

Module 5: Organizational Life Cycles and Their Effect on Change, Development



Organization Theory

MGMT 610

What's the benefit of studying this topic?

Understanding the factors of organizational life cycle assists in better management. These factors enable you to recognize the organization's "place" and what that means for your management success. As organizations change over time, they require different structures in keeping with their size and strategies. When structures fail to change with their stage, the organization itself may fail.

Module 5 The Impact of Organizational Life Cycle

LECTURE:

Introduction: "If it ain't broke -- don't fix it."

A hands-off attitude to organizational structure may have once been appropriate within organizations. However, now such an attitude sets up risk of an organization's demise. If an organization changes only in response to problems, that organization is stagnant and undoubtedly will not be able to survive competitive forces.

Organizations change -- **that** is inevitable. In a comparison of the life cycle of organizations with the life cycle of humans, organizations "mature" -- the small group of three people who create an organization gives way to ever larger groups as the organization expands in response to a number of factors. Organizations also "die" just as humans do. The question is not changing organizations, but changing them in ways that are positive and "healthy," so that the organization thrives, irrespective of the aging process. Note the number of organizations that now celebrate their 100th anniversary -- with appropriate marketing campaigns, discount coupons, etc. The century-old organizations can tell you about the important role of change. If you research their history for how and for what

purpose they were originally formed, you are like to find something vastly different than what that organization now has as its purpose.

Important At-A-Glance Definitions

- **Life Cycle:** The concept and practice of associating stages of organizational structure/activity with stages of human life and development in order to better grasp needed strategy and management
- **Entrepreneur:** A leader or professional whose focus is on the innovation aspects of enterprise work, creating and marketing new products and services to identify customers and a brand. When this takes place within an existing larger organization, this role is called an “intrapreneur”.
- **Start-up or Small Business:** A smaller enterprise, often less than 50 employees, whose work centers on development or creating products and services for the primary purpose of surviving; may be organized as a partnership, sole proprietorship, or incorporated. Small businesses may or may not be entrepreneurial in nature.
- **Bureaucratic Control:** Control of behavior by means of formalization (rules, specialized jobs, standardized procedures, etc.) and centralization (hierarchy of authority).
- **Clan Control:** Control of behavior by means of social agreement (e.g., shared values, informal relations, beliefs, shared norms for how to act, etc.).
- **Innovation:** Application and implementation of creative ideas into something useful.



Identifying Life Cycles

Like people, organizations have "life cycles" -- they're born, they mature, they change...and they even die. Woolworth is now just a name on a building in New York and does anyone shop at Montgomery Ward or Ames department stores? Pretty soon, you may be able to say "good-bye" to Toys 'R' Us and possibly either Sears or K-

Mart will disappear; Netscape, once a venerable name in internet technology is no more. People go through infancy, childhood, adolescence, young adulthood, adulthood, middle age and becoming older. While various scholars have identified different life cycle phases, as highlighted in your reading, Considering the Organizational Life Cycle, Richard Daft's model suggests that organizations go through four developmental phases:

1. The **entrepreneurial** stage -- the organization is new and management is very much "hands on." You add to your influence by having skills for innovation and problem-solving. However, as the organization grows, professional support, expertise and professional management also expands within the organization, so that growth brings more competition.
2. The **collectivity** stage -- the organization has developed to the point where structure (usually hierarchical) is introduced and becomes more pronounced over time. Organizational units multiply and become more specialized. You as a manager exert control through your ability to make administrative recommendations.
3. The **formalization** stage -- management and structure of the organization becomes more "bureaucratic" with greater utilization of procedures and formal lines of communication (both internally and externally). Eventually, as the organization grows ever larger and more complex, operating units may begin to experience more autonomy as management begins to focus on strategy, substituting numeric goal setting for hands-on management. You as a manager can exert control if you have special expertise that matches strategy, or if you fit easily into an identified management promotion path.
4. The **elaboration** stage -- in this phase, the utilitarian value of bureaucratic control begins to "max out" and management seeks new ways to grow the organization while still being able to manage it. Vertical structure and control gives way to increased use of horizontal structure and ultimately "diagonal" structure, such as the matrix and hybrid structures. It is in this stage that you as a manager have more options for innovation through teams, organization to organization partnerships and perhaps, a strategic alliance. Work becomes more entrepreneurial.

Management Controls Change with Life Cycles

Throughout these stages, someone(s) and structural design provide controls to the organization - who that is and how that management exerts direction will differ based on what stage the organization is in. Charismatic authority and individual leadership action play a greater role in the entrepreneurial stage while written, more bureaucratic policy authority has an expanding role during the collectivity and formalization stages. But then written authority takes on a lesser role in the elaboration stage of an organization.

As we consider life cycle stages, the organizational structure changes. While in the early stages of growth, the organization structure is relatively informal, by its midlife the organization begins to take on bureaucratic characteristics. What are these? Based on his study of large government organizations, Max Weber identified characteristics: the position is viewed separately from the individual holding it; written communications and record keeping; workers have technical qualifications; division of labor with specialized jobs, authority is in the hierarchy; and rules and procedures. Does this sound familiar to you?

Large - bureaucratic - organizations tend to differ from smaller ones on key dimensions of design:

- Formalization is high
- Decentralization expands since there are too many decisions to be concentrated at the top
- There are more workers for each administrative position and the clerical and professional staff is larger

What are the disadvantages of this design in today's world? It can hinder the ability to change quickly, adapt, and innovate. Solutions to this dilemma include increasing the autonomy of lower level workers, especially as they are trained and professionalized on the basis of education and experience. Knowledge workers and true professionals are controlled not by rules but by the deeply held values of their professions, such as the Hippocratic Oath of medical doctors. Another structural approach to this dilemma is to create temporary task forces and teams that cut across the organization horizontally and tap the expertise of those in touch with the issues. These temporary systems can provide the needed adaptive capability.

When the bureaucracy inherent in formal mechanistic design is insufficient, control is often exerted by the "clan". Clan control is social control based on shared values, beliefs, and norms for behavior. Organizations that apply this type of control consciously tend to emphasize trust and shared approaches to solving problems. The role of the manager changes from that of supervisor to that of a mentor and supporter of the desired values.

Form of Control	Description
Bureaucratic Structure	Most common and visible form of control in large organizations. Evident through policy manuals, books of rules, a very visible hierarchy. It's <i>designed</i> to move an organization forward by eliminating uncertainty and formalizing precedent. Leadership activities influence maintaining control through development and application of written policies, guidelines and procedures.

Rational-legal authority	Stems from the principle and a faith in those governed that their organization is credible, effective and capable. Stakeholders - employees, funders, stockholders, customers, clients, etc. - believe in the legitimacy of those in charge. Often professional legal or accounting partnerships use this approach.
Traditional authority	Control by those who have historically been in control. For instance, although now multi-national corporations, leadership legacy of the family name has influenced organizations such as Marriott and Gore & Associates.
Charismatic authority	Control derives from the stature, morality and vision of an individual or a small group, often the founders. The authority engenders deep respect on the part of followers. Political candidates seek to position themselves as charismatic or transformative leaders. In business, Steve Jobs was seen as exerting charismatic authority.
Market	Capacity of the organization to compete in the market. Decisions are driven not by qualities of charisma or structure, but what makes sense, what will gain market share. GE and Wal-Mart exert this form of control. Market control is used today among different departments in some organizations, where they are evaluated on the basis of transaction costs of their services/products "sold" to other departments.
Clan	Controls are determined by values, rituals, traditions, which are better known through observation or experienced internally. Advancement comes from recognition by peers within the group. Clan control can also be described as "in-sider" or running the business like a family- there is a strong sense of who belongs and therefore should influence or lead. Small, neighborhood businesses and some social services apply this control.

Growth and Unintended Consequences

An unintended consequence of growth can be that it stretches an organization too thin. It may lack the human and financial resources to remain viable. For example, a few years ago, the automaker Toyota faced a series of recalls. Afterwards, its CEO Akio Toyoda remarked that with growth of production, the company had perhaps neglected paying enough attention to human resources and engineering to match the growth in sales. In other cases, growth may be difficult to sustain. The sheer volume of sales needed may be unsustainable in the marketplace due to insufficient demand or a lack of distribution channels. This frequently happens with small businesses that grow too rapidly.

Organizational Decline

Like people, organizations age and decline...and sometimes decline even before they age, as happened to AOL and Myspace, once the front-runners in their fields. Your reading, Organizational Life Cycles, Size, and Decline, offers important perspective on growth as a goal and organizational decline. Why do organizations decline? Here are some reasons:

1. They **atrophy**. The organization becomes very bureaucratic, with too little ability to adapt to a changing environment. The leadership becomes inbred, where decision-making is a series of self-fulfilling prophecies because of a lack of new and original thinking. IBM, in the 1960s and 1970s, failed to see the competition from laptop computers and duplicating systems because it continued to "do business as usual;" Kodak and Polaroid almost failed to see the impact of digital cameras in time, but then faced the need for great effort in transformation.
2. **Vulnerability** either due to size (the "big fish eat the little fish" syndrome) or an inability to correctly understand likely competition. Then the current strategy is a mistake. As you look into the future, what will the increase in all-electric automobiles do to chains of gas stations?
3. **The external environment changes rapidly**. The organization cannot "see" changes in the environment. As a result, the organization is endangered. Consider what happened to video stores, like BlockBuster, when web-based software allowed you to download a movie.



Stages of Organizational Decline

Sometimes, despite change or because of a lack of it, organizations do not survive. However, before an

organization's demise, there is usually a period of, as medical terminology would have it, "failure to thrive" -- a period of decline and less innovation. Unfortunately, as the following stages of decline indicate, management is often blind to the signs and its response is often inadequate, insufficient, and inappropriate.

1. **Blinded stage**-- during this period, management misses the signals that the organization is in trouble
2. **Inaction stage**-- during this period, management sees the signals but denies their validity
3. **Faulty action stage**-- at this point, management is forced to confront the signals but its initial actions may be in the wrong direction (e.g., "circling the wagons"). This is the most critical stage because it is essentially management's last opportunity to turn the situation around.
4. **Crisis stage**-- the solutions developed in the previous stage are not working and panic sets in. In a much weakened position, management seeks a life saving solution.
5. **Dissolution**-- the organization dies. (Daft, 2013, pp. 377-378).

In order to prevent decline and dissolution and to turnaround, organizations must learn how to embrace and manage change effectively. These issues are discussed in Module 9.

Fostering Innovation

As organizations face needs for more innovation over their life cycles, they run into some common problems. Kanter (2007) calls these "traps". She has researched what companies have done over the past 40 years and identified the ones that seem most prevalent.

- Seeking a major innovation in a narrow range of possibilities rather than recognizing that more success comes from a willingness to risk more failures. How can an organization's design address this? See the next trap for one answer. A willingness for individuals to take risks with their thinking comes when they are explicitly given permission to do so, via the formal organization.
- Tight controls in the form of budgets, plans, and performance reviews in existing lines of business will stifle attempts to try something new. The formalization inherent in a bureaucratic design (discussed above) usually inhibits innovation.
- Structure that mistakenly separates divisions (and people) that need to communicate and collaborate in order to share expertise to generate new ideas. Kanter calls this trap "Connections too loose, separations too sharp" (2007, p. 77). Organization design must be more horizontal and flexible so that people are enabled to work together.

- Weak leadership and poor communication by putting technical experts in charge rather than those who are best at dealing with people. When relationships are neglected, innovators cannot develop the needed support to bring their ideas to fruition. As formal controls decline, interpersonal connections must increase. Clan control must be nurtured.

Small Businesses

Much of organization theory reflects its roots in the study of large organizations, such as government. But it applies to small organizations as well, whether early in the life cycle or in those that intentionally stay small, such as many family businesses.

All sizes of businesses can find systems thinking useful. Small businesses in particular need to recognize aspects of their system to survive. They benefit from systems thinking because their successful interactions make a difference to moving from surviving to thriving. A small enterprise must pay attention to needed resources, often from external suppliers, as well as important clients or recipients of goods and services, which support sales. Often a smaller business will also contract for payroll and human resource services. But the role of small businesses has an impact within a wider economy, another system! Small enterprises are reported to account for 64 percent of net-new jobs historically. New and young businesses have generated 40 million jobs in the past 25 years representing 20 percent of gross job creation in the United States (Brookings Institution, retrieved December 4, 2012). These economic forces suggest additional, significant reasons for understanding systems thinking.

Small businesses are often thinking big as they start-up. What startup entrepreneurs lack in numbers or budgets, they often make up for in by innovation and publicity. Think about the stories of Google, eBay, Facebook, YouTube, Twitter, or Hotmail. These small business entrepreneurs became the high-flying technology-oriented companies and are now household names.

Entrepreneurs who lead these enterprises are keen to know how to scale up. Their interest is not so much in a salary but, rather, in equity in a company that eventually will become publicly traded or acquired, generating a multi-million-dollar payoff.

Consider CafePress. Its founders, Fred Durham and Maheesh Jain, had a vision of providing a home for artists who make personalized products assembled in a just-in-time factory that could deliver customized gifts. Once they found a profitable business model, they realized that scale required external venture capital to fuel rapid expansion. With

venture capital came accountability to board members, forecasts, and other people's agendas. But today, CafePress is a \$100+ million company, and its website receives 11 million unique visits each month (Kauffman Foundation, retrieved November 25, 2012)

Equally important smaller enterprises provide targeted services to their communities. And in this service role, they informally engage systems thinking as well, because of the owners' frequent interactions/feedback from their community settings. Important examples are small corner stores and the neighborhood dry cleaners or restaurants. Many of these small businesses start with newcomers who want a better life for their children. Here's one example: "My parents came to the United States through Ellis Island in steerage, and their biggest dream was to open a small grocery store on the Lower East Side of New York City, which they did in 1939. They didn't aspire to open a chain of grocery stores-they just wanted to feed their family" (Kauffman Foundation). These small business owners take entrepreneurial risk, and only make money if the business understands their resources and the needs/interactions with customers.

Within a small business, there are overlapping inputs, steps or activities, and outcomes to reach bigger goals. For that reason small businesses are continually engaged in reciprocal relationships with environmental factors-social, mechanical, technical and political. As such their leaders are using systems thinking, probably without naming it. In a small business, organization design is not yet an identified issue since the organization is so small – systems thinking and organizational learning can occur naturally in the flat structure and dynamic interactions among the members as they solve diverse problems or start-up challenges. But what if the small organization does not have good teamwork in place? What would happen if small business leaders knew more of systems application from a practical perspective?