STAGE 4: CRISIS By the time the crisis stage has arrived, only radical top-down changes to an organization's strategy and structure can stop a company's rapid decline and increase its chances of survival. An organization in the crisis stage has reached a critical point in its history, and the only chance of recovery is a major reorganization that will very likely change the very nature of its culture forever. If no action has been taken before an organization reaches stage 4, change becomes even more difficult, and the chances of success decline because stakeholders have begun to dissolve their relationships with the organization.[46] The best managers may already have left because of fighting in the top-management team. Investors may be unwilling to risk lending their money to the organization. Suppliers may be reluctant to send the inputs the organization needs because they are worried about getting paid. Very often by the crisis stage only a new top-management team can turn a company around. To overcome inertia, an organization needs new ideas so it can adapt and change in response to new conditions in the environment.[47]

STAGE 5: DISSOLUTION When an organization reaches the dissolution stage, it cannot recover, and decline is irreversible. At this point, the organization has lost the support of its stakeholders, and its access to resources shrivels as its reputation and markets disappear. Perhaps Sharper Image has reached this point. If new leaders have been selected, they are likely to lack the organizational resources to institute a successful turnaround and develop new routines. The organization probably has no choice but to divest its remaining resources or liquidate its assets and enter into final bankruptcy proceedings. In either case, it moves into dissolution, and organizational death is the outcome.

As organizational death occurs, people's attachment to the organization changes. They realize the end is coming and that their attachment to the organization is only temporary.[48] The announcement of organizational death signals to people that efforts to prevent decline have failed and further actions by participants are futile. As the disbanding process begins, the organization severs its links to its stakeholders and transfers its resources to other organizations. Inside the organization, formal closing or parting ceremonies serve as a way of severing members' ties to the organization and focusing members on their new roles outside the organization.

The need to manage organizational decline is as great as the need to manage organizational growth. In fact, the processes of growth and decline are closely related to one another: The symptoms of decline often signal that a new path must be taken if an organization is once again to grow successfully. As many large organizations have found, the solution to their problem may be to shrink and downsize and focus their resources on a narrower range of products and markets. If an organization cannot adapt to a changing environment, it generally faces organizational death.

Managerial Implications

Organizational Decline

1. To prevent the onset of organizational decline, continually analyze the organization's structure to pinpoint any sources of inertia that may have emerged as your organization has grown and differentiated.
2. Continually analyze the environment, and the niche or niches that your organization occupies, to identify changes in the amount or distribution of resources.
3. Recognize that because you are a part of the organization, it may be difficult for you to identify internal or external problems. Call on other managers, members of the board of directors, and outside consultants to analyze the organization's current situation or stage of decline.
4. If you are the founder of the business, always keep in mind that you have a duty to your stakeholders to maximize the chances of your organization's survival and success. Be prepared to step aside and relinquish control if new leadership is required.

Summary

Organizations have a life cycle consisting of four stages: birth, growth, decline, and death. They pass through these stages at different rates, and some do not experience every stage. To survive and prosper, organizations have to change in response to various internal and external forces. An organization must make changes to its structure and culture at critical points in its life cycle. If successfully managed, an organization continues to grow and differentiate. An organization must adapt to an uncertain and changing environment and overcome the organizational inertia that constantly threatens its ability to adapt to environmental changes. The fate of organizations that fail to meet these challenges is death. Their place is taken by new organizations, and a new cycle of birth and death begins. Chapter 11 has made the following main points:

1. Organizations pass through a series of stages as they grow and evolve. The four stages of the organizational life cycle are birth, growth, decline, and death.
2. Organizations are born when entrepreneurs use their skills and competences to create value. Organizational birth is associated with the liability of newness. Organizational birth is a dangerous stage because entrepreneurship is a risky process, organizational procedures are new and undeveloped, and the environment may be hostile.
3. Population ecology theory states that organizational birthrates in a new environment are very high at first but taper off as the number of successful organizations in a population increases.
4. The number of organizations in a population is determined by the amount of resources available in the environment.
5. Population ecologists have identified two sets of strategies that organizations can use to gain access to resources and to enhance their chances of survival: r-strategy versus K-strategy (r = early entry; K = late entry) and specialist strategy versus generalist strategy.
6. The driving force behind the population ecology model is natural selection, the process that ensures the survival of the organizations that have the skills and abilities that best fit with the environment.
7. As organizations grow, they increase their division of labor and specialization and develop the skills that give them a competitive advantage, which allows them to gain access to scarce resources.
8. Institutional theory argues that organizations adopt many of their routines from the institutional environment surrounding them to increase their legitimacy and chances of survival. Stakeholders tend to favor organizations that they consider trustworthy and legitimate.
9. A new organization can enhance its legitimacy by choosing the goals, structure, and culture that are used by other successful organizations in its populations. Similarity among organizations is the result of coercive, mimetic, and normative isomorphism.
10. According to Greiner's five-stage model of organizational growth, organizations experience growth through (a) creativity, (b) direction, (c) delegation, (d) coordination, and (e) collaboration. Each growth stage ends in a crisis that must be solved by making the appropriate changes if the organization is to advance successfully to the next stage and continue to grow.
11. If organizations fail to manage the growth process effectively, the result is organizational decline, the stage an organization enters when it fails to anticipate, recognize, or adapt to external or internal pressures that threaten its survival.
12. Factors that can precipitate organizational decline include organizational inertia and changes in the environment.
13. Organizational decline occurs by degrees. Weitzel and Jonsson have identified five stages of decline: (a) blinded, (b) inaction, (c) faulty action, (d) crisis, and (e) dissolution. Managers can turn the organization around at every stage except the dissolution stage.

14. Organizational death occurs when an organization divests its remaining resources or liquidates its assets. As the disbanding process begins, the organization severs its links to its stakeholders and transfers its resources to other organizations.

Discussion Questions

1. What factors influence the number of organizations that are founded in a population? How can pursuing a specialist strategy increase a company's chances of survival?
2. How does r-strategy differ from K-strategy? How does a specialist strategy differ from a generalist strategy? Use companies in the fast-food industry to provide an example of each strategy.
3. Why do organizations grow? What major crisis is an organization likely to encounter as it grows?
4. Why do organizations decline? What steps can top management take to halt decline and restore organizational growth?
5. What is organizational inertia? List some sources of inertia in a company like IBM or GM.
6. Choose an organization or business in your city that has recently closed, and analyze why it failed. Could the organization have been turned around? Why or why not?

Organizational Theory in Action

Practicing Organizational Theory

Growing Pains

Form groups of three to five people and discuss the following scenario:

You are the top managers of a rapidly growing company that has been having great success in developing websites for large Fortune 500 companies. Currently, you employ over 150 highly skilled and qualified programmers, and to date you have operated with a loose, organic operating structure that has given them considerable autonomy. Although this has worked, you are now experiencing problems. Performance is dropping because your company is fragmenting into different self-contained teams that are not cooperating and not learning from one another. You have decided that somehow you need to become more bureaucratic or mechanistic, but you recognize and wish to keep all the advantages of your organic operating approach. You are meeting to discuss how to make this transition.

1. What kind of crisis are you experiencing according to Greiner's model?
2. What kind of changes will you make to your operating structure to solve this crisis, and what will be the problems associated with implementing these changes?

Making the Connection #11

Find an example of an organization that is experiencing a crisis of growth or an organization that is trying to manage decline. What stage of the life cycle is the organization in? What factors contributed to its growth crisis? What factors led to its decline? What problems is the organization experiencing? How is top management trying to solve the problems?

The Ethical Dimension #11

Managers have many opportunities to pursue their own interests, and as discussed earlier, they can use their power to take advantage of their subordinates, limit their freedom, and even steal their ideas. At the same time, managers may have a natural tendency to become risk averse.

1. What kind of ethical code should an organization create to try to prevent the selfish managerial behaviors that can contribute to inertia?
2. How can an organization use ethics to encourage managers to maintain a risk-taking attitude that benefits all stakeholders?

Analyzing the Organization: Design Module #11

This module focuses on the way your organization is managing (a) the dynamics associated with the life cycle stage that it is in and (b) the problems it has experienced as it evolved.

Assignment

Using the information at your disposal, answer the following questions.

1. When was your organization founded? Who founded it? What opportunity was it founded to exploit?
2. How rapid was the growth of your organization, and what problems did it experience as it grew? Describe its passage through the growth stages outlined in Greiner's model. How did managers deal with the crisis that it encountered as it grew?
3. What stage of the organizational life cycle is your organization in now? What internal and external problems is it currently encountering? How are managers trying to solve these problems?
4. Has your organization ever shown any symptoms of decline? How quickly were managers in the organization able to respond to the problem of decline? What changes did they make? Did they turn the organization around?

CASE FOR ANALYSIS

Cisco Systems Develops a Collaborative Approach to Organizing

Cisco Systems is famous for developing the routers and switches on which the Internet is built. In 2010 Cisco still made most of its $10 billion yearly revenue by selling its Internet routers and switches to large companies and Internet service providers (ISPs). But the boom years of Internet building that allowed Cisco to make enormous profits are over. And its CEO John Chambers, who has led the company from the beginning, has had to reexamine his organizing approach in order to improve the way his company's different teams and divisions work together.

Chambers admits that until the mid-2000s he had a "control and command" approach to organizing. He and the company's ten top corporate managers would work together to plan the company's new product development strategies; they then sent their orders down the hierarchy to team and divisional managers who worked to implement these strategies. Top managers monitored how fast these new products were developed and how well they sold and intervened as necessary to take corrective action. Chambers and Cisco's approach was largely mechanistic.

Chambers was forced to reevaluate his approach when Cisco's market value shrunk by $400 billion after the dot.com crisis. Given that the Internet was now established, how could he develop the new products to allow his company to keep on growing? After listening to his top managers he realized he needed Cisco's organizing approach and he developed a "collaborative approach," meaning that he and his top managers now focus on listening carefully to the ideas of lower-level managers and involve them in top level decision making. In other words, the goal of Cisco's new collaborative approach is to move toward a more organic structure that will allow Cisco's different teams and divisions to plan long-term strategies and work together to achieve them so that new product developments and technology are shared across the organization.

To facilitate collaboration, Chambers created cross-functional teams of managers from its different divisions who were charged to work together to develop promising new kinds of products. Within a year, 15% of his top managers who could not handle its new organic approach left the company. At the same time Chambers insisted that cross-functional teams set measurable goals such as time required for product development, and time to bring the product to market, to force them to think about short-term goals as well as long-term goals and speed product development. The top managers of its divisions who used to compete for power and resources now share responsibility for one another's success in the new collaborative, organic approach—their collective goal is to get more products to market faster. Cisco's network of cross-functional councils, boards, and groups that are empowered to launch new businesses has reduced the time needed to plan successful new product launches from years to months. Chambers believes Cisco's new organic approach will allow it to develop the new products that will make Cisco the global leader in both communications technology and Internet-linked IT hardware in the 2010s as it finds ways to bring innovative products to the market more quickly than its competitors.

Discussion Questions

1. How has Cisco changed its structure and control systems?
2. Relate Cisco's changes to its control and evaluation systems to the stages of growth in Greiner's model.
3. Go online and investigate how Cisco's new approach has worked. How is it continuing to change its structure and control systems to solve its ongoing problems?

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