Organizational Size, Life Cycle, and Decline

As organizations grow, they often become larger and more complex, thoughts needing more complex systems and procedures for guiding and controlling the organization. Moreover, the addition of more complex systems and procedures can cause problems of inefficiency, rigidity, and slow response time. This means the company has a hard time innovating or adapting quickly to changes in the environment or to consumer needs.

Large organizations have become widespread, and bureaucracy has become a major topic of the study of organizational structures and design. Most large organizations have bureaucratic characteristics which can be very effective, yet there can also be inefficiencies with that. What we are going to explore in this topic is the question of large vs. small organizations and how size relates to structure and control. Organization size is a major contingency that influences organization design and functioning.

We will also explore what is called the organization's lifecycle and the structural characteristics at each stage. At the end of this, you should be able to recognize when bureaucratic control can make an organization effective and when other types of control are more appropriate.

Industry consolidation, global expansion and diversification have made many organizations considerably larger over the past few decades. Organizations in all industries, from retail to aerospace to media, strive for growth to acquire the size and resources needed to compete on a global scale, in order to invest in new technology and to control their distribution channels to guarantee access to their markets.

There are a number of other pressures for organizations to grow. Many leaders have found that organizations must grow to stay economically healthy. To stop growing means we stagnate. To be stable means that our client base or customers may not have their demands fully met, or that competitors will increase market share at the expense of our organization. A large size enables companies to take risks that could ruin smaller firms, and the scale is crucial to economic health in some industries. Organizations feel compelled to grow but how much and how large? What size the organization is better poised to compete in a fast-changing global environment is often a question.

Large organizations are often better able to weather economic downturns that can put small companies out of business. They also may be able to provide greater social support to the communities they serve. Large organizations also are able to get back to business more quickly after a disaster or disruption, which gives employees and communities a sense of security during an uncertain time. These large organizations are standardized, often mechanistically run and complex. The complexity offers hundreds of functional specialties within the organization to perform multifaceted tasks and to produce varied and complicated products.

The smaller companies have an argument that says small is beautiful because the crucial requirements for success in the global economy are responsiveness and flexibility in a fast-changing market. Small scale can provide significant advantages in terms of quick reaction to changing needs or shifting environmental and market conditions. In addition, small organizations often enjoy greater employee commitment because it is easier for people to feel like they are part of the community. Employees typically work on a variety of tasks rather than narrow, specialized jobs. For many people, working at a small company could be more exciting and fulfilling than working in a huge organization. Many large companies have even grown larger through mergers and acquisitions. Small organizations often have the flat structure and an organic, free-flowing management style that encourages entrepreneurship and innovation. The paradox is that the advantages of small companies sometimes enable them to succeed and hence grow large. So, small companies can become victims of their own success as they grow, shifting to a mechanistic design, emphasizing vertical hierarchy, and spawning organizational bureaucracy rather than entrepreneurship. These giant organizations are built for optimization, not innovation. Oftentimes, the larger the organization, the more committed they are to their existing products and services and technologies, which have a hard time then supporting innovation in the future.

A useful way to think about organizational growth and change is the concept of an organizational lifecycle which suggests that organizations are born, grow older, and eventually die. This is the overall concept of this course as you work through your activities. So, the organization structure, leadership style, and administrative systems follow a fairly predictable pattern through the stages of the lifecycle. These stages are often sequential and follow a natural progression. The stages are listed here, however, they often come under different names, yet the concepts are still the same. So, the definitions are as follows.

If we think about this, growth is not easy. Each time an organization enters a new stage in the life cycle, it enters a whole new game with a new set of rules for how the organization functions internally and how it relates to the external environment. At the entrepreneurial stage, this is when an organization is born. The emphasis is on creating products, services, and surviving the marketplace. Oftentimes, your leaders or founders are entrepreneurs, they devote their full energy to the technical activities of production and marketing. The organization is considered informal and non-bureaucratic. Control is then based on the initial leader's personal supervision. If growth is needed for a creative new product or service, this is where this happens quickly. But yet there is a crisis at this stage, there is a need for leadership. As the organization starts to grow, the larger number of employees may cause problems. The creative and technically oriented leaders are now confronted with some management and leadership issues, but they may still prefer to focus their energies on making and selling the products or inventing new products and services. So, at this time, the leaders then need to adjust the structure of the organization to accommodate growth or else bring in stronger leaders or managers who can do that.

Next is the collectivity stage. If a leadership crisis is resolved at the entrepreneurial stage, strong leadership is obtained and the organization begins to develop clear goals and direction. Departments are established along with a hierarchy of authority, job assignments, and a beginning of a division of labor. In the collectivity stage, employees identify with the mission of the organization and spend long hours helping that organization succeed. The crisis at this stage is the need for delegation. If the new leadership has been successful, lower-level employees gradually find themselves restricted by strong top-down leadership. So, your lower-level leaders and employees begin to acquire confidence in their own functional areas and want more discretion. Thus, an autonomy crisis occurs when the top leaders who were successful because of their strong leadership and vision do not want to give up responsibility.

The formalization stage involves the installation and use of rules, procedures, and control systems. In the formalization stage, communication is less frequent and more formal and more likely to follow the hierarchy of authority. The top leadership becomes concerned with issues such as strategy and planning and leaves the operations of the organization to the middle management and employees. Product groups or other decentralized units may be formed to improve coordination. Incentive systems based on profits may be implemented. The crisis here becomes too much red tape. At this point, the organization's development, the proliferation of systems and programs may begin to strangle the middle-level leaders. The organization seems bureaucratized, middle leaders may resent the intrusion of staff. Innovation may be restricted. The organization seems too large and complex to be managed through formal programs.

The elaboration stage is the solution to that red tape crisis, and this is a new sense of collaboration and teamwork. So, throughout the organization, the leaders develop skills for confronting problems and working together. Bureaucracy may have reached its limit. Social control and self-discipline reduce the need for additional formal controls. The crisis now becomes the need for revitalization. After the organization reaches maturity, it may enter periods of temporary decline. A need for renewal may occur every 10 to 20 years. The organization shifts out of alignment with the environment or perhaps becomes slow-moving over bureaucratized, so it must go through a stage of streamlining innovation. The organizational lifecycle is shown here. Overall, roughly about 84% of organizations that make it past the first year still fail within five years because they can't make the transition from that entrepreneurial stage. The transitions become even more difficult as organizations progress through future stages of this life cycle. Organizations that do not resolve successfully their problems associated with these transitions are often restricted in their growth and may even fail.

As organizations evolve through the four stages of the life cycle, the changes take place in structure, control systems, innovation, and goals. Initially, as the organization is small, non-bureaucratic, and a one-person show roughly, the top leader provides structure and control systems. The energy is devoted to survival and the production of a single product or service.

At collectivity, this is the organization's youth, growth is rapid. Employees are excited and committed to the organization's mission. The structure is still mostly informal, although some procedures are emerging. This is where we often see strong, charismatic leaders provide direction and goals for the organization.

A continued growth is a major goal as we enter formalization, this is the point where the organization is entering its midlife. Bureaucratic characteristics emerge, the organization adds staff support groups, formalizes procedures, and establishes a clear hierarchy and division of labor. At the formalization stage, organizations may also develop complementary products to offer a complete product line or service line. Innovation may be achieved by establishing separate research and development departments. The major goal here is internal stability and market expansion. Top leadership delegates, but it also implements formal control systems. At the elaboration stage, the mature organization is large and bureaucratic, with extensive control systems, rules, and procedures. Organizational leaders attempt to develop a team orientation within the bureaucracy to prevent further bureaucratization. The top leaders are concerned with establishing a complete organization. The organizational stature and reputation are very important.

Finally, to summarize the overall organizational lifecycle, we have to think of growing organizations moving through stages of a lifecycle and each stage is associated with specific characteristics of structure, control systems, goals, and innovation. The life cycle phenomenon is a powerful concept used for understanding problems facing organizations and how leaders can respond in a positive way to move the organization to the next stage. As organizations progress through their lifecycle, they usually take on bureaucratic characteristics as they grow larger and more complex.

The systematic study of bureaucracy was launched by Max Weber, who is a sociologist studying government organizations in Europe and thus developed a framework of administrative characteristics that would make large organizations rational and efficient. Weber perceived bureaucracy as a threat to basic personal liberties, but he also recognized it as the most efficient possible system of organizing. He predicted the triumph of bureaucracy because of its ability to ensure more efficient functioning of organizations in both business and government settings.

There are four organizational characteristics that are found in successful bureaucratic organizations. Those are listed here, starting with rules and procedures, specialization and division of labor, hierarchy of authority, and technically qualified personnel. Weber’s prediction of the triumph of bureaucracy proved accurate. Bureaucratic characteristics do have many advantages and have worked extremely well for the needs of the industrial age. So, by establishing a hierarchy of authority and specific rules and procedures, bureaucracy provides an effective way to bring order to large groups of people and minimizes abuses of power. Bureaucracy provides for systematic and rational ways to organize and manage tasks too complex to be understood and handled by a few individuals. Thus, we greatly improve the efficiency and effectiveness of large organizations. The impersonal relationships based on roles rather than people also reduces favoritism and nepotism characteristics of many pre-industrial organizations. However, the machine-like bureaucratic system of the industrial age doesn't always work so well as organizations face new challenges and need to respond. The problems caused by over bureaucratization are evident in many inefficiencies we note in large organizations. Many business organizations need to reduce formalization and bureaucracy. Narrowly defined job descriptions and excessive rules, for example, tend to limit creativity, flexibility, and rapid response needed in many of today's organizations.

Organizations are taking a number of other, less dramatic steps to reduce bureaucracy, often driven by their leaders. Many are cutting layers of the hierarchy, keeping headquarters small, giving lower-level employees greater freedom to make decisions rather than burdening them with excessive rules and regulations. The commitment of leadership is essential when an organization needs to reduce bureaucracy to become more flexible and responsive.

Another attack on bureaucracy is from the increasing professionalism of employees. We define professionalism as the length of formal training and experience of employees. As organizations enhance the trend of providing ongoing training for all employees, it pushes continuous individual and organizational learning and increases training substitutes for bureaucratic rules and procedures that can often constrain the creativity of employees in solving problems while also enhancing individual and organizational capability.

Even though many organizations are trying to reduce bureaucracy and streamline rules and procedures that constrain employees, every organization needs systems for guiding and controlling the organization. Leaders at the top and middle levels of an organization can choose among three overall control strategies. These are the bureaucratic, the market, and the clan. Each form of control uses different types of information. However, all three types may appear simultaneously in an organization, as we discussed with the organizational lifecycle. This suggests that organizations are born, they grow older, and eventually die.

So, now we need to look at the causes and stages of organizational decline. The reality is, in today's environment, not all companies can achieve continual growth and expansion. All around we are seeing evidence that some organizations have stopped growing and many are scaling back or declining. So, the term organizational decline is used to define a condition in which a substantial, absolute decrease in the organization's resource base occurs over time. Organizational decline is often associated with environmental decline in the sense that an organizational domain experiences either a reduction in size or reduction in shape. In general, the following three factors listed here are considered responsible for causing organizational decline.

The first is organizational atrophy. Atrophy occurs when organizations grow older and become inefficient and overly bureaucratized. The ability to adapt to the environment deteriorates. Often, this atrophy follows a long period of success. Because an organization has taken success for granted, it becomes attached to practices and structures that worked in the past and then fails to adapt to changes in the environment. Some warning signals for this include excessive administrative and support staff, cumbersome administrative procedures, lack of effective communication and coordination, and outdated organizational structure.

Next is vulnerability. This reflects an organization's strategic inability to prosper in its environment. This often happens to small organizations that are not yet fully established. They are vulnerable to shifts in consumer demands or in the economic health of the larger community. 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 and markets.

Last is the 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 must either scale down operations or shift to another domain. During tough economic times, many organizations may struggle, so this new competition and fast shifting industries can also be a problem. All three of these factors have been involved in the deterioration of many iconic organizations and companies when leaders are hit with all three causes of decline. It is exceedingly difficult to survive. In some cases, the only option is to shut things down in an orderly fashion.

So, based on extensive reviews of organizational decline research, a model of decline stages has been proposed and is exhibited here. What this suggests is that decline, if not managed properly, can move through five stages, resulting in organizational dissolution. The first stage, the blinded stage, is when the 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 a lack of harmony with its consumer base. 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, leaders can then bring the organization back to top performance.

The second stage of decline is called the inaction in which denial occurs despite signs of deteriorating performance. Leaders may try to persuade employees and other stakeholders that all as well. In some cases, leaders use creative accounting to make things look fine during this period. The solution for leaders to acknowledge, decline, and take prompt action to realign the organization with its environment. Leadership actions may include adopting new problem-solving approaches, increasing decision-making participation, and encouraging employee and consumer feedback in the dissatisfaction to learn what is wrong.

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. Leaders should reduce employee uncertainty by clarifying values and providing information. A major mistake at this stage decreases the organization's chance for a turnaround.

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

The final stage is the dissolution stage, and this 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. Properly managing organizational decline is necessary if an organization is to avoid dissolution. Leaders have the responsibility to detect the signs of decline, acknowledge them, implement necessary action, and reverse the course.