

COMMENTARY

Organizational success: The importance of conceptual clarity

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In their important and timely focal article, Schneider and Pulakos (2022) argue that the field of industrial-organizational (I-O) psychology needs to expand their focus from an individual-level mindset (e.g., individual job performance) to an organizational-level mindset (e.g., organizational performance). Although I-O psychology would undoubtedly benefit from adopting this expanded mindset, it is crucial for “organizational success” to be clearly defined first. Schneider and Pulakos implicitly suggest some ways organizational success may be defined and assessed (e.g., customer service satisfaction, financial performance, accidents/injuries); however, a precise definition of organizational success is not provided. Moreover, the terms “organizational performance,” “organizational effectiveness,” and “organizational success” are often used interchangeably in this focal article, despite there being important conceptual differences between these (see Richard et al., 2009). The main argument of this commentary is that “organizational success” should have a clear meaning to assist I-O psychologists in successfully adopting the organizational mindset proposed by Schneider and Pulakos. First, this commentary provides a brief overview of why good conceptual definitions matter. Next, explicit conceptualizations of organizational success are provided to further underscore the importance of conceptual precision.

Why precise conceptual definitions matter

Good conceptual definitions are essential to the field of I-O psychology (Locke, 2003). According to Podsakoff et al. (2016), there are several major theoretical and practical issues that stem from poor concept definitions. For example, this ambiguity makes it challenging to distinguish concepts from each other, thus undermining discriminant validity and confusing the nomological network of the focal concept (i.e., its antecedents and consequences). Poor conceptual definitions may also result in measurement deficiencies and/or contaminations, which are problematic for both scientific and legal reasons. Inadequate conceptual definitions can also widen the science–practitioner gap in a variety of ways. For example, researchers and practitioners may treat a certain set of concepts as unique, whereas others treat them interchangeably (e.g., consider the meaning of employee engagement; Macey & Schneider, 2008). The lack of clarity may also make it difficult for practitioners to determine what scientific findings are relevant to their specific workplace situations. For instance, although most practitioners undoubtedly have an interest in understanding the determinants of organizational performance, if organizational performance is not clearly defined in a study, the relevance of such research will not be obvious. Last, poor conceptual definitions can decrease the public’s confidence in research findings (e.g., if concept ambiguity contributes to replication issues) and may make it challenging for researchers and practitioners to effectively communicate about important ideas. Thus, the problems stemming from this

ambiguity are far-reaching, and the prevalence of this issue is vast. If poor conceptual definitions sound like a rare occurrence, consider Edwin Locke who said, “As someone who has been reviewing journal articles for more than 30 years, I estimate that about 90% of the submissions I get suffer from problems of conceptual clarity” (Lock, 2012, p. 146). Regardless of how obvious the definition of a concept may seem, it is still important to define the concept. Organizational success is no exception to this.

Ways of conceptualizing organizational success

Although organizational success can have many meanings, there is often a distinction between organizational *performance* and organizational *effectiveness*. According to Richard et al. (2009), organizational performance focuses on financial (e.g., return on investment), market (e.g., market share), and/or shareholder return (e.g., economic value added) outcomes. This contrasts with organizational effectiveness, which “is broader and captures organizational performance plus the plethora of internal performance outcomes normally associated with more efficient or effective operations and other external measures that relate to considerations that are broader than those simply associated with economic valuation (either by shareholders, managers, or customers), such as corporate social responsibility” (Richard et al., 2009, p. 722). Furthermore, organizational performance may be assessed on a continuum ranging from fully objective to fully subjective (Singh et al., 2016). Objective measures include accounting (e.g., cash flow from operations, profits, return on assets, risk-adjusted return on capital), financial market (e.g., earnings per share, stock price, price-to-earnings ratio), or mixed accounting/financial measures (e.g., balanced scorecard, cash value added, market-to-book value; see Tables 2 through 4 in Richard et al., 2009 for 46 objective performance indices). Subjective measures might entail asking critical stakeholders about their perceptions of the value, success, reputation, or some other aspect of a company (e.g., Pulakos et al., 2019, *Fortune* reputation surveys, judgments of corporate social responsibility).

As another way of conceptualizing organizational performance, Ployhart and Hale (2014) make the distinction among operational performance, global firm/organizational performance, and sustained competitive advantage. Operational performance concerns how an organization employs its resources and may be measured either internally (e.g., aggregate employee performance) or externally (e.g., customer satisfaction). Global organizational performance captures the performance of an organization more broadly rather than assessing the performance of specific value-generating activities (e.g., revenue growth). Last, sustained competitive advantage is defined as the extent to which an organization generates above-normal returns (i.e., economic value) in comparison with its competition (Ployhart, 2012). High organizational performance is, therefore, a necessary but insufficient condition for competitive advantage, as an organization can still achieve this but may not be performing higher than its competition (i.e., it achieves competitive parity).

Defining organizational performance is complex and needs a heavy focus on context. The important distinction between organizational performance and competitive advantage described above highlights how performance may be conceptualized at both a within-organization and between-organization level. For example, competitive advantage is inherently contextual and can only be measured relative to other companies. On the other hand, a company may have a strategic goal of generating higher levels of employee engagement, which may or may not relate to competitive advantage but could serve as an indicator of organizational performance (assuming achieving this goal is indicative of organizational performance). Additionally, the type of organization affects the conceptual definition and measurement of organizational performance and effectiveness as well. For example, research by Parhizgari and Gilbert (2004) found that measures of organizational effectiveness in private and public sectors were significantly different from one

another. These two types of organizations differ markedly with respect to the financial objective of the firm as for profit (i.e., private sector) or nonprofit (i.e., public sector), and they also serve different types of “customers” (Alford, 2002). Thus, many factors such as precedent and the goals and purpose of the organization influence the assessment of organizational success and performance.

Largely, there are many ways to define, conceptualize, and measure organizational performance. When adopting an organizational mindset, it is critical for I-O psychologists to be clear how they conceptualize organizational performance for both scientific and practical reasons. Scientifically, understanding the many ways in which organizational performance can be conceptualized may lead to more precise performance-related theories (Wallace, 1965). For example, in their meta-analysis Crook *et al.* (2011) found that human capital has a small, positive relationship with global firm/organizational performance but this relationship is mediated by operational performance. Importantly, the human capital-to-operational performance and operational performance-to-firm performance linkages were each stronger (both positive) than the human capital-to-firm performance linkage. This suggests that human capital affects firm performance (a more distal outcome) through its influence on operational performance (a more proximal outcome). In some ways, this research is reminiscent of the findings from I-O psychology showing that certain predictors (e.g., general mental ability [GMA], personality) are differentially related to different individual-level performance conceptualizations (e.g., task performance, organizational citizenship behaviors [OCB], counterproductive work behaviors [CWB]). For example, there is meta-analytic evidence that GMA is a stronger predictor of task performance than personality (i.e., the five-factor model [FFM]) but that the FFM is a stronger predictor of CWBs than GMA (Gonzalez-Mulé *et al.*, 2014). Thus, having clear conceptual definitions of job performance has allowed I-O psychologists to derive many nuanced insights about the antecedents of this concept—something that would not have been possible if job performance was not precisely defined. This same sort of conceptual precision used for understanding job performance should also be used for understanding organizational performance (i.e., success). Thus, precision in how organizational performance is defined is crucial for deriving more nuanced and accurate scientific insights.

From a practical standpoint, I-O psychologists can contribute in much the same way as they did when examining how certain predictors (e.g., GMA, personality) differentially predict task performance, OCBs, and CWBs. Determining how different I-O-related variables predict different forms of organizational performance (e.g., customer service satisfaction, innovation, sustained competitive advantage) would likely increase the practical relevance of I-O psychology in dramatic ways. As Schneider and Pulakos (2022) note, practitioners are increasingly interested in the determinants of organizational performance. Fortunately, I-O psychology is in a great position to provide these insights, and doing so may even narrow the I-O science–practice gap. These scientific and practical benefits will only be realized if I-O psychologists begin to seriously adopt an organizational mindset and consider performance criterion at a more macro level. As this commentary argues, this organizational mindset will be much more useful if precise definitions of organizational success are employed.

Conclusion

Schneider and Pulakos (2022) are correct that I-O psychology would benefit from adopting a more organizational mindset via a greater focus on organizational success. However, there are many ways to define organizational success and having a clear conceptualization of this notion is important for both scientific (e.g., allowing more precise theory development) and practical (e.g., allowing practitioners to easily determine the relevance of research findings) reasons. Giving attention to contextual factors is important to enhance this clarity and to tease apart

the nuances of organizational performance (e.g., public vs. private sector, comparing within vs. between). Fortunately, I-O psychologists have been successful in conceptualizing, measuring, and understanding individual job performance. Moreover, many of the same concerns that apply to organizational performance also apply to individual performance (e.g., whether it should be defined objectively vs. subjectively, whether it should be assessed at a within or between level of analysis). Thus, although poor definitions plague many concepts within I-O psychology (Podsakoff et al., 2016), this need not be the case for the concept of organizational success. Indeed, I-O psychologists are well positioned to avoid these issues, insofar as they are able to treat organizational success with the same level of precision as individual job performance. In summary, by employing a precise definition of organizational success, I-O psychologists will be much more successful in adopting an organizational mindset and fully leveraging this rich and highly relevant concept, and this will undoubtedly benefit both research and practice.

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