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Chapter 6

Public Relations and Organizational Effectiveness

Contemporary public relations as noted in earlier chapters is defined as existing within the management of the organization. As public relations has shifted from an emphasis on the technical role of the communicator to the strategic communication role of the manager, the public relations professional has had to become educated in how organizations are managed. This chapter introduces you to several different management theories that help define organizational success and the public relations role in managing that success.

Management theory has defined organizational effectiveness in a number of ways. Early theories of management stressed meeting goals as measures of effectiveness. This approach proved to be rather simplistic and did not recognize the interconnectedness of organizations with their environments. A systems model approach was developed as a reaction to the limitations of the goal-attainment perspective. However, the systems approach tends to be too abstract to measure effectiveness. A third approach, which recognizes the dependency of the organization on its environment, places specific focus on key constituents and is more measurable because of its focus on relationships with these stakeholders. This approach, which is often called stakeholder management, recognizes the value of strategic constituents to the success of any organization, and recognizes that the interests of these stakeholders often conflict. Each impacts on how public relations is practiced within the organization.

6.1 Goal Attainment Approach

Traditionally, an organization's effectiveness has been defined in terms of attaining goals. Griffin (2008). In the earliest theories of organizational behavior, organizations were viewed as rational institutions whose primary purpose is to accomplish objectives. The more efficiently and effectively an organization can achieve its goals, the more successful it is according to this approach. Quite often, the bottom-line goals of organizations are focused on profitability.

Financial Goals

One way to look at the success of organizations is to assess their size relative to competitors. This type of measurement is usually done by looking first at annual revenues, the sum total of all products or services sold to customers. But this may not be the most meaningful measure since some very large companies are not always successful. Financial analysts usually look at other ratios to determine financial health. They look at profitability in a number of ways to assess the return that the company is generating for its owners—the shareholders—for each dollar of investment in the business, a concept known as *ROI* or **return on investment**¹. In doing so, they consider the **gross margins**² the company achieves, which are the revenues generated from the sale of its products minus the cost of those goods. They also consider the organization's **net earnings**³, which are the profits remaining after all interest, taxes, and other costs such as depreciation are factored in.

These net earnings are then divided by all the shares of stock outstanding to determine **earnings per share**⁴, or EPS. This EPS number provides a good ratio for making comparisons to other companies regardless of their size. Financial analysts eagerly await the earnings numbers when publicly traded companies release these results each quarter, as they are required to do by the U.S. Securities and Exchange Commission (SEC). Analysts estimate what they expect a company to earn, sometimes a year or more in advance of the actual results. When companies exceed these estimates, their stock prices generally increase—sometimes dramatically—after the release of earnings. When they disappoint the analysts and underachieve on projected earnings, their share prices can plummet.

Another measure of size is **market capitalization**⁵. That measure is determined by multiplying the current price of a single share of a company's stock by all the shares outstanding. In some cases, this "market cap" number may be significantly higher than the annual revenues a company achieves. In such cases the financial markets believe that the company has growth potential far in excess of its current

1. A measure of a company's profitability by assessing the return for each dollar of investment in the business that the company generates for its shareholders.
2. The revenues generated from the sale of a company's products minus the cost of those goods.
3. The profits remaining after all interest, taxes, and other costs, such as depreciation, are factored in.
4. The earnings for each outstanding share of a company's stock, abbreviated as EPS. This measure provides a good ratio for making comparisons to other companies, regardless of their size.
5. The measure of a company's value, which is calculated by multiplying the price of a single share by all of the shares outstanding.

sales. Companies with market caps far higher than revenues are more highly valued than companies whose market caps are similar to or much lower than annual revenues. Companies work to achieve higher valuation by delivering consistent performance, meeting or exceeding earnings estimates, and providing a credible growth story that is supported by the facts.

There are countless other financial measures. However, the most important thing to remember is that communicators have a special responsibility to educate themselves on the measures that are deemed most important by their colleagues in other functions. That includes more than the numbers. They must also understand the business challenges that are most pressing to the company.

For nonprofit public relations, the most important measures may relate to the donor community or to the volunteer network on which the organization relies. For governmental public relations it may require an increase in knowledge of policies, legislative initiatives, sources of tax revenues, or judicial rulings that will have an impact on the department's operations.

Limitations of Goal Attainment Approach

One critical limitation to the goal attainment approach to evaluate organizational effectiveness is that it does not take into consideration the very human nature of organizations, nor the outside influences that affect the efforts to reach these goals. People are not cogs in a wheel, and a manager could become easily frustrated with the unrealistic expectation that organizations can run as smoothly as a piece of machinery. This makes engagement of employees a problem for the public relations professional, and his or her focus is often more on goal attainment than maintaining positive relations with publics.

Robbins criticized the goal-attainment approach because it does not consider the political or power-control nature of organizations and how they choose goals. Robbins (1990). Most organizations are composed of coalitions, which lobby for goals that benefit them or their function in the organization. He argued that the interests of decision makers and of their organization are not always congruous and that the typical manager tries to increase the size and scope of his or her domain regardless of the effect on the organization as a whole. He contended that organizational interests are subordinated to the special self-interests of different groups within the organization. The most powerful of these coalitions are successful in defining the organization's goals, and meeting these goals adds power and influence to these coalitions. In addition, there is evidence that the goals of each coalition may not directly reflect the needs and purposes of the organization.

Another criticism leveled at the goal-attainment approach is that it viewed organizations as rational and mechanical systems that could control whether these goals were reached. As scholars noted, these management theories presumed that the organizations were closed systems that had autonomy from and control of their environments. Grunig and Grunig (1992), pp. 285–326. However, organizations are interconnected with their external environments.

6.2 Systems Theory Approach

The view of organizations as open social systems that must interact with their environments in order to survive is known as the **systems theory approach**⁶. Organizations depend on their environments for several essential resources: customers who purchase the product or service, suppliers who provide materials, employees who provide labor or management, shareholders who invest, and governments that regulate. According to Cutlip, Center, and Broom, public relations' essential role is to help organizations adjust and adapt to changes in an organization's environment. Cutlip, Center, and Broom (2006).

The **open-systems approach**⁷ was first applied by Katz and Kahn, who adapted General Systems Theory to organizational behavior. Katz and Kahn (1966); Bertalanffy (1951), pp. 303–361. This approach identifies organizational behavior by mapping the repeated cycles of input, throughput, output, and feedback between an organization and its external environment. Systems receive input from the environment either as information or in the form of resources. The systems then process the input internally, which is called throughput, and release outputs into the environment in an attempt to restore equilibrium to the environment. The system then seeks feedback to determine if the output was effective in restoring equilibrium. As can be seen, the systems approach focuses on the means used to maintain organizational survival and emphasize long-term goals rather than the short-term goals of the goal-attainment approach.

6. The view of organizations as open social systems that must interact with their environments in order to survive.

7. Organizational behavior in which an organization exchanges information, energy, or resources with its environment. This approach is responsive to changes in the environment.

8. Organizational behavior in which an organization is insensitive to environmental deviations.

9. The ability of an organization to survive and also grow. Homeostasis is a measure of how effective an organization is.

Theoretically, systems can be considered either open or closed. Open organizations exchange information, energy, or resources with their environments, whereas closed systems do not. In reality, because no social systems can be completely closed or open, they are usually identified as relatively closed or relatively open. The distinction between closed and open systems is determined by the level of sensitivity to the external environment. **Closed systems**⁸ are insensitive to environmental deviations, whereas open systems are responsive to changes in the environment.

The systems approach is an external standard that measures effectiveness based on long-term growth or sustainability. Effective systems are characterized by a steady state that systems theorists call **homeostasis**⁹ in order to “avoid the static connotations of equilibrium and to bring out the dynamic, processual, potential-maintaining properties of basically unstable... systems.” Buckley (1967), p. 14. If an organization is able to maintain homeostasis, which includes not just survival but also growth, then it is *effective*. This perspective is broader and more comprehensive than the goal-attainment approach because it is not limited to measuring

effectiveness as meeting goals determined by powerful internal coalitions that may or may not be propitious for the whole organization. Pfeffer and Salancik defined effectiveness as “how well an organization is meeting the demands of the various groups and organizations that are concerned with its activities.”Pfeffer and Salancik (1978), p. 11.

Most effective organizations, according to systems theory, adapt to their environments. Pfeffer and Salancik described the environment as the events occurring in the world that have any effect on the activities and outcomes of an organization. Environments range from “static” on one extreme to “dynamic” on the other. Static environments are relatively stable or predictable and do not have great variation, whereas dynamic environments are in a constant state of flux. Because environments cannot be completely static or constantly changing, organizations have varying levels of dynamic or static environments.

Organizations that exist in dynamic environments must be open systems in order to maintain homeostasis. Because dynamic environments are constantly changing, they create a lot of uncertainty about what an organization must do in order to survive and grow. The key to dealing with uncertainty is *information*. An open organization monitors its environment and collects information about environmental deviations that is labeled as **input**¹⁰. Input can also be thought of as a form of feedback. The most important information is negative input, according to systems theorists, because this information alerts the organization to problems that need to be corrected. *Negative* input tells the organization that it is doing something wrong and that it must make adjustments to correct the problem; *positive* input tells the organization that it is doing something right and that it should continue or increase that activity.

Organizations then organize and process this information to formulate solutions or responses to these changes. As Cutlip, Center, and Broom noted, open systems use information to respond to environmental changes and adjust accordingly. The adjustments affect the structure or process of the organization, or both. The structure is what the organization *is*, whereas process is what the organization *does*. Adjustments are “intended to reduce, maintain, or increase the deviations.”Cutlip, Center, and Broom (2006), p. 181. For example, an organization can alter its structure by downsizing to remain competitive. Other organizations may change their processes in order to adhere to new environmental laws. Processing positive and negative input to adjust to environmental change is called **throughput**¹¹. In the throughput of information, the organization analyzes it and tailors it strategically to fit with the organization’s goals, values, and within the relationship context it holds with publics.

10. The feedback from its environment that an open organization collects about environmental deviations. Input can be categorized as *negative*, which alerts the organization to problems that need correcting, or *positive*, which tells the organization what it is doing right that should be continued or increased.

11. An organization's processing of positive and negative input to adjust to environmental change.

After an organization adapts to environmental changes, its actions and messages represent its output. The automobile industry is constantly enticing car consumers to try the latest models, hoping that it has responded to changing expectations. Recently, many auto manufacturers have attempted to color their products as “green” or environmentally friendly. However, messages are not enough. If the cars are not really friendlier to the environment, then these messages eventually will fall on skeptical ears and impugn the credibility of the organization. An organization measures the effectiveness of its output by seeking feedback. If its actions and messages were not effective then the process is repeated until the appropriate solution is found. If the organization is not able to adapt to the environmental variation then it will eventually cease to exist. The public relations professional engaged in an organization that takes a systems approach is continually focusing on feedback as a way of measuring organizational success.

The public relations professional can use the academic concept of systems theory to implement protocols for regular feedback to the organization, thereby aligning it with the desires of publics in its environment. This theory can also be useful in understanding the role of research and feedback in creating a thoroughly analyzed and consistent strategy (the throughput stage of information in systems theory). The analysis of information and creation of strategy known as throughput helps to conceptualize and justify not only the research budget of the public relations department but also the need for making decisions that strategically align the public communications of an organization with the information needed by publics. The practical implementation of this approach keeps public relations from being used as a simple publicity function, and places the function squarely in the strategic planning process.

Systems theory, however, is not without some shortcomings. The first shortcoming relates to measurement, and the second is the issue of whether the means by which an organization survives really matter. Robbins noted that one criticism of this approach is that its focus is on “the means necessary to achieve effectiveness rather than on organizational effectiveness itself.” Robbins (1990), p. 62. Measuring the means, or process, of an organization can be very difficult when compared to measuring specific end goals of the goal-attainment approach.

6.3 Stakeholder Management Approach

The **stakeholder management**¹² approach adds focus to the systems approach by building “strategic constituencies.” Robbins declared that an organization should be concerned only with the “strategic constituencies” Robbins (1990). in the environment who can threaten the organization’s survival. This approach recognizes that an organization must deal with external and internal publics who can constrain or enhance its behavior.

Although organizations would prefer to have complete autonomy, they are often confronted with constraints and controls. Constraints are often considered undesirable because they “cost money—to comply with regulations or to make changes to accommodate pressure groups,” Grunig, Grunig, and Ehling (1992), p. 68. and they “restrict creativity and adaptation.” Pfeffer and Salancik (1978), p. 15. However, it is inevitable that an organization meets with some constraints, especially in heavily regulated industries. Examples include labor strikes, government regulations, boycotts, and protests by special interest groups.

To be effective, an organization “must be aware of environmental publics such as customers, suppliers, governmental agencies, and communities and interact successfully with them.” Grunig, Grunig, and Ehling (1992), p. 72. They must also be aware of the internal publics, such as employees and labor unions, who can affect or be affected by the organization. The relationship between an organization and its stakeholders is called **interdependence**¹³ in systems theory literature. Although these interdependent relationships limit autonomy, good relationships with stakeholders limit it less than bad relationships. When organizations collaborate with key stakeholders the end result is often an increase of autonomy. Good relationships are developed when an organization voluntarily interacts with its stakeholders to find mutually beneficial solutions. Poor relationships can result in forced compliance to restrictions and regulations. When organizations voluntarily establish relationships with stakeholders they have more autonomy because they are not forced into these relationships.

12. An approach to management that places specific focus on key constituents. It is more measurable due to its focus on relationships with key stakeholders. It also recognizes that the interests of stakeholders often conflict.

13. The relationship between an organization and its stakeholders.

The Stakeholder Management Process

Stakeholder management centers on a six-step process as summarized in the following list. The process requires that the public relations function first identify key stakeholders, describe their stakes in the organization, and determine if those stakes are significant. Once these steps have been accomplished, opportunities and challenges must be evaluated, determine the organization’s responsibility to the stakeholder, and finally create relationship strategies.

Six Steps in the Process of Stakeholder Management

1. Identify stakeholders.
2. Describe the stakes.
3. Consider the significance of stakes/claims.
4. Evaluate opportunities.
5. Consider responsibilities to stakeholders.
6. Consider relationship-enhancing strategies and actions.

Step 1: Identify the Stakeholders

According to Carroll, the stakeholder management process begins by identifying the stakeholders. Carroll (1996). Establishing these relationships is often advantageous for both organization and publics, as the relationships can be genuinely developed before they are urgently needed in a crisis situation. (In the next chapter we will show you how to construct a stakeholder map and analyze the connections between the organization and its publics.)

Step 2: Describe the Stakes

The next step is describing the stakes or claims these groups have in the organization. A **stake**¹⁴ is an interest or a share in the performance or success of an organization. Employees, shareholders, and other groups may have such a stake. A stakeholder group could also assert a **claim**¹⁵ on the organization if it believes the organization owes them something. For example, environmental groups believe that corporations have a responsibility to care for the environment. The legitimacy of the stakeholders' stake or claim must also be considered. The legitimacy of the stake or claim will be influenced by what the organization values. When management gives profits highest priority, then the interests of the owners, including shareholders, is paramount. Other values, such as concern for the environment, good working conditions, and customer satisfaction, would consider the needs of other stakeholders in an organization holding these values in addition to a profit motive. Stakes or claims can also be in conflict with each other. For example, the pressure to report profits may lead an organization to lay off employees, which would conflict with the benefits of having greater employee morale. The difficult part of stakeholder management is being able to manage the potential conflicts of interests among the stakeholders, and it is often a challenging pursuit to achieve a balance of stakeholder interests.

14. An interest or a share in the performance or success of an organization.

15. Something demanded of an organization by a stakeholder group or asserted to be due to a stakeholder by an organization.

Step 3: Consider the Significance

The third step is to consider the significance of the stakeholders' stake or claim. Mitchell, Agle, and Wood developed a comprehensive model that included the stakeholder attributes of legitimacy, power, and urgency as a way to evaluate the priority of stakeholders. Mitchell, Agle, and Wood (1997), pp. 853–886. **Legitimacy**¹⁶ is determined by whether the stakeholder has a legal, moral, or presumed claim that can influence the organization's behavior, direction, process, or outcome. Stakeholders have **power**¹⁷ when they can influence other parties to make decisions the party would not have otherwise made. **Urgency**¹⁸ exists when the issue is immediately pressing (time sensitive) or when it is critical to the stakeholder. They used the combination of the three attributes to develop a prioritization strategy. Accordingly, **latent stakeholders**¹⁹ possess only one of the attributes; **expectant stakeholders**²⁰ possess two attributes, and **definitive stakeholders**²¹ possess all three attributes. The more attributes stakeholders possess, the more critical their claim.

Step 4: Evaluate Opportunities

16. In public relations, something determined to be valid based on a legal, moral, or presumed claim that can influence an organization's behavior, direction, process, or outcome.
17. In public relations, the ability of stakeholders to influence other parties to make decisions the party would not have otherwise made.
18. In public relations, an issue that is time-sensitive or critical to the stakeholder.
19. Stakeholders who possess only one of the three stakeholder attributes of legitimacy, power, and urgency related to a stake or claim.
20. Stakeholders who possess two of the three stakeholder attributes of legitimacy, power, and urgency related to a stake or claim.
21. Stakeholders who possess all three stakeholder attributes of legitimacy, power, and urgency related to a stake or claim.

The fourth step is evaluating the opportunities and challenges the stakeholders present to the organization. According to Carroll, opportunities and challenges might be viewed as the potential for cooperation and the potential for threat. Opportunities are situations that advance the goals of an organization if they are seized, whereas challenges usually have to be overcome. Stakeholders can either help or hinder the efforts of an organization, and each group should be analyzed according to what it brings to the table in each situation.

Step 5: Consider Responsibilities to Stakeholders

The fifth step is to consider the responsibilities an organization has to its stakeholders, meaning the ethical obligations that are held with regard to decision making, disclosure, and maintaining long-term relationships that engender trust. Beyond the assessment of opportunities and threats, what legal, moral, citizenship, community, and philanthropic responsibilities should be followed in order for the organization to be considered a valuable member of society?

These responsibilities include the financial, environmental, and social impact the organization has on society as a whole, and consist of such areas as fiscal accountability to shareholders, safe work environments for employees, and reduced negative impact on the environment. More is said on the ethics of decision making elsewhere in this book, and using a philosophical framework to rigorously analyze responsibilities is helpful in practicing effective public relations. Such a framework leads to more understandable, consistent, and defensible decisions than a more

relativistic ethical approach that can be attacked as capricious, biased, or worse. Determining organizational values can help to articulate the various responsibilities that decisions should seek to fill.

Step 6: Consider Relationship Enhancement

The final step is to consider the strategies and actions an organization should take to enhance its relationships with key stakeholders. Since that is the primary function of public relations, the responsibility for developing strategic plans should fall on its shoulders. Public relations professionals have been trained in a strategic process that focuses the organization's communications and actions toward enhancing these relationships.

Employing stakeholder management techniques in professional practice means that the public relations professional holds the reins and responsibility for the relationships that are the very lifeblood of an organization. Using stakeholder management allows the professional to accurately assess the situation, prioritize resources, and make decisions that are the most strategic, helping to build long-term relationships with the most important publics and enhancing organizational effectiveness.

6.4 Chapter Summary

It is important to understand how organizations define their success because they place more value on the functions that contribute to that success and tend to reward those efforts the most. This chapter identified three ways that organizations evaluate their effectiveness. Most organizations set goals and measure themselves against those goals. These short-term benchmarks are easier to measure, but may blind the organization from the forest for the trees. An organization must also consider its long-term sustainability and growth, and a systems theory approach helps an organization keep its eye on the horizon. Key constituents are essential to reaching immediate goals and sustaining long-term growth. A stakeholder management approach helps an organization understand how critical these constituents are to meeting the purpose of the organization. Using the six steps of the stakeholder management process, public relations professionals can better understand challenges facing the organization and can help to integrate the interests of those stakeholders into management. Doing so strategically aligns the policy of the organization, allowing it to build more enduring relationships with publics and integrate public relations as a primary contributor to the bottom line and overall organizational effectiveness.