have to pay a person fairly, we must also treat him kindly. This has led to benevolent authoritarianism, meaning that management is still in charge, still making the decisions and giving the commands, but people are treated with kindness, courtesy and respect. In addition, we would recognize people's need to belong and, therefore, concern ourselves with creating a harmonious team or a company spirit and to provide opportunities for people who work together to get to know each other and enjoy each other in social and recreational situations as well.

If too much emphasis is given to the social and too little to the economic dimension, management may actually become permissive and soft and indulge people. This style is sometimes called "country club management" or the "nice guy" approach. It is particularly evident when the manager himself has high needs for belonging and being popular. He or she is then hesitant to impose any economic standards or expectations on others.

Unfortunately, many managers have fallen into this false dichotomy. They think, "We are either tough or soft, strong or weak. If we don't take charge, others will take charge of us." And since authoritarianism will almost always achieve more than permissiveness, managers who buy into the socio-economic assumption will resolve that dilemma or dichotomy by adopting a management style of benevolent authoritarianism.

The benevolent autocrat is like a kindly firm father who knows what's best for his children and takes care of them as long as they comply with his wishes and desires. And when they don't, he perceives this rebellion as a form of disloyalty or ingratitude. "After all I have done for them, look at what they do to me."

Third, the human resource assumption. At this stage, we view people not only as economic and social beings but also as psychological and spiritual beings. This means that in addition to sharing common needs for economic security and social belonging, people have the need to grow and develop and to contribute effectively and creatively to the accomplishment of worthwhile objectives.

The manager with this assumption would see people as bundles of latent talent and capacity. One of his goals would be to identify and develop this capacity in accomplishing the objectives of the organization. He would assume that his people are capable of exercising far more initiative, responsibility, and creativity than their present jobs require or allow and that all of these capabilities represent untapped resources, which are presently being wasted.

If people are seen as economic, social, psychological and spiritual beings with strong needs and desires to grow and develop and have their talents used in creative and constructive ways, managers will create an environment in which people can contribute their full range of talents to the accomplishment of organizational goals.

I often ask people if they would take the job of digging a hole and filling it eight hours a day, five days a week, until they retire at age sixty-five for a million dollars a year salary, with an annual cost-of-living adjustment. Some think they would take such a job to improve their present economic situation, but they would be going bananas within a few years in spite of the economic rewards or their attempts to put their time and money to good purposes off the job. Man does not live by bread alone, unless perhaps that's all he has to live by.

This enlarged view of human nature underscores the need to make work challenging and fulfilling. Managers who operate on the human resource assumption would try to automate routine, boring, repetitive tasks--to give people a chance to take pride in their jobs. They would encourage participation in decision-making as well as other important matters. In fact, the more important the decision and the more challenging the problem, the more they would attempt to tap the talents of their human resources. They would continually seek to expand the areas over which their people could exercise self-direction and self-control as they develop and demonstrate better insight and ability.

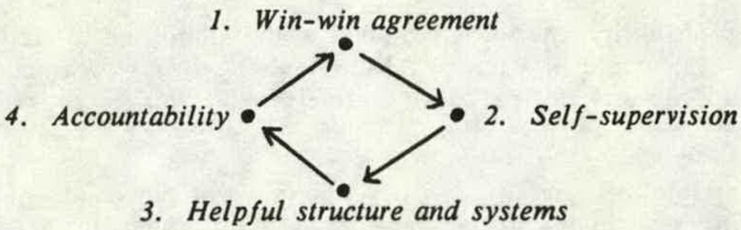
Most top executives today recognize the validity of the human resource assumption. But the question becomes one of implementation: how can a top executive act on the human resource assumption? How can the organization reflect this enlarged view of man? How can the manager uproot a deeply imbedded authoritarian or benevolent authoritarian style? How can he rid the company of excess psychic and structural "baggage" and give people the freedom and flexibility to think and act in ways consistent with this enlarged view of man?

"Lean and agile," the watchwords of General Electric corporation, make sense in many situations. I'll never forget a trip to Europe with my family. After a short time of touring, we had accumulated so much stuff in the form of clothing, gifts, travel brochures, souvenirs, and momentos that we were literally bogged down by excess luggage. We decided to send two-thirds of it home with a friend several days before the end of our stay. We felt so free, so unburdened, so capable of following our instincts and interests. We no longer had to worry whether there would be enough room and energy for all of this luggage.

I'm suggesting that executives may need to rid themselves of some false assumptions about human nature and simplify their organizations before they can make full use of their human resources and experience the benefits of increased effectiveness. As Lee Iacocca suggests, maybe we should first study motivation before we set up structure. Using the maxim of the architect-- "form follows function"--we might attempt to identify and clarify our assumptions before we develop our strategies and systems.

To motivate people to peak performance, we first must find the areas where organizational needs and goals overlap individual needs, goals and capabilities. We can then set up win-win agreements. Once these are established, people could govern or supervise themselves in terms of that agreement. We would then serve as sources of help and establish helpful organizational systems within which self-directing, self-controlling individuals could work toward fulfilling the terms of the agreement. Employees would periodically give an accountability of their responsibilities by evaluating themselves against the criteria specified in the win-win agreement.

These four conditions of organizational effectiveness might be diagramed as follows:



Essentially, the win-win agreement is a psychological contract between manager and subordinate. It represents a clear mutual understanding and commitment regarding expectations in five areas: first, desired results; second, guidelines; third, resources; fourth, accountabilities; and fifth, consequences.

To better understand how to set up and manage the win-win agreement, let's review each of these five steps.

<u>First, specify desired results</u>. Discuss what results you expect. Be specific about the quantity and quality. Set budget and schedule. Commit people to getting the results but then let them determine the best methods and means. Set target dates or time lines when objectives are to be accomplished. These objectives essentially represent the overlap between the organizational strategy, goals, and job design and the personal values, goals, needs and capabilities. The concept of win-win suggests that managers and employees clarify expectations and mutually commit themselves to getting desired results.

<u>Second, set some guidelines</u>. Communicate whatever principles, policies and procedures are considered essential to getting desired results. Mention as few procedures as possible to allow as much freedom and flexibility as possible. Organizational policy and procedure manuals should be brief, focusing primarily on the principles behind the policy and procedures. Then, as the circumstances change, people are not frozen--they can still function, using their own initiative and good judgment and doing what's necessary to get desired results within the value framework of the company.

Guidelines should also identify "no-no's" or failure paths which experience has identified as being inimical to accomplishing organizational goals or maintaining organizational values.Many a Management-by-Objective program goes down in flames because these failure paths or organizational no-no's are not clearly identified. People are given the feeling that they have almost unlimited flexibility and freedom to do whatever is necessary to accomplish agreed-upon results and end up reinventing the wheel, encountering certain organizational sacred cows, upsetting apple carts, getting blown out of the saddle, and becoming increasingly gun-shy about ever exercising initiative again.

The general attitude of employees then becomes, "Let's forget about this MBO crap. Just tell us what you want us to do." Their expectations are blasted, and the scar tissue on their behinds is so thick that they begin to see the job purely as a means to an economic end and seek to satisfy their higher needs in other places off the job.

When identifying the no-no's or sacred cows, also identify what level of initiative a person has regarding different responsibilities: is the person to wait until told, or ask whenever he has a question, or study it out and then make a recommendation, or do it and report immediately, or do it and report routinely? In this way, expectations are clarified and limits set.

In some areas of responsibility, the initiative level would simply be to wait until told, while in other areas, higher levels could be exercised including, "Use your own good judgement and do what you think is appropriate; let us know routinely what you're doing and what the results are."

<u>Third, identify available resources</u>. Identify the various financial, human, technical and organizational resources available to employees to assist them in getting desired results. Mention the structural and systemic arrangements and processes. Such systems might include information, communication, and training. You may want to identify yourself or other people as resources and indicate how these human resources could be used. You may want to set some limits on access or merely share your experience and let the person decide how to benefit most from it.

<u>Fourth, define accountability</u>. Holding people accountable for results puts teeth into the win-win agreement. If there is no accountability, people gradually lose their sense of responsibility and start blaming circumstance or other people for poor performance. But when

people participate in setting the exact standard of acceptable performance, they feel a deep sense of responsibility to get desired results.

Results can be evaluated in three ways: measurement, observation, and discernment. Specify how you will evaluate performance. Also, specify when and how progress reports are to be made and accountability sessions held.

When the trust level is high, people will be much tougher on themselves than an outside evaluator or manager would ever dare be. Also, when trust is high, discernment is often more accurate than so-called "objective" measurement. That's because people know in their hearts much more than the measurement system can reveal about their performance.

Fifth, determine the consequences. Reach an understanding of what follows when the desired results are achieved or not achieved. Positive consequences might include financial and psychic rewards, such as recognition, appreciation, advancement, new assignment, training, flexible schedule, leave of absence, enlarged scope of responsibilities, perks or promotion. Negative consequences might range from reprimand to retraining to termination.

Working Toward Self-Management

These five features of a win-win agreement basically cover what a person needs to understand before undertaking a job. We clarify the desired results, the guidelines to work within, the resources to draw upon, the means of accountability, and the consequences of on-the-job performance. But we do not deal with methods. Win-win is a human resource principle that recognizes that people are capable of self-direction and self-control and can govern themselves to do whatever is necessary within the guidelines to achieve the desired results.

When more than two individuals are involved in the win-win agreement, the psychological contract becomes a social contract. We may set up the agreement with a team or a department or an entire division. Whatever the size of the group, all of the members should participate in developing the win-win agreement. This social contract then becomes even more powerful, more reinforcing, and more motivating than the psychological contract because it taps into the social nature and human need to belong and be part of a meaningful team project or effort.

One of the strengths of this psychological or social win-win contract is that it is almost infinitely flexible and adaptable to any set of circumstances or to any level of maturity or competence. If the ability or desire to do a job is small, then you would identify fewer and smaller results; perhaps have more guidelines, including procedures; make resources more available, attractive and visible; have more frequent accountability with tighter, clearer, more measurable criteria; have consequences follow immediately, making feedback powerfully reinforcing.

In another situation where there is a great deal of maturity, a great deal of ability and desire to do a job, the win-win agreement would have broader, longer-range desired results with fewer guidelines, particularly regarding procedures and policy. You might make the resources available but not necessarily that visible; have less frequent accountability, using discernment as well as measurement to evaluate performance; and set longer-term consequences with particularly heavy emphasis on intrinsic psychological rewards rather than extrinsic rewards.

Once a win-win agreement is established, people can then supervise themselves in terms of that agreement. Managers may then serve as sources of help and establish helpful organizational structures and systems upon which self-directing, self-controlling individuals can draw to fulfill the win-win agreement. Having participated in the formation of the agreement, employees feel good about giving accountability on their responsibilities periodically; basically, they evaluate themselves against the specified criteria. When the win-win agreement is set up properly, they will do whatever is necessary to accomplish the desired results within the guidelines.

Setting Up Helpful Systems

Helpful organizational systems greatly facilitate the fulfillment of win-win agreements. These systems might include strategic planning, company structure, job design, communication, budgeting, compensation, information, recruitment, selection, placement, training, and development. In a helpful system, people receive information about their performance directly, and they use it to make necessary corrections.

If any of the so-called "helpful" systems are really hurtful win-lose systems, they will override the win-win agreement. This is particularly the case with the compensation system. If management talks win-win but rewards win-lose, they defeat their own system. It would be analogous to telling one flower, "Grow! Grow!" and then watering another flower.

All of the systems within the organization must be totally integrated with and supportive of the win-win agreement. Win-Win should be reflected in recruiting and hiring and training. It should also be evident in professional development, compensation, job design, company structure, strategic planning and mission and goal selection, as well as in all tactical activities.

Win-Win Performance Appraisals

In a win-win agreement, people evaluate themselves. Since they have a clear, up-front understanding of what results are expected and what criteria are used to assess their performance, they are in the best position to evaluate themselves.

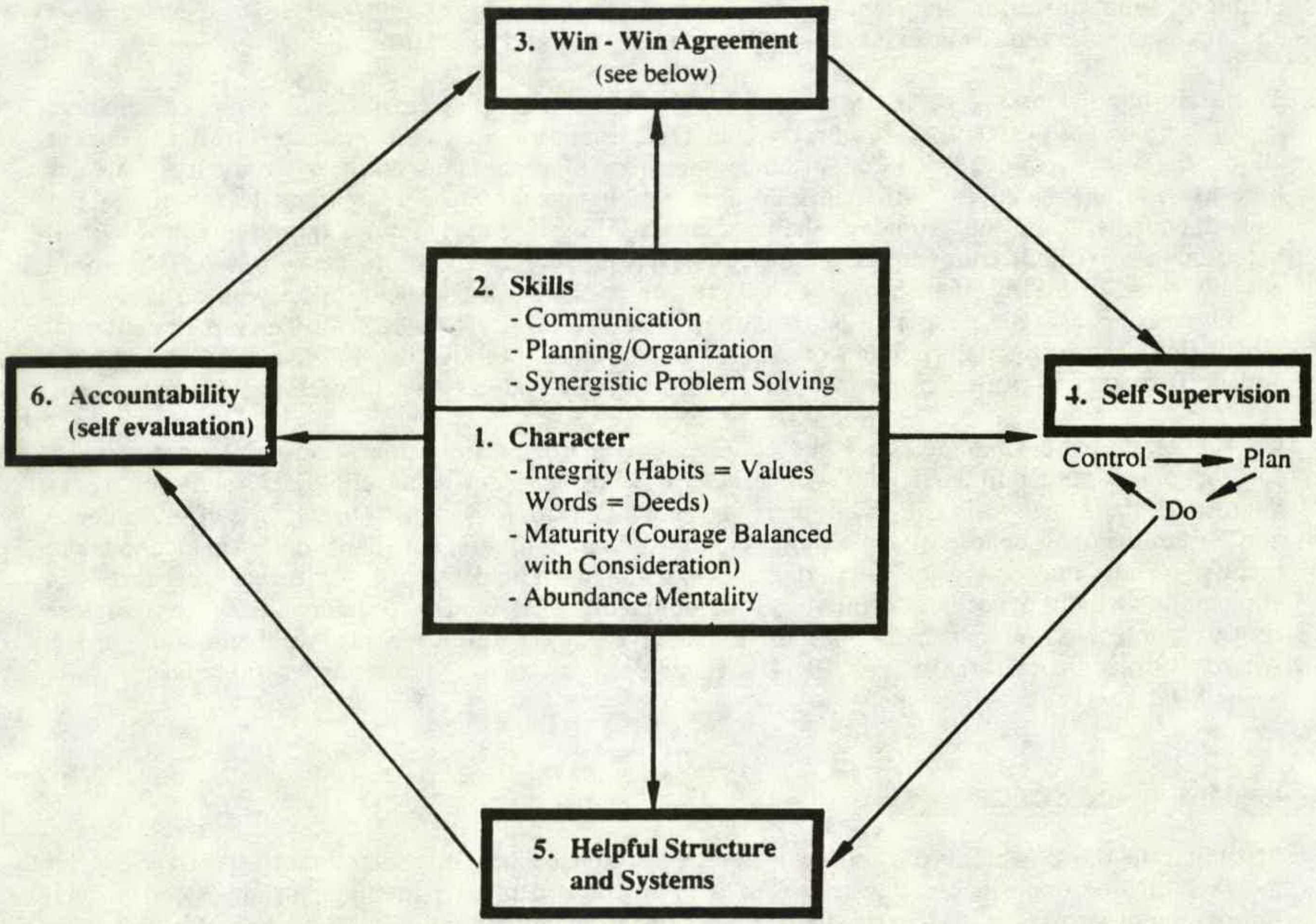
The old notion is that the manager evaluates the performance of his people...sometimes using a secret set of subjective criteria which he springs on them at the end of a specified work period. This, of course, is absolutely insulting to people, which is why some managers do not have good performance appraisals. Unless expectations are clarified and commitments made up front, people can expect performance appraisals to be difficult, embarrassing and sometimes downright insulting.

The manager's attitude is helpful, not judgemental. He may identify himself as a resource in the win-win agreement. He may serve as a trainer when his people undertake new tasks or new responsibilities or as a counselor in the areas of career planning and professional development. He involves his people in establishing the win-win agreement and allows them to evaluate their own performance. If the trust level is high, the employee's evaluation will be more accurate, more complete, more honest than the manager's evaluation ever could be, because the person knows all of the conditions and the details.

If the manager becomes aware of changing trends or other conditions which are not part of the original agreement, he would reopen the agreement for rethinking, replanning and reformulating.

The Other Two Conditions

At the center of these four conditions are two other conditions: skills and character. character is what a person is; skills are what a person can do. These are the human competencies required to establish and maintain the other four. Hence, they are really pre-conditions to the establishment of trusting relationships, win-win agreements, helpful systems, and employee self-supervision and self-evaluation.



In a low-trust culture, it is very difficult to establish a good win-win agreement or to allow self-supervision and evaluation. There would be a need, instead, for control systems and for external supervision and evaluation. Before a manager could set up the four conditions already discussed, he would clearly need to begin making deposits into the emotional bank account and do whatever is necessary to build a trust relationship so that the win-win agreement could be established. And once the win-win agreement is in place, the other conditions will logically and naturally follow.

The character traits most critical to establishing the win-win agreement are integrity (habits are congruent with values, words with deeds, expressions with feelings), maturity (courage balanced with consideration), and the abundance mentality (there is plenty out there for everybody). A person with these character traits can be genuinely happy for the success and accomplishments of others.

The three most critical skills are communication, planning and organization, and synergistic problem solving because these three personal skills enable an individual to establish the other four conditions of organizational effectiveness.

When individuals are duplicitous, when they say one thing but practice another or when they bad talk people behind their backs but sweet talk them to their face, there is a subtle but eloquent communication that undermines trust and, inevitably, leads to win-lose agreements and arrangements requiring external supervision, control and evaluation.

These six conditions are so interdependent that if any one of them is thrown out of balance, it will immediately affect the other five; in fact, changing just one character trait can affect all of the other conditions. For instance, consider the character trait of maturity, defined here as "courage balanced with consideration." If a manager had a great deal of courage but lacked consideration, he would probably express himself clearly and aggressively but would listen poorly, without true empathy. Consequently, the agreement would be win-lose. He would get his way, thinking that his way is best for everyone concerned. He would likely not encourage or allow his people to express their true feelings. He would fail to tap the internal motivation, requiring external motivation or supervision and the use of good control systems and performance appraisal procedures and compensation systems to reinforce desired behavior.

On the other hand, if a person lacks courage but is high on consideration, high in the need for acceptance and popularity, he will tend to develop a lose-win psychological contract where people do their own thing. Often these agreements lead to various forms of self-indulgence and organizational chaos. People may begin to blame others for poor performance or bad results. They may also get very demanding. Such behavior only reinforces the lose-win agreement, which eventually cannot be economically sustained and hence leads to win-lose central control as management battles to survive and maintain some semblance of order. Anarchy breeds dictatorship. As Patrick Henry put it, "If we don't govern ourselves wisely, we will be governed by despots."

Banking on the Results

To illustrate the power of the win-win agreement approach to organizational effectiveness, let me recount one experience. I was one of a group of consultants involved in an organizational improvement project with a large banking organization with hundreds of branch offices. This bank had budgeted three quarters of a million dollars for a six-month training program for junior executives.

The idea was to take college graduates and put them through a series of rotating positions. After spending two weeks in one department, they would shift to another for a period of two weeks. After the six-month program, they would then be assigned to a branch office in some kind of a junior executive position.

Top management wanted this whole program carefully analyzed and improved.

The first thing we did was press to understand what their objectives were. We wondered if there was an up-front understanding about expectations. There was not. We found that the expectations were very general, very vague, and that there was wide-spread disagreement among the top officers of the bank over what the objectives and priorities should be.

We continued to press them until finally they hammered out what they wanted a person to be able to do by the end of the training period, before being assigned to a junior executive position. They came up with over a hundred objectives for these trainees. We boiled these down to a list of 40 objectives--the desired results.

The next step was to give these objectives to the trainees. These people were excited about their jobs and about the chance to move into a junior executive position rather rapidly; they were entirely willing to identify with these objectives, internalize them, and do what was necessary to accomplish them.

They understood the objectives; they understood the criteria for evaluation. They had a complete list of resources that they could draw upon to accomplish those objectives, including visits with departments managers, reading materials, outside educational agencies, etc. They realized that they could be assigned to a junior executive position as soon as they could demonstrate competency in those 40 areas.

This motivated them so much that they accomplished the objectives in three and a half weeks, on the average.

This performance totally astounded most of the top executives. Some of them could hardly believe it. They carefully re-examined the objectives and the criteria, and reviewed the results to ensure that the criteria had been met. Many of them said that three and a half weeks simply was not enough time for these trainees to get the kind of seasoning and exposure that would give them mature judgment.

We basically said, "Fair enough. Write some tougher objectives, including the kinds of problems and challenges that would require seasoned judgement." Six more objectives were hammered out, and almost everyone agreed that if the trainees could accomplish those six things along with the other 40, that they would be better prepared than most of the trainees that had gone through the six-month program.

We next shared those six additional objectives with the trainees. By this time, they were allowed to supervise themselves. We witnessed a tremendous release of human energy and talent. Almost all the trainees accomplished these other six objectives in a week.

In other words, we found that the six-month program could be reduced to five weeks with even better results by setting up a win-win agreement with these young junior executives.

This has far-reaching implications in many areas of management, not just training. And some of the enlightened managers in this bank began to see them. Others were very threatened by this whole process, feeling that there is a certain amount of time that people have to put in to win their stripes. But no one could deny the results.

The win-win agreement is all about getting desired results.

The Manager's Letter

Management consultant Peter Drucker introduced the concept of the manager's letter many years ago. It suggests that the subordinate prepare some kind of a written outline of desired results, guidelines, resources, accountabilities and consequences and send it to his or her manager.

For years now, I have worked with this concept in many different settings: in my consulting and training practice, in the establishment and management of my own business; in working with undergraduate and graduate students at Brigham Young University; and in my family life. And I am absolutely convinced that if we really want high productivity and enhanced production capability, we must work with these six conditions of effectiveness.

I also know it is not easy. It takes time and patience--we can't keep pulling up the flowers to see how the roots are coming. The win-win agreement may not be set up overnight. It may take a lot of clear thinking and honest communication up front. It also takes a lot of maturity to engage in mutual influence interactions. It requires a great deal of discipline and consistency and follow through and reinforcement. Whenever I have faltered in any one of these areas, I have negatively affected the conditions and the outcomes.

We can start in small ways and have small successes until our confidence in the overall concept increases and grows. We can then apply it to larger areas of responsibility. If your people don't care to write a letter containing the elements of a win-win agreement, perhaps you can write it and ask them if it accurately represents the agreement. If writing is threatening altogether, then don't write it. But make sure that it's a clear, good, mutual, oral understanding. Make certain also that it's flexible and open to change when changing circumstances or understandings warrant it.

Attitudes are important. The manager's basic attitude is one of, "Where are we going?" or, "Where do you want to go?" or, "What are your goals and how can I help you?" And then downstream the attitude is one of, "How is it going and how can I help you?"

I was introduced to this way of thinking in an organization many years ago by a manager whose entire attitude and manner was truly one of, "What are you trying to accomplish and how can I help you?" His sincerity and his faith in my potential literally empowered me and released enormous human commitment and effort to do what was necessary to accomplish the results, including drawing upon him as an extremely valuable resource.

I have also come to believe that whatever view we have of people is self-fulfilling; that is, we will produce the evidence to support our view. If we have an enlarged view of human nature and human potential, we will gradually find the evidence to support our view until we feel inwardly confirmed and reinforced.

Douglas McGregor, in his management classic written over two decades ago, discusses his fundamental view of human nature, which became known as Theory X and Theory Y. Theory X represents the old notions that lead toward benevolent authoritarianism; and Theory Y represents the newer notions of man's balanced and complete nature that lead toward human resource management.

The Six Conditions of Organizational Effectiveness represents my attempt to simplify all of these ideas to a single unified theory to be used for both diagnostic purposes and prescriptive purposes. Obviously, these six conditions embody many of the concepts and principles discussed in *The Art of Executive Excellence* program to this point.