“Business made profective”

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|                  | *Problems and Perspectives in Management*, 8(4) |
| RELEASED ON      | Thursday, 23 September 2010 |
| JOURNAL          | “Problems and Perspectives in Management” |
| FOUNDER          | LLC “Consulting Publishing Company “Business Perspectives” |

| NUMBER OF REFERENCES | 0 |
| NUMBER OF FIGURES    | 0 |
| NUMBER OF TABLES     | 0 |

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Business made profective

Abstract

In this paper, we propose a new term, profective. This term is intended to make explicit an organization’s objective of improvement and progress within a dynamic environment. We argue that words such as proficiency, efficiency and effectiveness are not rich enough terms to fully embrace and explain all the dimensions that are necessary for managing a modern organization in a globalized environment. The aspect of progress and improvement is not adequately represented in these traditional terms. Improvement is a natural outcome of organizational activity and of economic purpose. The knowledge and insights that chaos and complexity theories offer suggest that management has to deal with changing environments, where this change is often discontinuous. Concepts like proficiency, efficiency and effectiveness tend to only focus on a stable equilibrium without making explicit the actual dynamics that enable organizational survival. However, organizations also find unstable equilibria that enable them to do business. We argue that the term profective better captures the essence of progress and improvement in a dynamic environment. The etymology of the term is briefly discussed to validate the logic of this application of it.

Keywords: profective, proficiency, efficiency, effectiveness, business management.

JEL Classification: M14.

Introduction

In this paper we propose a new term, profective, because we argue that existing terms such as proficiency, efficiency and effectiveness are not rich enough terms to embrace and explain all the dimensions that are necessary for managing a modern organization. The aspect of progress and improvement is not adequately represented in these traditional terms. Proficient use of resources, efficiency of operations and effectiveness of the whole endeavor are among the most frequent general descriptors of a business organization (Ulrich and Barney, 1984; Treacy and Wiersema, 1995). But one can question whether these terms turn one’s attention adequately to all the critical perspectives of managing an organization in a complex environment. It may be that they actually mask from viewing other features in the overall context which calls for attention. Many of the emergent approaches to management, such as quality, benchmarking, best practice, continuous improvement, re-engineering, balanced scorecard, lean production, agile manufacturing, knowledge management, business ecosystems, and co-evolution are evidence in their own way that managers strive to understand more of the complexity of their organizations than traditional language embraces (Euske and Player, 1996). Sometimes, these new approaches are a semantic metamorphosis of each other, but still leave a residue of information that broadens the landscape of management studies (Watson and Korukonda, 1995).

The lineage of words can often provide an insight into specific aspects of a referent idea which may be outside the meanings currently understood. For example, “expert” is not from Latin “expers” which is ex parte, ‘without share in’; it is actually from the Latin experior, expertus, tried and experienced. Similarly, “strategic” was adopted from the old Greek word strategos, applied to the general who devised and adopted strategemata stratagems or tricks to defeat the opposing enemy. Business in a competitive environment might still be regarded by some as warfare. The renewed interest in Sun Tzu’s (2005) recently republished “Art of War” as an inspiration for managers reinforces this idea of competition. In the notion of conflict and competition, there must be losers, and contenders must be beaten. Strategies (stratagems) for winning against the enemy like surprise, new weaponry or planned retreat may be appropriate to bring about victory, but they may cost the victor heavily. In other words, strategy, even in business, may not just be about going forward, it may at times go backward as well. Strategies can include surprise (innovation), new weaponry (technology) and retreat (downsizing, divesting or liquidation). This language is germane to competitive and rationalist theories of organization and management, but it can hide important dimensions derived from social and naturalist theories such as complexity theory. Language, by which all social exchange is mediated, grows and does not stagnate. Here a useful contribution to that growth is being made.

In this paper, we show that traditional words such as proficiency, efficiency and effectiveness are not sufficient to describe how organizations manage in complex and dynamic operating environments. A new term, profective, is proposed that better captures more fully the essence of organizational behavior in these times.
1. Chaos and complexity theories, and managing change

It is common now to speak of organizations facing an environment of discontinuous change. This has led to contradictory ideas about strategies for managing change; for, on the one hand, steps must be taken that are consonant with, and therefore, adapting to the unpredictable environment, while on the other hand, the organization seeks to act within a predictable time frame that has stability and a degree of certainty. In the latter sense, change represents a problem and possible disruption to the performance and growth of the organization. This is partly expressed by Sanchez and Heene’s view: “Imperfectly predictable changes in the firm’s competitive environment may call for rapid changes in a firm’s higher system elements, but those elements are characterized by long dynamic response times and high degrees of internal causal ambiguity” (Sanchez and Heene, 1996, p. 58). There is a tension between the forces of change and the forces to maintain stability. Capability of responding to forces for change, and even anticipating those changes, requires the organization to be adaptive and flexible. That is a generally accepted notion. However, the strategies for achieving that flexibility need to be informed with deeper insights into the processes at work.

Moore’s interesting concept of “business ecosystem” is based on an ecological analogy (he calls it “metaphor”) (Moore, 1996, pp. 22-26). It ushers in a new way of conceiving the organizational domain and environment, in which co-operation is as important as competition. This conceives an organization as part of a natural setting, and the relationship with the environment informs the business strategies. Growing together is as important as competing for benefits. Competitive capability is robustness and durability achieved through leadership, commitment to a vision and knowledge of the ecosystem in which one functions (Moore, 1996, p. 23 et passim). This idea is reinforced if one considers organizations from the perspective of chaos or complexity theory; the relationship between organizations and society has a natural, rather than just rational foundation.

The increase in examples of the efforts to apply chaos theory to organizations is almost exponential. Sometimes the enthusiasm for the notion of instability surrounding management and organizations crowds out the fact that organizations do achieve stability for a time, can and do at times control the impact of the forces for disorder. The way in which that is to be done constitutes the new paradigm of managing. Stamps (1997) cites interesting examples of self-organization in experiments and firms. These include General Motors’ very effective use of a simple computer system for deciding on the order of paint jobs in a plant in the US, Deere & Co.’s use of a simple software to schedule the manufacture of seed planters, and use of simple rules to guide the work of trades-people in the construction of off-shore oil platform. These systems appear to emphasize the perceptual and intellectual recognition of the environment of chaos. Tetenbaum (1998) cites examples, some of which are the same as in Stamps, to focus on the uncertainty and instability that managers face. While usefully showing the paradox of chaos and complexity theories in respect of traditional management, Tetenbaum still categorizes the new environment with fixed characteristics, and advisory steps for managing an organization. Those steps would have to be subject to contingency. Fredricks’ (1998, especially pp. 365-372) approach is to assign the characteristics of natural systems to organizations. He views an organization as a complex adaptive system which exists in a fitness landscape where survival involves self-organization (self-assembly) and autocatalysis (feedback for adaptation). The corporation is mirrored against nature in such aspects as drawing energy from the environment and economizing that energy in order to grow. The organization is a goal-seeking entity that uses economizing as a means of survival in its environment. Because people also make up the organization, they represent unpredictable factors that can destabilize the system, but the influence of strange attractors helps to maintain an unstable equilibrium (Stacey, 1993; Fredricks, 1998; Wah, 1998).

It is here that management theory can find a space in chaos and complexity theory. The organization’s relations to its environment can be regulated up to a point. However, concepts like proficiency, efficiency and effectivenes tend only to focus on a stable equilibrium, without making explicit the actual dynamics that enable organizational survival. The value that an organization adds will contribute to further adaptation of the whole system. If the change signified in chaos and complexity theories is accelerating, that acceleration is only relative to human perception of that change, and the extent to which the interventions of people have helped shape the complexity.

In that paradigm, improvement or progress leads to a new state of the system; improvement then is a natural objective of managing the organization.

2. Progress and improvement

“Improvement” is a term that has had to jostle for attention against the more dominant change management material. In general, management theory has not engendered theories of progress or
improvement (If one takes a creationist approach, then the world was made perfect, and everything after is a state of maintenance or decline. If one takes an evolutionist approach, then the raw material continues to evolve forever, and that means we have to be involved in the process, and influence its direction. Otherwise, it will be made by other forces, and may not be beneficial to humankind). A perspective of improvement is the paradigm underlying particular theories, such as total quality management, or benchmarking, or business process re-engineering. However, their adoption has been piecemeal and spasmodic, and the attempt to critically reshape management theory with the concept of progress has been easy to resist because of the lack of an accepted vocabulary to express it. Yet the tacit assumption of all management endeavors is to bring about progress, or improvement, in the domain in which the organization functions.

The more common term “development” has tended to refer to strategic or financial planning (business development) and human resources. Ackoff provided a fine discussion of development as opposed to growth when he wrote: “To grow is to increase in size or number… Development is an increase in capability and competence. Development of individuals and corporations is more a matter of learning than earning” (Ackoff, 1999, p. 44). Ackoff considered that quality of life was the outcome of development.

Progress is relative to the betterment of people’s lives, an idea clearly stated in the British Government White Paper on Eliminating World Poverty (2009). The White paper outlined the Millennium Goals which proposed targets for actual improvement in the condition and capability of poorer nations and communities, while caring for the environment with sustainable development. Referring to the significant improvements that have been made in the last few years (e.g., over 500 million people moved out of the extreme poverty category), the report states: “This has been no accident. These improvements are the result of the hard work of governments and people in developing countries: entrepreneurs who create businesses and jobs; doctors and nurses who go to work each day in difficult conditions for little money to vaccinate children and deliver basic health care; citizens, civil society organizations and women’s rights activists who risk harassment or imprisonment for demanding more accountable and effective government (British Government, 2009, 1.4, p. 11)”. Economic policies in a global environment will be fulfilled by the activities of business organizations in creating value for their respective section of society, their market segment.

Some may argue about the intervention of politics into the free trade arena. There has been a long historical discourse about the relationship of the individual person to the state, often taken back as far as Plato and Aristotle in BC 4th century Greece through to the likes of Karl Marx, Adam Smith and John Stuart Mill of the 19th century. Along the spectrum from collectivism to individualism, a wide variety of opinions has been generated. Politics and economics get bound up together, because they deal with critical aspects of human life, stability, security, social relations, survival, and satisfaction of basic needs. The ideas are well summarized up to the mid-20th century in articles on “progress” and on “wealth” in Encyclopedia Britannica’s The Great Ideas (1952, p. 440): “The contrast between ancients and moderns with respect to political progress seems to be the same as that which we observed between Thucydides and Adam Smith with regard to wealth. The ancients assert the superiority of the present over the past, and even trace the stages by which advances have been made from primitive to civilized conditions. But they do not extend the motion they observed into the future. The moderns look to the future as to a fulfillment without which present political activity would be undirected”. The expectation of a continually improved future drives most economic activity today.

Hill (1997, p. 35) cites J.S. Mill on the importance of guaranteeing individual freedom, and Adam Smith on the well-known “invisible hand” that accompanies the pursuit of self-interest and which promotes the social interest as well. It seems Smith anticipated some great economic Hawthorne Effect. The views of Mill and Smith are deeply rooted in social theory and interdependence of people in society and within national boundaries. They speak of progress and improvement for society as if they were the natural outcome of their views. While they support individualism within social constraints, it is arguable whether their views would be applied to organizations in a globalized system of capitalism, free market economies and competition. They could be closer to the collectivist theories in which the community maintains standards in the interests of its individual members and expends its resources striving for the common good, as well as the common better. One can safely conclude that progress and improvement are a natural consequence of economics.

Issues that have emerged since the mid-20th century include the advance of technology, systems theory, chaos and complexity theories, internationalization (and globalization) of business, ecological and environmental concerns, and the increasing dominance of economics in politics. The idea that the future will be better than the present is implicit in all business endeavors; it is fundamental to the concept of “added value”, and gives basic meaning to the term “profit”.
The overlap of political and economic domains is evident in globalization, and particularly the role of groups like the World Trade Organization promoting a multilateral trading system (World Trade Organization, 2009). Its website reminds a visitor that only national governments are members of this organization. However, business organizations certainly are heard in other fora like the World Economic Forum (2009). Progress and improvement are implicit goals of these groups. Incremental improvement is an empirical social fact. Business organizations are beneficial for society, for they are a useful method for enabling the complex relationships and transactions between people to occur. They thus provide employment, which has become the virtually universal vehicle for the distribution of value and wealth within the community.

3. Destined to fail

Management strategists would probably assert that they are focusing on making the future better. No one would ever claim that management is the function of making things worse (except in some satirical or oxymoronic way). But what constitutes better, and for whom, is not always made clear. Often enough, it is survival of the whole, but at great cost to the parts. It seems like a Darwinian view of natural systems.

Strategies generally focus internally on improving efficiency and externally ensuring effectiveness. The evidence shows that in practice, varied outcomes ensue from this approach. In Australia, the banking industry claims to have achieved significant efficiencies, but most generally this has been achieved through staff reductions, branch closures and use of technology; high fees discourage the use of traditional services and encourage use of telephone or on-line banking. However, the banking industry ombudsman took 31,803 phone calls, and dealt with 6,446 new cases (Australian Banking Industry Ombudsman, 2007). This indicates a great deal of customer concern that so many took active steps to complain. Many customers perceived a deterioration of value-for-money, while shareholders have fared quite well. The question is whether such outcomes can be described by “effectiveness”.

Many previously public utility companies that have been privatized exhibit similar tension. For example, in Australia, Telstra (previously Telecom Australia) has found the pursuit of internal efficiency to be in conflict with its achieving external effectiveness. It has generally been effective for shareholders in its privatized state, but not for all customers. Telstra has been required by Government legislation to fulfill the ‘Universal Service Obligation’. This obligation treats telephone service as a basic service and requires Telstra to maintain a defined level of service to its customers irrespective of their location. Data collected by the Telecommunications Ombudsman (2008) shows that Telstra has not been able to consistently meet this obligation. The strength of feelings about Telstra’s lack of performance in this regard can be seen by the emergence of websites (such as http://www.tellthetruthtelstra.com.au/) as well-organized protests about service by customers. This may herald a new technological phenomenon for reinforcing business improvement.

4. Improvement: managing change for the better

The purpose of any organization is to satisfy its internal and external customers’ requirements. This sense of purpose is critical to understanding what managing is about. How broadly that purpose is defined can make a difference to the behavior of people in the organization. Banks, Telstra and others have clearly adopted strategic plans, but if one can be strategic yet not give top priority to customer requirements, then one may conclude that strategy is not a broad enough concept.

In management theory, improvement represents stages of achievement for the organization itself. Strategy can be interpreted as the long-term plan to achieve organizational survival. After giving a formal definition of strategic management, Viljoen states: “This definition hints at the fact that the core activity of strategic management is the development and implementation of a plan of action for the organization which will ensure the long-run success of that organization” (Viljoen, 1992, p. 3). Efficiency generally refers to production efficiency rather than allocative efficiency (Forsyth, 1992, p. 14); it is a measure of internal activities, while effectiveness is the extent to which their outcomes conform to the requirements or expectations of customers. These terms do not necessarily reflect an improved state of activity, or even that the level of conformity is any more than adequate in the market environment. The need to be adaptable to changing environments is certainly an explicit aspect of management theory, and means that an organization, while effective now, may no longer be effective if continuing to do the same things.

Consequently, organizations must be managed for improvement, which means change for the better; that improvement would show progress in its own development of capability, and its contribution to achieved value in its host environment. The complex system of social, productive and technological synergy we call the economy was named after the process of running a household, derived from Greek term “oikou nomos”. As the term has become the
model for social function and survival, this etymology reinforces the notion of people as the beneficiaries of business activities. At the same time, society is a complex adaptive system in nature, so concern for sustainable development and care of the environment are also engendered in it.

Investigators are becoming more aware of the systemic connection between organizational activities and the state of human and environmental well-being. The problems of mad cow disease and foot-and-mouth diseases in Britain have brought attention to the operational structures of international trade in farm animals. Global trade and competition encourage size and economies of scale; so beasts exported live to the EU and other countries are kept in large holding stations to be transported long distances and across many countries. These are conditions that facilitate the spread of diseases.

Not only economic viability, but the health of people throughout the world can be affected by the policies and practices of organizations trying to achieve their objectives for wealth creation. Despite the great technological advances in disease control, there is a re-emergence of infectious diseases once controlled, and the emergence of new diseases like Ebola. Cohen states: “Two areas of special concern in the twenty-first century are food-borne disease and antimicrobial resistance” (Cohen, 2000, p. 762). Resistance of diseases to some antibiotics has been linked to farming practices such as “... avoparcin, a glycopeptide antibiotic used in Europe as an animal growth promoter” (Cohen, 2000, p. 763). When humans eat food grown in this way, the over-exposure to the antibiotic makes it less helpful when needed to fight disease. There is also concern that “urban encroachment”, the clearing of habitats, brings animals closer to human populations, and that diseases are, thus, getting the chance to jump across species. Some recent examples of this: (1) the discovery of fire ants in Queensland in 2001 threatened the traditional family use of the back yard; (2) equine influenza (horse flu) closed down New South Wales metropolitan racing for many weeks in 2007; (3) avian influenza (bird flu) devastated some flocks in many countries, and transferred to humans in a small number of cases; and (4) the swine influenza spread quickly via air travel and open airport terminals.

This systemic nexus between organizational activities and socio-physical outcomes emphasizes that improvement must be a seminal aspect of management theory. National wealth, private enterprise, privatization, and philanthropy are predicated on a social system whose bonds are more extensive than just economic mutuality.

5. Profective management

Effectiveness has to be judged by a new standard. It may be tacit or implicit management theory that the activity of management is to bring about improvement; but it must be made explicit. Specific vocabulary is needed to facilitate the understanding of a tacit idea. Moore writes: “Many find themselves struggling with varying degrees of effectiveness, but with no clear way to think about and communicate, let alone confront, the new strategic issues. What is most needed is a new language, a logic for strategy, and new methods of implementation” (Moore, 1996, p. 15, also p. 25).

We argue here that progress, or improvement, is a paradigm of organizational activity that requires specific terminology to make it an explicit dimension of management theory. When a firm adds value, that value has improved someone’s life; basically it does not disappear, even when it is consumed. When profit is made, it enables further value-adding activity. It is proposed here to describe the appropriate organizational response to discontinuous change as “profective” management. This is strategic management informed by profective dimensions for increasing improvement.

Business can consider four aspects of evaluation of performance: (1) efficiency: relates to acceptable conversion rates; (2) proficiency: it is able to let the customer see that the firm’s efficiency is directed at customer satisfaction, and so has a level of capability; (3) effectiveness: when the activities also satisfy internal goals (validity) as well as external values (legitimacy); and (4) responsiveness: when the organization is designed to react to the normal and exceptional changes of the business environment.

When performance measured against these four aspects is acceptable and integrated, or in alignment, its management is profective. This means it is continuously adaptive to its circumstances through strategic decisions and operational fit. It also means that the learning side of the organization seeks to achieve efficiency, proficiency and effectiveness through adaptation in response to system entropy. Those changes include values, attitudes and needs, as well as transformation rates. Decision-making will be informed by the expectation of making the future better; it will be better because of the value added by the organization; the products and services will be improved for the benefit of customers. Profit increases ought to be traced to the creation of greater value, rather than to retrenched and contracted activity.

Profectiveness then, is recognition that higher-level processes, including strategy formulation, must smoothly integrate with lower operational level
processes. This makes synchronous management of the whole organization a conscious objective. Being *profective* internally would mean sub-optimization would not be accepted as a normal state. Optimizing would build on efficiency, and increase capability and competence of the organization. Efficient means the process does the job parsimoniously.

Being *profective* externally would apply first to improvement of the products and services within the markets one serves, or better in Moore’s term, within the firm’s business ecosystem. This builds on effectiveness. Effective means it achieves the intent of the process. In this case, *profective* means it will consciously be monitored, maintained and improved in respect of its fit with the market or business ecosystem.

Being *profective* externally at a wider level means that the intent of the process is continuously adapted to the needs of the ecological environment. It is the perspective that looks for stages of improvement. In this sense, it captures the Japanese “kaizen” (Imai, 1986) and the Chinese “fudan”.

*Profectiveness* would mean that business organizations assess what is better not only by what is profitable, but by a positive contribution to civilized development. As technology improves, as systems become more complex, and that is equated with higher capability, then one would want to see enhancement of human knowledge, quality of life, and over all, development as Ackoff describes it. Competition can serve improvement segmentally, but often at the cost to the macro-system. Co-operation can increase prosperity and wealth without necessary detriment to the system. *Profectiveness* is having the insight to find the balance between them.

In this paper, we purport that the term “*profective*” and its associated grammatical forms can help to capture, and even encapsulate the rich diversity of perspectives that must inform modern management theory. It is an initial response to Moore’s view earlier in this paper that: “What is most needed is a new language, a logic for strategy, and new methods of implementation” (Moore, 1996, p. 15, also p. 25).

6. Etymological foundation

*Profective* is a word newly coined here which can claim a strong business pedigree. Etymologically, it is from the same stock as efficiency and effectiveness. In fact, one can only wonder why it did not arise in English at the same time as those words.

Efficient, effective, and proficient are derived from the Latin verb “*facere*: to make, do, create, etc”. When combined with participles *ex* or *pro*, one gets, through elision, *efficere* and *proficere*. *Efficere* is the root of efficient (present participle *efficiens* – doing) and *effective* (past participle and noun *effectus* – completed, effect). *Proficere* “to make progress, advance, be useful, profitable or beneficial” is the root of *proficient* (present participle *proficiens* – advancing, progressing, profiting, etc.) and means “advanced in knowledge or skill, having a level of competence and capability”. *Profective* (past participle and noun *profectus* – advance, progress, increase, growth, profit, success, achieved benefit). *Profectus* has a double link with *progress*, for it is also the past participle of *proficisci*, “to begin to go forward” which is a peculiar repetitive verb of *proficere*. *Profectus* is the root of the word *profit*. It is also the word that was used in Vulgate translations of the Bible to express moral progress.

Conclusion

In this paper, we have proposed a new word, *profective*, to capture the notion of an organization’s performance in terms of improvement and progress within a dynamic operating environment. We have shown that traditional words such as proficiency, efficiency and effectiveness do not fully capture all the dimensions of an organization’s competitive capabilities in such environments. This new term, if used widely to describe the nature of organizations’ performance expectations, has the potential to improve the discourse on how organizations behave and act in environments that are complex and dynamic because it is a term that is more inclusive conceptually and better etymologically grounded.

References


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1 “Fudan”, literally meaning “heavenly light shines day after day”, indicates inexhaustible self-reliance and industriousness. Source: http://www.fudan.edu.cn/englishnew/about/intro.html.
2 E.g., Philippians 1.12 and 1.25; 1 Tim 4.15; 2 Peter 1.1-2.3. It is analysed in stoic theory by Mansour-Nahra, P.T. (1980, Ch 4, pp. 111-170).