

## Chapter 12

# Organizational Efficiency and X-Inefficiency: Which Role of Learning Organization, Knowledge Transfer, and Innovation?

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### ABSTRACT

*The works of Leibenstein emphasize the existence of x-inefficiency in organizations that explains why firms apparently identical, with the same composition of the workforce and the same technology, are able to realize very different performance. On the basis of Leibenstein and Maital (1994), this chapter presents the sources and reasons for the persistence of x-inefficiency by mobilizing the organizational learning theory and by determining the possible strategies for the correction or the elimination of x-inefficiency by using games theory. Moreover, the establishment of a favorable climate for learning can promote knowledge transfer, which in turn helps to improve innovation, and consequently, achieving organizational efficiency.*

### INTRODUCTION

In a competed, uncertain and dynamic environment, the companies seek to develop its tangible and intangible resources in most efficient way, in other words, to choose the best possible allocation of resources of the firm. However, in the practice, firms identical in appearance, with the

same composition of the workforce and the same technology, are able to realize very unequal results in terms of performance, productivity and quality of products. Leibeinstein explains this situation by the existence of a “X” factor, different from traditional factors of production of the standard theory such as the capital and the labor, which explains the efficiency or inefficiency of firms.

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In this context the following questions arises: what are the sources of organizational inefficiency? Why these inefficiencies persist in the organization? How can they be corrected or eliminated? How companies can improve their organizational efficiency through learning?

To answer these questions, we will try firstly, to present a literature review on the efficiency and x-inefficiency of Leibenstein. In the second place, we will attempt to determine the mechanisms of detection and resolution of the x-inefficiency through the theory of organizational learning and game theory. Finally, we will attempt to focus on the process of improving organizational efficiency based on learning organization, knowledge transfer and innovation.

## **LITERATURE REVIEW ON ORGANIZATIONAL EFFICIENCY AND X-INEFFICIENCY**

### **Definition of Efficiency**

The notion of efficiency expresses the extent to which results is obtained by minimizing the resources used (Menard 2004, 100). Milgrom & Roberts (2003, p: 31), consider efficient “the choices or options for which there is no universally preferred alternative to serve the goals and preferences of individuals. More specifically, if individuals are sometimes indifferent concerning certain options, then a choice is efficient if there is no other option that pleasing all individuals of that group and that is strictly preferred by at least one person “. However, (Cummins, Weissa, Xie & Zie, 2010) distinguishes between three types of efficiency: technical efficiency, cost efficiency, revenue efficiency and profit efficiency.

At the organizational level, efficiency refers to “the degree to which an organization generates its products and services using minimal inputs” Ménard (2004, p 100). In other words, and in a

purely allocative view, the level of the final production of a unit depends, all other things being equal, of the allocation of factors engaged and good control of his employment (Veran, 2006). The author stresses that this allocative vision gives lessons for the management that must acquire analysis tools allowing choosing the best possible allocation of resources of the firm. This is seen as a portfolio in which each subset transforms with more or less success, the resources received into products and output.

### **Approaches to Analysis Criteria of Organizational Efficiency**

Adopting a micro-organizational approach to identify the criteria of efficiency in an organization is not an easy task. The situation is revealed as a complex game of determining criteria of efficiency, given the variety of the angles of attack of the question. Some analyzes focus on identifying factors that promote business efficiency. This is the case of Campbell (1977) which counts thirty criteria of efficiency, different to the traditional criteria of maximizing productivity and minimizing costs. However, this approach raises the question of the importance of one criterion compared to another. Ménard, (2004) indicated that they must be ordered according to the basic characteristics of organizations.

Further analyzes, consider the efficiency criteria as mechanisms for internal coordination, procedures for incentives, information systems or as a decision structure (Burton and Obel (1984). This implies the composition of a large number of formal combinations which can be reduced according to the characteristics of each organization namely: the size, the nature of the organization and the cost of searching criteria of efficiency.

However, Ménard (2004) distinguishes three types of efficiency models: models focused on the objectives, models based on systemic criteria and models founded on strategic criteria.

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