**Theme 3 –evolution and revolution as organisations grow- Larry Greiner**

**Intro:**

* Problems of companies going bankrupt after they have served their purpose is rooted more in past decisions than in present events or market dynamics.
* Management in its haste to grow often overlooks critical development questions such as ‘where has our org been?’ and ‘where is it now’
* Series of development phases -,each phase begins with a period of evolution with steady growth and stability and ends with a revolutionary period of org turmoil and change. The resolution of each phase decides whether or not company moves forward.

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**A model of how organisations develop:**

* Five key dimensions emerge- age and size, stages of evolution and revolution and the growth rate of industry.
* **Age of an organisation:** 
  + most essential dimension for any model of development is life span of org. Managerial problems and practices are rooted in time.
  + They don’t last throughout the life of an org. Passage of time also contributes to institutionalisation of managerial attitudes.
  + They become rigid and outdated more predictable behaviour which is difficult to change.
* **Size of an organisation:**
  + The vertical axis.
  + Companies problems and solutions change as number of employees and its sales volumes increase.
  + Problems of coordination and communication magnify, new functions emerge, jobs become more interrelated.
* **Stages of Evolution:**
  + As org age and grow, prolonged growth –‘evolutionary period’.
  + Most growing orgs don’t expand for 2 years and then contract for 1, those that survive crisis enjoy 4-8 years of continuous growth without economic setback.
  + Evolution- describes quite periods where only modest adjustments need to maintain growth under same overall pattern of growth.
* **Stages of Revolution:**
  + Cannot be assumed evolution growth is linear. Normally periods of turmoil followed by calm periods.
  + Periods of turmoil-‘*periods of revolution’* –typically exhibit period of upheaval of management practices.
  + Old management practices of small company no longer effective- need to change.
  + Critical task for management during this period is to find a new set of org practices that will become the basis for managing the next period of evolutionary growth.- as time goes on solution becomes the problem.
* **Growth rate of the industry:**
  + Speed at which an org experiences phases of evolution and revolution closely related to market environment of its industry.
  + EG company in rapidly expanding market will have to add employees quickly hence need for new org structures to accommodate large staff increases.
  + Evolution can also be prolonged and revolutions delayed when profits come easily.

**Phases of Growth:**

* Must now analyse the model into five separate stages.
* Each successive stage is the cause of the previous stage. To move on industry must adopt a new style but not the previous style.
* **Phase 1 – Creativity:**
  + Creating both a product and a market
  + Founders of company usually technically or entrepreneurially orientated, disdain management activities, focus on making and selling a new product.
  + Communication among employees is frequent and informal.
  + Long hours of work are rewarded by modest salaries and promises of ownership benefits.
  + Decisions and motivation are highly sensitive to marketplace feedback, management acts as customers react.
  + All above points needed for company to get up off ground, but as company grows these become the problem
  + More employees- requires different knowledge, cannot communicate informally, new employees unmotivated.
  + Company’s founders find themselves burdened with unwanted managerial responsibilities.
  + Conflicts among harried leaders emerge and grow more intense. At this point crisis of leadership occurs – onset of first revolution.
  + Strong business manager is needed to lead company and pull the organisation together.
* **Phase 2 –Direction:**
  + Companies which survive phase one by employing a suitable manager undergo period of sustained growth. Characteristics of evolutionary period:
  + Functional org structure is introduced to separate manufacturing form marketing, job assignments become increasingly specialised.
  + Accounting systems introduced for purchases and inventory.
  + Communication more formal and impersonal as hierarchy of titles and positions grow.
  + Incentives, budgets and work standards adopted.
  + New manager and key supervisors assume responsibility for instituting direction, low-level supervisors treated as functional specialists.
  + New directive techniques channel employees energy into growth, they eventually become inappropriate for controlling a more diverse and complex org.
  + Low-level employees restricted by centralised hierarchy, they’ve come to possess more direct knowledge about markets and machinery that their leaders but are torn between following procedures and having initiative.
  + Second revolution emerges from *crisis of autonomy.* Solution is to move toward direct delegation
* **Phase 3- Delegation:**
  + Next era of growth evolves from successful application of a decentralised org structure. Characteristics:
  + Greater responsibility given to managers of plants and market territories.
  + Profit centres and bonuses used to motivate employees.
  + Top level executives limit themselves to managing by exception based on periodic reports from the field.
  + Management often concentrates on acquiring outside enterprises that can ve lined up with other decentralised units.
  + Communication from top is infrequent and occurs by phone or brief visits.
  + Delegation phase allows company to expand by means of heightened motivation of managers at lower levels
  + Managers in decentralised orgs who have greater authority and incentives are able to penetrate larger markets, respond faster to customers and develop new products.
  + Top level executives feel there losing control over highly diversified field operation. Freedom breeds a parochial attitude.
  + Soon organisation fall into a *crisis of control*. Phase 3 revolution begins when top managers seek to regain control over company as a whole.
  + Those companies that move ahead find a new solution in the use of special coordination techniques.
* **Phase 4 – Coordination:**
  + Characterised by use of formal systems for achieving greater coordination and by top level executives taking responsibility for the initiation and administration of these new systems.
  + Decentralised units are merged into product groups.
  + Formal planning procedures are established and intensively reviewed.
  + New staff members hired and located at hq to initiate companywide programs of control and review for line managers.
  + Capital expenditure are carefully weighted and parcelled across the org.
  + Each product group is treated as an investment center where return on invested capital is an important criteria used in allocating funds.
  + Certain technological functions are centralised at hq while daily operating decision remain decentralised.
  + Stock options and companywide profit sharing used to encourage employees to identify with the org as a whole.
  + New coordination system prove usefull for achieving growth through more efficient allocation of a companys limited resources.
  + These systems promp fild managers to look beyond the need of local units. Managers still have great deal of decision making responsibility they learn to justify their actions carefully.
  + A lack of confidence builds up between line and staff and between hq and field. The systems and programs introduced begin to exceed their usefulness.
  + A *red tape crisis* occurs. Both groups criticise the bureaucratic system that has evolved. Procedures take precendence over problem sloving and innovation dims.
  + In short org has become too large and complex to be managed through formal programs and rigid systems. Phase 4 revolution underway.
* **Phase 5 – Collaboration:**
  + Last observable phase emphasises strong interpersonal collaboration in an attempt to overcome red tape crisis.
  + Phase 5 emphasises spontaneity in management action through teams and the skilful confrontation of interpersonal differences.
  + Social difference and self discipline replace formal control.
  + Phase 5 evolution builds around a more flexible and behavioural approach to management.
  + Focus on solving problems quickly through team action.
  + Teams combined across functions to handle specific tasks.
  + Staff experts at HQ are reduced, reassigned, combined into interdisciplinary teams that consult with field units.
  + Matrix type structure used to assemble right team for problems.
  + Formal control systems simplified and combined into multi purpose system.
  + Conference of key managers held frequently to focus on major problems.
  + Educational programms used to train managers in behavioural skills
  + Economic rewards geared towards team work not individual.
  + Experimenting with new practices encouraged throughout org.
  + **What is the revolution in response to this evolution?**
  + ?program which allows employees to periodically est, reflect and revitalise.
  + Change from reflective to work etc, rotation key.

**Implications of history:**

* Know where you are in the development sequence. – being aware when change is needed in a particular stage.
* Do not skip phases out of impatience because of learning outcomes and strengths.
* Recognise the limited range of solutions. – pick new solution not tried before, do not go backwards.
* Realise that solutions breed new problems. Actions in the past determine much of what will happen in the future.



**Revolution is still inevitable:**

* Four basic principles still seem valid.
* First still observe major phases of development in the life of growing companies. Each phase contains its own unique structute, systems and leadership.
* Second, transitions between developmental phases still don not occur naturally.
* Third, logic of paradox underlying the modle continues to ring true.
* Fourth, greatest resistance to change appears at the top because revolution often means that units under each senior executive will be eliminated or transformed.
* Much more orgs do not make it past certain stages and fail. – often get acquired by companies in the later stages.
* Phases not as cleary marked off as depicted.
* Also mini phases within each major phase.
* Phase 5- matrix confined largely to senior management.
* Psychological saturation wrong, crisis is one of realising that there is no internal solution for stimulation further growth. Org looks outside for partners or opportunities.
* A sixth phase may be evolving which growth depends on the design of extra organisational solutions such as creating a holding company.