**The Impact of Organizational Lifecycle**

**Module 5**

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| **What’s Included:**  **Read:**  This module (scroll down web page)  **Daft** **Ch. 9**—Organization Size and Life Cycle outlines a likely “evolution” of a business or nonprofit    **Review:** Power Point Presentation describes the details of organizational life cycle  **What’s the benefit of studying this topic?**  Understanding the factors of organizational life cycle assists in better management.  These factors help you to understand the organization’s “place” and what that means for your management success. |

**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.  **Those** organizations represent models for effective change; if you were to research how and for what purpose they were originally formed, you would probably find something vastly different than what that organization now represents.

**At-a-Glance Definition:**

**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

**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.  As Daft notes on pp. 340-343, organizations go through four developmental phases:

1. The **entrepreneurial** stage -- the organization is new and management is very much "hands on."  However, as the organization grows, the need for professional support, expertise and professional management also grows within the organization.
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.
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.
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.

**Control**

Throughout these stages, someone(s) and structural design provide controls to the organization – who that might be will differ in no small part on the basis of which stage the organization is in.  Charismatic authority and individual leadership action will play a greater role in the entrepreneurial stage while bureaucratic authority through established policies and practices can play a larger role during the collectivity and formalization stages and a lesser role in the elaboration stage of an organization.

**Management Controls Applied as Organizations Develop Their Lifecycles**

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| **Form of Control** | **Description** |
| **Use of 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 *designed* to move an organization forward by eliminating uncertainty and formalizing precedent.  Leadership activities influence whether it actually determines the level of control |
| **Rational-legal authority** | Stems from the principle and a faith in those governed that their government is credible, effective, able to do the work.  Stakeholders – employees, funders, stockholders, customers, clients, etc. – believe in the legitimacy of those in charge. |
| **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.  Often political candidates seek to position themselves as charismatic or transformative leaders. |
| **Market control** | 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. |
| **Clan control** | 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. |

**Organizational decline**

Like people, organizations age and decline…and sometimes decline even before they age, as happened to AOL and more recently Myspace, once the front-runners in their fields.  Why do organizations decline?  Here are some reasons:

1. They **atrophy**; they become very bureaucratic, they cannot readily adapt to a changing environment and they becomes inbred, where decision-making become a series of self-fulfilling prophesies 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 failed to see the impact of digital cameras (almost) 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; the need to expand by overtaking developed, niche businesses) or an inability to correctly read the external environment and  then plan for appropriate use or adaptation of emerging trends.  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**. If an organization cannot “see” changes in the environment influencing it, then quickly adapt, the organization will decline. It is endangered.

**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 feebleness.  Unfortunately, as the following stages of decline -- outlined on pp. 358-359 in Daft -- indicate, management is often blind to the signs of such decline 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.

**Curious?   Want to Know More?**

**Consider the UMUC online Library and use these search words:**

* Organizational Life Cycle
* Performance and Organizational Structure
* Adaptation and Organizational Structure

**Websites with additional research:**

* [www.jimcollins.com/article\_topics/articles-organization.html](http://www.jimcollins.com/article_topics/articles-organization.html)
* [www.isc.hbs.edu/](http://www.isc.hbs.edu/)