Organizational Life Cycle

An organizational **life cycle** suggests that organizations are born, grow older, and eventually die. Organization structure, leadership style, and administrative systems follow a fairly predictable pattern through stages in the life cycle.
Whenever an organization enters a new stage in its life cycle, a new set of rules emerges for how the organization functions internally and how it relates to its environment.

Entrepreneurial stage - The emphasis is on creating a product or service and surviving in the marketplace.
The founders are entrepreneurs, and they devote their full energies to the technical activities of production and marketing.
The organization is informal and non bureaucratic.
The Control is based on the owners' personal supervision. Growth is from a creative new product or service.
Crisis: Need for leadership. As the organization starts to grow, the larger number of employees causes problems.
At this time of crisis, entrepreneurs must either adjust the structure of the organization to accommodate continued growth or else bring in strong managers who can do so.

Collectivity stage - The organization begins to develop clear goals and direction. Departments emerge and are established, along with a hierarchy of authority, job assignments, and a beginning division of labor.
In the collectivity stage, employees identify with the mission of the organization. Members feel part of a collective.
Communication and control are mostly informal although a few formal systems begin to appear.
Crisis: Need for delegation.

The organization needs to find mechanisms to control and coordinate departments without direct supervision from the top.

Formalization stage - The formalization stage involves the installation and use
of rules, procedures, and control systems.
Communication is less frequent and more formal. Engineers, human resource specialists, and other staff may be added. Top management becomes concerned with issues such as strategy and planning and leaves the operations of the firm to middle management.

Crisis: Too much red tape. At this point in the organization's development, the proliferation of systems and programs may begin to strangle middle-level executives.
The organization seems bureaucratized. Middle management may resent the intrusion of staff. Innovation may be restricted. The organization seems too large and complex to be managed through formal programs.

Elaboration stage - The solution to the red tape crisis is a new sense of collaboration and teamwork.
Bureaucracy may have reached a mature organization, known for development of teamwork through manager teams and task forces, often across divisions of the company, sometimes including periods of temporary decline in which there is a crisis of the need for revitalization its limit. Social control and self-discipline reduce the need for additional formal controls. The organization may also be split into multiple divisions to maintain a small-company philosophy.

Crisis: Need for revitalization. After the organization reaches maturity, it may enter periods of temporary decline. A need for renewal may occur every ten to twenty years. Top managers are often replaced during this period.

Organizational Characteristics during the Life Cycle

Weber developed the concept of a bureaucracy to make organization more rational and efficient.
Bureaucracy ensures more rational and efficient functioning of organizations in both business and government settings.

Weber identified a set of six organizational characteristics:

1. rules and procedures
2. specialization and division of labor
3. hierarchy of authority
4. technically qualified personnel
5. separation of position and position holder
6. written communication and records.

Size and Structural Control

Large organizations are different from small organizations along several dimensions of bureaucratic structure, including formalization, centralization, and personnel ratios.

Formalization - Large organizations have greater formalization, referring to rules, procedures, and written documentation. Large organizations rely on rules to achieve standardization and control across their large numbers of employees and departments.

Centralization refers to the level of hierarchy with authority to make decisions. In centralized organizations, decisions tend to be made at the top. In decentralized organizations, similar decisions would be made at a lower level.

Personnel ratios for administrative, clerical, and professional support staff differ in large versus small organizations. As organizations increase in size, the administrative ratio declines and the ratios for other support groups increase.

ORGANIZATIONAL CONTROL STRATEGIES

Bureaucratic control is the use of rules, regulations, policies, hierarchy, documentation, and other bureaucratic mechanisms to standardize behavior and assess performance.
Management control systems are the formalized routines, reports, and procedures that use information to maintain or alter patterns in organizational activity.
To make bureaucratic control work, managers must have the authority to maintain control over the organization.
Weber argued that legitimate, rational authority granted to managers was preferred over other types of control (e.g., favoritism or payoffs) as the basis for organizational decisions and activities.
Weber identified three types of authority that could explain the creation and control of a large organization:

Rational-legal authority-- based on employees' belief in the legality of rules and the right of those elevated to positions of authority to issue commands.
Rational legal authority is the basis for both creation and control of most government organizations and is the most common base of control in organizations worldwide;

Traditional authority belief in traditions and in the legitimacy of the status of people exercising authority through tradition. Traditional authority is the basis for control for monarchies, churches, and other organizations;

Charismatic authority based on devotion to the exemplary

character or heroism of an individual person and the order he or she defines.
The organization reflects the personality and values of the leader.

Market control occurs when price competition is used to evaluate the output and productivity of an organization or its major departments and divisions.
The idea of market control originated in economics.
A euro or dollar price is an efficient form of control, because managers can compare prices and profits to evaluate the efficiency of their corporation.
Top managers nearly always use the price mechanism to evaluate performance in their corporations.
The use of market control requires that outputs be sufficiently explicit for a price to be assigned and that competition exist. Without competition, the price does not accurately reflect internal efficiency.

Clan control is the use of corporate culture, shared values, commitment, traditions, trust, and beliefs to control behavior.
People behave the way the culture expects because they are part of the group and want to belong.
It is used in organizations with a strong culture, because of personal involvement in and commitment to the organization's purpose.
Clan control or self control is used by companies that are considered horizontal corporations because traditional control mechanisms are ineffective in conditions of rapid change or high uncertainty.
Learning organizations use clan control or *self-control* rather than rules and regulations.

Self-control stems from individual values, goals, and standards.

Organizational Decline and Downsizing

Organizational decline is a condition in which substantial, absolute decrease in an organization's resource base occurs over a period of time.

Causes of organizational decline:

- ***Organizational atrophy**.* Atrophy occurs when organizations grow older and become inefficient and overly bureaucratized.
  The organization's ability to adapt to its environment deteriorates.
  Often, atrophy follows a long period of success, because an organization takes success for granted, becomes attached to practices and structures that worked in the past, and fails to adapt to changes in the environment.

- ***Vulnerability.*** Vulnerability reflects an organization's strategic inability to prosper in its environment.
  This often happens to small organizations that are not yet fully established.
  Some organizations are vulnerable because they are unable to define the correct strategy to fit the environment.
  Vulnerable organizations typically need to redefine their environmental domain to enter new industries or markets.

- ***Environmental decline or competition.*** Environmental decline refers to reduced energy and resources available to support an organization.
  When the environment has less capacity to support organizations, the organization has to either scale down operations or shift to another domain.

A Model of Decline Stages

This model suggests that decline, if not managed properly, can move through five stages resulting in organizational dissolution

1. ***Blinded stage*.** The first stage of decline is the internal and external change that threatens long-term survival and may require the organization to tighten up.
   The organization may have excess personnel, cumbersome procedures, or lack of harmony with customers.
   Leaders often miss the signals of decline at this point, and the solution is to develop effective scanning and control systems that indicate when something is wrong.
   With timely information, alert executives can bring the organization back to top performance.

2. ***Inaction stage*.** The second stage of decline is called *inaction* in which denial occurs despite signs of deteriorating performance.
   Leaders may try to persuade employees that all is well.
   "Creative accounting" may make things look fine during this period.
   The solution is for leaders to acknowledge decline and take prompt action to realign the organization with the environment.

3. ***Faulty action stage*.** In the third stage, the organization is facing serious problems, and indicators of poor performance cannot be ignored.
   Failure to adjust to the declining spiral at this point can lead to organizational failure. Leaders are forced by severe circumstances to consider major changes.
   Actions may involve retrenchment, including downsizing personnel. A major mistake at this stage decreases the organization's chance for a turnaround.

4. ***Crisis stage.*** In the fourth stage, the organization still has not been able to deal with decline effectively and is facing a panic.
   The organization may experience chaos, efforts to go back to basics, sharp changes, and anger.
   It is best for managers to prevent a stage-4 crisis; at this stage, the only solution is major reorganization.
   The social fabric of the organization is eroding, and dramatic actions, such as replacing top administrators and revolutionary changes in structure, strategy and culture, are necessary.
   Workforce downsizing may be severe.

5. ***Dissolution stage**.* This stage of decline is irreversible. The organization is suffering loss of markets and reputation, the loss of its best personnel, and capital depletion.
   The only available strategy is to close down the organization in an orderly fashion and reduce the separation trauma of employees.

Downsizing Implementation

There are a number of techniques that can help the downsizing to be smooth and with minimal tensions.

These include: communicating more, not less; providing assistance to displace workers; helping the survivors thrive.