The Study about Organizational Life Cycle Models[1]

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Abstract

Since the beginning 1950 years from was first suggested by Kenneth Boulding the concept of organizational life cycles, discussions of the this concept have taken place within many disciplines, including management, public administration, education, sociology, psychology and marketing.

Our paper presents a general life-cycle model and several variations of it, discusses certain weakness of life-cycle theory, and we also try to answer two major questions about life-cycles.

First: Does the life cycle of an organization have predictable stages of development?

Second: How similar is the organizational cycle to the biological life cycle?

An other problem in our paper is, how Romanian managers managing the organizational life cycle?

Keywords: *survival, "organizational cycle", senility, retirement, aging*

Introduction

In 1950 Kenneth Boulding first suggested the concept of organizational life cycles. Since that time, discussion of the organizational life cycle have taken place within many disciplines, including management, public administration, education, sociology, psychology and marketing.

So known the most general model of the organizational life cycle has three stages: birth, youth and maturity / decline.

The related goals of profit, growth and survival seem to embrace the overall goal structures of most organizations. However, the emphasis which a firm places on three goals will shift over time. A general, descriptive model showing this shifting emphasis through a typical organization's full

[1] Part 1. The second part will be published in the next issue.

life cycle appear in figure 1. Of course not all organizations pass through all stages. In deed, only about one-half of all new business organizations survive longer than one and half years, and only one-quarter see a sixth birthday. Relatively few for-profit or not-for-profit organizations survive long enough to travel the full life-cycle path.

Figure 1 shows that management emphasizes different goals during different phases of the firm's life cycle. In the early years of firm's history, the owner, entrepreneur is oriented mainly towards profits and less toward growth and survival. Once profits are assured, the firm can shift its emphasis to growth. This critical shift from a profit orientation to a focus on growth is usually accompanied by an organizational shift from management by the founder/owner/entrepreneur and his family to management by a professional group.

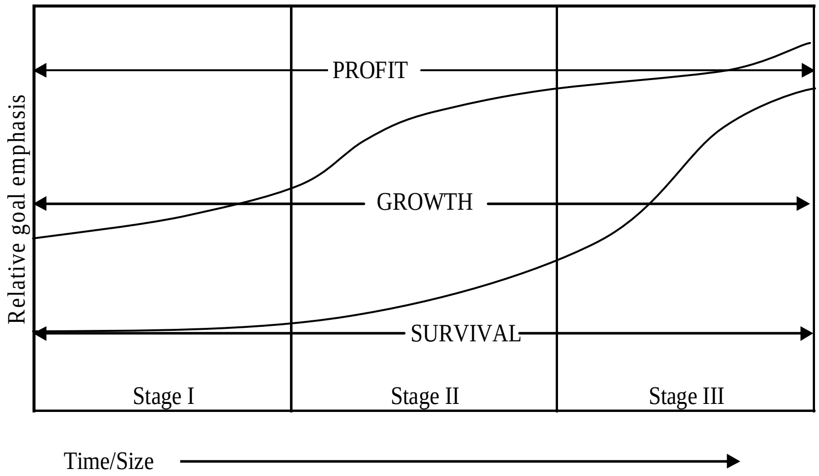
Birth, a merger or a point venture may occasionally lead to the creation of a new organization. However, an organization is more often borne in one of to ways: either a single-person craft expands or an aggressive entrepreneur assembles people to help promote a new idea, product or service. The motive in both cases is usually the desire for profits.

Youth. When professional management taken over, unencumbered by a family with a controlling interest, the organization's primary goal often shifts from profit to growth. The new management team wants to demonstrate its competence, and growth is the most obvious way to do so. Growth means status: a manager of a large company is respected – even it the company's return an investment is low.

This new concern with growth has served results. First, goals became less specific, less measurable. Second, the organization places increasing emphasis on marketing, hoping for the increased sales that will justify the expansion of plant and acquisition of new, more efficient tools and equipment.

Maturity/Decline. As an organization matures and starts to decline, a desire to survive overshadows the organization's earlier goals: profit and growth. Organizations at this stage are in many ways the opposite of Stage I organizations. The Stage III organization is large; its technology is complex; its structure is bureaucratic; it is financially oriented; it is greatly affected by market and social forces; and because it is so complex and feels endangered, it emphasizes the integration of member efforts. A stage III often tries to reverse its decline by looking, loosely at its structure and operations, then revitalizing them.

Organizations do not have to grow old before they decline or die. John Freeman and his colleagues have demonstrated what they call "a liability of newness" for three types of organizations: rational labor unions, newspapers and semiconductor manufactures. **John Freeman, Glenn R. Carrol and Michael I. Mannan**, “The Liability of Newness: Age Dependence in Organizational Death Roats”, *American Sociological Review* 48 (October 1983) 692-710. Newness is apparently a liability for such organizations because more younger firms die then older firms. Therefore, the older those organizations of these types become the better in general and their chance for longer life. Structures and strategies change as organizations move through their life cycles.



Dominant Group	Founder/entrepreneur	Professional production managers	Professional staff with financial/legal training and background
Orientation	Production	Marketing	Financial
Goal Specificity	Operational, specific, measurable, short run	Less operational, more general	Nonoperational, general, unmeasurable, long run
Production Technology	Simple; single-unit production	Less simple; multiple-unit production	Complex; mass/continous production
Influence of Environment	Great; entire organization reacts	Knowable and somewhat predictable	Predictable and somewhat controllable
Structural Emphasis	Organic, flexible, adaptive, personalized leadership/control; emphasis on subdividing/differentiating tasks	Depersonalized control; differentiation of authority; some formal integrating devices	Bureaucratic; extensive, development/use of integrating devices

Figure 1 Relative emphasis on three different goals during the organizational cycle

Table 1 presents some characteristics of organizations at each of three life – cycle stages. For instance, as an organization moves from inception to maturity, if tends to shift from a lack of formal structure, to formal centralization, to formal decentralization. During the three phases, its top managers are at first generalists, then specialists and planners. Its communication processes begin informally and eventually became very formal.

Characteristics at Different Organizational Life-Cycle Stages

Table 1

Characteristics	**Inception stage**	**High-growth stage**	**Maturity stage**
Type of structure	No formal structure	Centralized; Formal	Decentralized; Formal
Age and size	Young and small	Older and larger	Oldest and largest (or once large)
Growth rate	Inconsistent but improving	Rapid	Slowing or declining
Communication and planning	Informal; Face to face; Little planning	Moderately formal; Budgets	Very formal; Five-year plans; Rules and regulations
Decision-making method	Individual judgment; Entrepreneurial	Professional mgmt.; Analytical tools	Professional mgmt.; Bargaining
Make-up of top-level management staff	Generalists	Specialists	Strategists; Planners
Reward system	Personal and subjective	Impersonal and systematic	Impersonal, formal and totally objective

Source: Adapted from Ken G. Smith, Terence R. Mitchell, and Charles E. Summer, "Top Level Management Priorities in Different Stages of the Organizational Life Cycle", *Academy of Management Journal* 28 (December 1985).

The main life-cycle models

Over the post three decades, numerous variations on the basic life-cycle model have append. Five categories of models will be presented in or paper.

1) Resources Models

a) *The social resources model.* In 1965 Arthur Sinchombe attempted to show that the era during which an organization is founded has lasting effects on its later structure. (Arthur Sinchombe, "Social Structure and Organizations" in *Handbok of Organizations,* ed. James G. March – Chicago Rand Mc Vally College Publishing Co. 1965, pp. 142-193). For example, textile organizations and automobile manufacturing organizations of the modern era are structured differently probably because they were founded during different time periods – the textiles during the nineteenth century and the automotives during the twentieth century. In the textile companies of the mid – 1960, are could still find work being clam by unpaid family members: this was not the case in automobile manufacturing companies.

Another interesting difference is that most industries founded in the twentieth century have staff departments of professionally trained people; organizations founded earlier tend to have elaborate staff departments.

According to Sinchcombe, the social resources available at the time of an organization's founding largely determine its structure. The organization forms it self to take advantage of economic, technical and environmental conditions. And most all structures are possible under all conditions.

b) *The Slack-Structure Model*. The model of Frank Tuzzolino and Barry Armandi suggests that the organizational life cycle have five developmental stages, each associated with a certain organizational structure. (Frank Tuzzolino and Barry Armandi, "Organizational Design, Slack and the Life Cycle". *Academy of Management Review 5,* April 1980, pp. 589-598).

The stages and structure are: 1) Creation → Ad hoc Structure; 2) Growth → Organic Structure; 3) Stabilization → Bureaucratic Structure; 4) Decline → Recentralization Structure; 5) Dissolution → Absence of structure.

The dissolved organization can be reborn; it can be recreated, with a new, ad hoc structure. **Figure 2** presents this model.

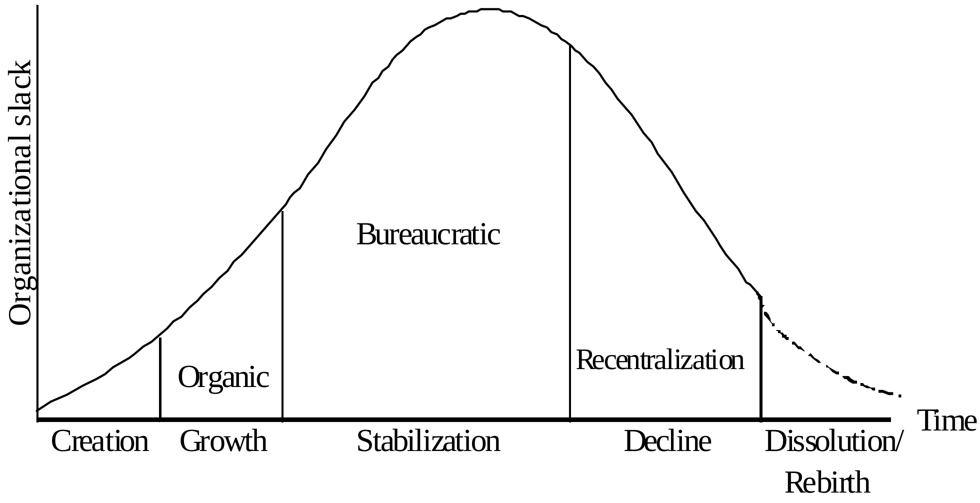


Figure 2 Tuzzolino and Armandi's slack-structure life-cycle model
Source: Frank Tuzzolino and Barry Armandi, *Organizațional Design, Slack, and the Life Cycle,* Academy of Management Proceedings [1982], p. 261

Tuzzolino and Armandi introduce into the model the concept of organizational slack, defined as payments to organizational members in excess of what the organization absolutely must pay them in order to have them function adequately to maintain the organization. The slack curve is roughly bell – shaped. The nearly created and the dissolving organizations have hardly any slack; the growing and declining organizations have some slack; and the stable bureaucratic organization has considerable slack.

2) Crisis Models

a) ***The Situational Confrontation Model***. Gordon Lippitt's model maintains that crises require concentrated organizational attention in a sense define the stage of life cycle growth (Gordon Lippitt, *Growth Stages in Organizations*, New York; Appleton – Century – Crofs, 1969). The organization's place in its life cycle is determined not so much by size, market share, age, or management sophistication but – in true modern contingency fashion – by what key issue the organization is facing and how it confronts them. The organizations must successfully and appropriately case with are phase's crisis if it is to move on to next phase. Lippitt identified six critical situation or confrontations. They are most likely to occur in the following order.

- *Launching the venture*. What and how much are we willing to risk personally and financially, to keep this venture going?
- *Survival and sacrifice*. How much are we willing to sacrifice personally and financially, to keep this organization going?
- *Achieving stability*. Are we willing to be formally organized? Are we willing to accept and enforce discipline?
- *Pride and reputation*. Are we willing to engage in case did self-examination? Will we combat outside threats to the organization's reputation?
- *Developing uniqueness*. Are we willing to put into effect the changes that will make us unique?
- *Contributing to society*. Are we willing to help our employees, our community, our society, our nation to fulfill them selves, with out expecting a direct return? Will we use our resources to improve the quality of human life?

The first two crises would most often occur in the "birth" phase, the second two in the "youth" phase, and the third two in the "maternity" phase. Lippitt believed that organizations decline because of drastic changes in the external environment or because they fail to recognize and confront the six significant crises.

b) *The Evolution – Revolution Model*. Larry Greiner envisions the organization as developing through evolutionary periods, each concluded by a revolution (Larry Greiner, "Evolution and Revolution as Organizations Grow" *Harvard Business Review* 50, July/August 1972, pp. 37-46). During the evolutionary periods, the organization enjoys growth without major economic setbacks on severe internal disruption. The revolutionary phases usually occur on the managerial procedures designed for a smaller size and an earlier time became ineffective. During each revolutionary period, management's critical task is to discover new practices with which to manage the organization during the next evolutionary period.

The length of these time period varies from industry to industry. Evolutionary periods often range from four to eight years. For a fast-growing industry they may be shorter, and for a mature, show-growing industry they may be longer.

- *Growth phase 1: creation*. During its first phase, the organization creates its product and its market.
- *The leadership crisis*. As the company grows, its increasingly large-scale production requires more knowledge about the efficiencies of manufacturing. Effectively managing the larger number of employees through informal communication became impossible. Unlike the original employees, there new employees

are not motivated by an intense dedication to the product or organization. There developments combine to bring about the first revolution: *the leadership crisis*. The solution is to locate and install a strong business manager, acceptable to the organization's founders, who can use effective management principles and techniques to lead the organization on word.

- *Growth phase 2: direction*. Under the new, able leadership the organization enters a second evolutionary period with some new characteristics.

The autonomy crises. Although these new techniques channel employee efforts more efficiently into growth, they eventually became inadequate on the organization becomes even larger, more complex, and more diverse. Lower-level managers and supervisors find themselves restricted by the cumbersome, centralized hierarchy. They are torn between following established procedures and taking initiative. The autonomy crisis develops as lower-level manager's demand more freedom to make decision. The result of this "revolution" is greater delegation of authority.

- *Growth phase 3*: *delegation*. This growth phase evolves from successful application of a decentralized organizational structure. Expansion in this phase comes about primarily through motivation at lowers levels. Managers at these levels have the authority and the incentives to penetrate larger markets, respond rapidly to customers and develop products.

The control crisis. Top management initiates and administers new, formal control systems.

The red-tape crisis. Eventually a lack of confidence builds between line and staff, and between headquarters and the field. The number of new systems and programs begins to exceed their usefulness. As procedures take precedence over problem solving and an innovation is dampened', a fourth revolutionary "red-type" crisis occurs. The organizations overcome the crisis by placing a new emphasis on strong interpersonal collaboration.

- *Growth phase 5: collaboration*. In this new phase, the organization stresses greater spontaneity in management action, teamwork, and the skillful confrontation and resolution of interpersonal differences.

The next nameless crisis. Many large US companies are now in collaborative evolutionary stage. Although we must wait to see what revolutionary crisis these companies must face, Greiner suggests that the next major revolution may be emotional and physical exhaustion of employee, caused by intense collaborative teamwork and stressful pressure for innovative solutions to organizational problems. This crisis will require new structures, and became renewed. Greiner suggests that dual organizational structures may result – one structure for work and another for rest and reflection – with employees moving back and between these Greiner's conceptions of how an organization evolves from birth to maturity is depicted in figure 3. At every stage of the organization's life history, different structures and procedures appear to be appropriate. The figure also shows the organization to be getting larger as it evolves. Whether the appropriate structures are determined by life-cycle stage or organizational size is open to question.

3) Decline and Inertia Models

a) *The Whetten Model*. Most organization theorists are inclined to concentrate on the earlier stages of the general life-cycle model. Since the early 1980's, the decline phase has been receiving more attention. Two notable contributors are David A. Whetten and Jeffrey D. Ford (David A. Whetten. "Sources, Responses, and Effects of Organizational Decline" in *The Organizational Life Cycle Issues in the Creation, Transformation and Decline Organizations*, ed. John R. Kimberly and Robert H. Miles – San Francisco: Jossey-Bass, 1980, 342-374; Joffrey D. Ford, "The Occurrence of Structural Mysteresis in Declining Organizations", *Academy of Management Review* 5, April, 1980, 589-598).

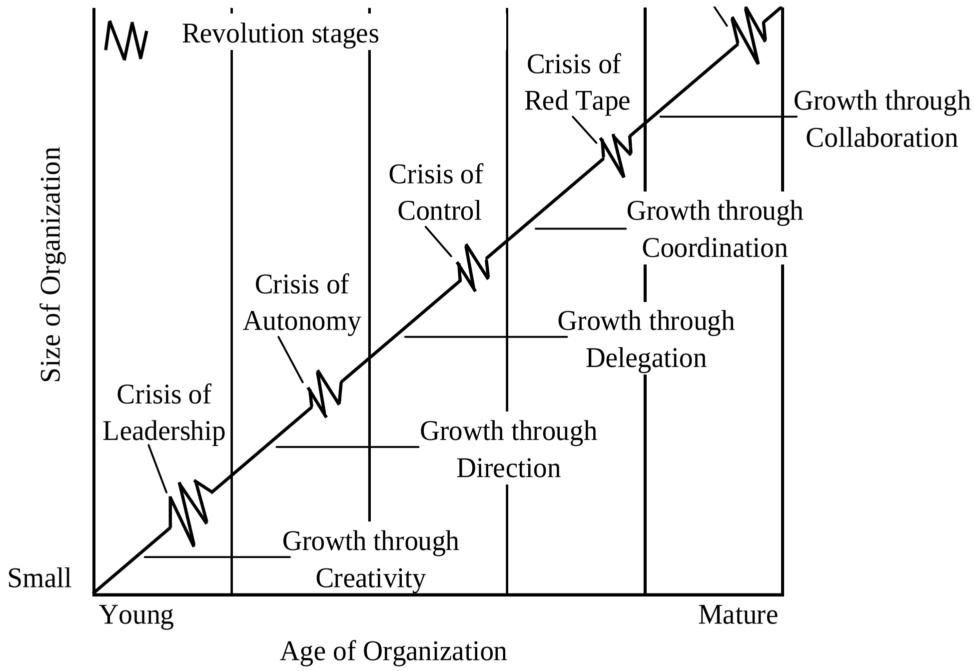


Figure 3 Greiner's stages of organizational evolution and revolution

Source: Adapted from the *Harvard Business Review*. Exhibit from "Evolution and Revolution as Organizations Grow" by Larry Greiner [July/August 1972]

The organizational decline that concerns. Whetten is marked by reductions in such significant measures as member of employees, profits, assets, customers and so on. The decline results in increased stress on organizational members, more interpersonal conflict, low morale, and high turnover. The decline leads to across – the board outback’s in all departments even those that have proven them selves efficient and effective. Whetten indicates four sources of organizational decline: atrophy, vulnerability, loss of legitimacy, and environmental entropy.

Atrophy. Organizations can loose their edge and fail to adjust to charging times. Decline caused by lack of responsiveness to charge can occur at any life-cycle stage, in both young and old organizations.

Vulnerability. Young organizations, particularly those in their infancy, are highly susceptible to failure. Organizations that decline before they really get going are often started by people with strong technical backgrounds but without knowledge in other important areas, such as marketing and finance.

Loss of legitimacy . Why does our organization exist? If the organization cannot give a credible answer to that question, it has lost its societal legitimacy and may soon die.

Environmental entropy. Entropy is a theoretical concept referring to any system's irreversible tendency toward increasing disorder and inertnenn. When an organization's environment begins to erode, organizational decline may soon follow. Whetten describes several possible organizational responses to decline, among them defending, responding, preventing, and generating. The response chosen will depend on whether the organization accepts or respects the impeding change.

Figure 4 depicts Whetten's model. Proactive responses are those initiated by the organization before the change actually occurs but when it seems imminent. Reactive responses are not made until the change is positive, it will either generate (encourage the impending change) or respond (embrace the change after it occurs). If the organization's attitude is negative, it will first try to prevent the change from occurring, and then defend itself against the change if it does occur.

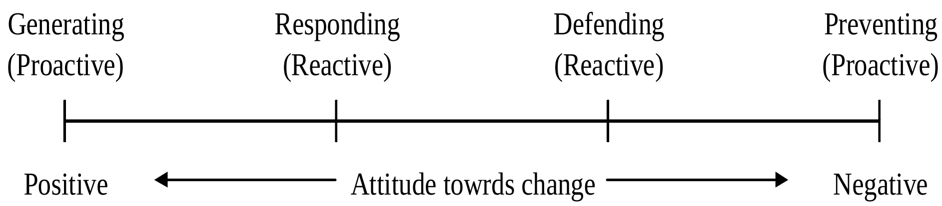


Figure 4 Management's responses to enviromentally induced change

Source: "Sources, Responses, and Effects of Organizational Decline," in *The Organizational Life Cycle*: Issue in the Creation, Transformation and Decline of Organizations, ed. John R. Kimberly and Robert H, Miles [San Francisco: Jossey-Bass Publications, 1980]

b) *The Ford Model Jeffrey*. This model has noted several characteristics of organizations in decline. The increase in number of administrators may be greater during decline than during the growth stages of the life cycle.

- For a given size level, declining in organizations are more highly structured than growing organizations. Structural changes occur more rapidly during grow than during decline.
- Size-structure relationships during grew periods are not the same after a decline period as they were before the decline period. Decline causes structural changes. Reestablishing the original the

original structure after the decline has ended is difficult. Ford calls this phenomenon “structural hysterisis”

c) *The Inertia Model*. Michael T. Hannan and John Freeman have theorized that as organizations move through the life cycle, they have an increasing tendency toward inertia – an unwillingness as inability to change. (Michael T. Hannan and John Freeman, “Structural Inertia and Organizational Change”, *American Sociological Review* 49 April 1984, 149-164). Smaller newer organizations respond more rapidly to threats and opportunities than larger, older organizations.

The initial stages of the life cycle, the organization experiments with different rantincs, programs, and structures – trying to find a successful combination. Once the organization succeeds, it tends to retain and repeat successful patterns. As the organizations moves through its life cycle, inertia sets in as it reproduces the successful structures of the part.

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