Company Evolution & the Organizational Life Cycle

The Product Life Cycle (PLC) is a fundamental concept in Marketing that defines specific characteristics of products and markets at various points in their evolution. Less common is the discussion of the company evolution and characteristics at different stages, also known as the Organizational Life Cycle (OLC). This article discusses the stages of the OLC and specifically how it relates to high tech product development and delivery organizations, from start-up through mature companies.

Overview of the Product Life Cycle

The Product Life Cycle illustrates five phases a product or market can go through over time, consisting of Development, Introduction, Growth, Maturity and Decline. This is typically depicted as an S-curve tracking sales over the life of the product, as shown in Figure 1.

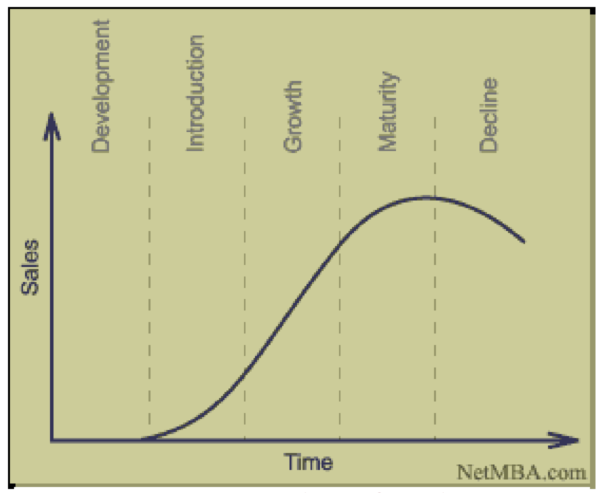

Figure 1 - Product Life Cycle (from NetMBA.com)

In each of the stages, the company has a specific objective which is intended to align the marketing activities with the needs of the market. In the Introduction stage, the firm seeks to build product awareness and develop a market for the product. In the Growth stage, the firm seeks to build brand preference and increase market share. At Maturity, the primary objective is to defend market share while maximizing profit. During the Decline stage, the firm generally has three options: maintain, harvest or discontinue.

Overview of the Organizational Life Cycle

Analogous to the PLC, the Organizational Life Cycle goes through specific stages as a result of the company's success (or possibly lack of) in the market. Publications on this topic set the number of stages organizations go through anywhere from three to ten, with most settling on a basic set of four or five. Not surprisingly, the major stages are Start-up (or Birth), Growth, Maturity and Decline. A fifth stage, called Revival (or Diversification), can also occur between the Maturity or Decline stages. Figure 2 illustrates this concept.

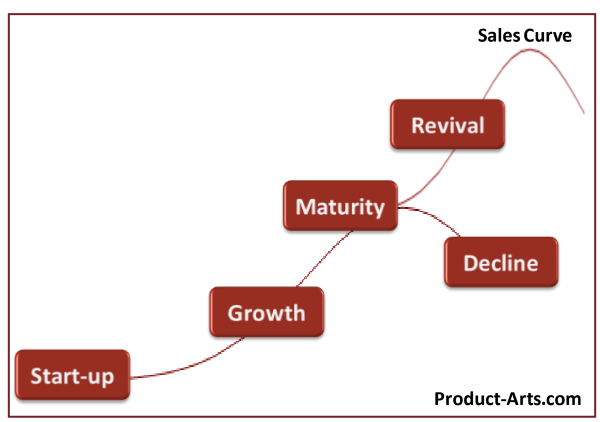

Figure 2 - Organizational Life Cycle

The stages are considered developmental in the life of the firm, much like a biological model, and are sequential, cumulative, imminent, not easily reversed, and involve a broad range of activities and structures. Once at maturity, the stages can become more circular from Maturity to Revival and possibly to Decline. This evolution is the result of three influences in an organization's life. First, administration of the organization becomes more complex as the size increases and more stakeholders become involved. Second, this increased complexity dictates the increased usage of more sophisticated organizational structures, information processing capabilities, and decision-making styles. Lastly, companies alternate between innovative phases and conservative ones - between stages that establish or renew organizational competences and those that exploit them through efficiencies.

The driver behind the OLC is that needs, opportunities and threats, both inside and outside the business, will predictably vary depending on the stage of development. For example, threats in the Start-up stage differ from those in the Maturity stage and changes in the environment exert pressure for change on the business. Organizations move from one stage to another because the firm and the needs of the environment are so misaligned that the company needs to adapt for basic efficiency or possibly even survival. Thus, different stages of the company's life cycle require changes in the firm's objectives, strategies, managerial processes, technology, culture and decision-making.

High tech companies present a unique situation because they can progress through the stages at a fairly rapid rate – from Start-up to Maturity in only a few years. An interesting side note is that firms tend to develop to a structure that mirrors the stage of the market they are in – for example, firms in a mature market will tend to be in a Maturity stage of development.

A complementary view of this model is that each stage represents a stable period of growth for the company - an evolutionary phase - but will reach a point where change is required, leading to a revolutionary or crisis period. It's the firm's ability to handle these crisis periods appropriately that will dictate the future direction and possibly survival of the organization.

Stages of the OLC

The five stages of OLC illustrate changes in organizational structure and managerial processes as the business proceeds through developmental stages. Each stage is discussed, with specific emphasis on the product creation and delivery aspects of the stage.

Start-Up Stage

At Start-up, firms exhibit a very simple organizational structure with authority centralized at the top of the hierarchy. The main purpose during this stage is for the firm to establish its distinctive competences and generate some initial product-market success.

This is achieved mainly by trial and error as efforts are made to change products and services in a manner that generates distinctive competences and creates a viable business model. This generally involves major and frequent product or service innovations and the pursuit of a niche strategy. Since the firm is small and has no established reputation, it must avoid direct confrontation with its more powerful competitors. It does this by finding gaps or niches in the market which are not being filled, and defends these niches by making extensive innovations.

Start-up firms cater essentially to one type of customer and sell one type of product and thus they face a (relatively) simple administrative task. An intuitive, rather than an analytical, mode of decision-making prevails. For example the owner-manager(s) makes almost all the key decisions, based in large part upon his/her intuitions about the situation.

The product development and delivery organization during the Start-up stage often involves staff wearing many hats. It is not uncommon in a high-tech start-up for at least one founder to be technical, and often multiple founders are. The leaders are involved at both a strategic and tactical levels in crafting and delivering the solution to initial customers. Key attributes of the environment are flexibility and lean management of resources and assets for continued existence. The organization will initially be very heavily weighted towards development staff and over time begins to fill in sparsely in marketing, sales, administration, and operations with an informal and overlapping structure.

Success in the Start-up stage is in finding a sustainable product/market niche that produces enough profit for the company to continue as a viable entity (either directly or with external financing). The Start-up stage, which involves growth through creativity and vision, eventually leads to leadership and organizational problems. More sophisticated and more formalized management practices must be adopted. If the founder(s) do not have the skills or desire to make this transition, then they often need to bring in an outsider and delegate authority to he/she to be able to continue to grow.

Growth Stage

The emphasis in the Growth stage is on sales growth and early product diversification. Product lines are broadened, but this generally results in a more complete array of products for a given market rather than new positions in widely varying markets. Efforts are also devoted to incrementally tailoring products to new markets, while less stress is placed on major or dramatic product innovations. Market segmentation begins to play a role, with managers trying to identify specific subgroups of customers and to make small product or service modifications in order to better serve them. In other words, the niche strategy is often abandoned as broader markets are addressed. The company may attain profitability during this phase, or the need for additional funding to meet the growth opportunity is often achieved with an IPO.

Typically, a functionally-based structure is established, some authority is delegated to middle-managers, and procedures are formalized. Decisions are now more influenced by customers as major stakeholders, and the goal becomes to fulfill a customer-facing function effectively rather than simply to cater to the wishes of the owner(s). A departmentalized, functionally-based structure is adopted where managers are appointed to head marketing, production, and perhaps accounting or development departments.

The owner-manager plays a less central role in routine administration. In the Start-up stage the owner-manager(s) could take all the risks he/she wanted, but in the Growth stage the delegated leaders cannot. Strategy is still focused at the top of the hierarchy, with input from within the organization. Also, the product innovation emphasis becomes incremental rather than dramatic as the market pull makes extremely dramatic moves less necessary.

From a product development and delivery perspective, roles within the organization become more differentiated, and there is a relative increase in the sizes of the marketing, sales and operations organizations versus development to generate and fulfill demand. Due to the diversification of the product line and customer base, specialization is beginning to occur in responsibilities. In order to maintain control and direction of the firm, more formalized methods of information sharing are required as are cross-functional coordination activities. The formal emergence of project, program, and product managers will likely occur if they have not already appeared.

As indicated, drastic product innovation takes a back seat to incremental innovation. This is primarily the result of the growth of the existing product line being sufficient to drive the organizational success without taking significant risks. In addition, the existing customer base begins to influence the product evolution and resource allocation through smaller feature enhancements and product improvements.

One problem that can occur during the Growth stage is the crisis of autonomy. The limited decentralization of power coupled with less emphasis on major innovation activities makes the organization increasingly less responsive to market changes. The crisis that develops is driven by top-level managers' reluctance to delegate authority and creates the associated frustration at lower levels. The Growth stage officially begins to end as sales start to slow.

Maturity Stage

At Maturity, sales levels stabilize due to a high level of competitive activity and possibly due to market saturation. The company may be highly profitable and have a cash-cow product. The goal then becomes smooth and efficient functioning to maximize profits in the wake of declining sales growth. Firms demonstrate more concern for internal efficiency and install more control mechanisms and processes. Structures are in some ways similar to those found in the growth phase.

Departmental, functionally-based structures prevail since they continue to suit the focused product-market scope. By now, firms are usually run by professional managers who are somewhat more in favor of a participative management approach. Nonetheless, firms do remain fairly centralized. There is less delegation of power than in the growth phase, perhaps because the simplicity and stability of operations make it easier for only a few key managers to dominate.

Firms in the Maturity stage are conservative with the level of innovation falling and a more bureaucratic organization structure established. Information processing activity changes in several key ways - there is more emphasis upon formal cost controls, budgets and performance measures. Companies also implement systems of coordination to enable their various business units and departments to work together. These efforts, however, tend to cause an influx of red tape. Coordination techniques such as product groups, formal planning processes, and corporate staff become, over time, a bureaucratic system that causes delays in decision making.

The Maturity stage shows a style of decision making which is less innovative, less proactive, and more risk averse than in any other phase. The aim is to not rock the boat and to focus upon efficiency rather than novelty. The tendency, more than in any other stage, is to follow the competition - to wait for competitors to lead the way in innovating and then to imitate the innovations if it proves to be necessary. The Maturity stage can persist for some period of time depending on the industry. As long as sales and profits are stable, there is not a huge incentive to change the status quo, even if industry threats loom on the horizon.

The product development and delivery structure is highly focused on analysis and cost control. In essence, the finance organization is running the product-based company. Development is primarily in a product sustaining or me-too development mode and justification of major activities is strongly tied to business case analysis. The marketing organization will be more focused on monitoring competition and on pricing and promotion strategies in a highly competitive and defined market versus finding innovative new offerings or markets. There may be some projects looking at potential future technologies and products, but they will tend to be underfunded and not prioritized as major initiatives.

Ultimately, the crisis that strikes the firm in the Maturity stage is the envisioned or actual progression to the Decline stage. While the realization may occur, the firm and its managers are paralyzed by a combination of bureaucratic processes and lack of innovation capabilities.

Revival Stage

The Revival stage is optional and can occur during a Mature or Decline stage for a firm who recognizes and initiates drastic changes to alter their current trajectory. This is typically a phase of diversification and expansion of product-market scope. Firms pursue rapid growth through innovation, acquisition, and diversification and this involves a good deal of risk taking. New top-level leadership is often required to initiate or effectively implement this stage and it is also a period of necessarily increased investment.

It also encourages a focus on innovation rather than imitation of the strategies of competitors as in the Maturity stage. Risk is mitigated and informed by an analytical, reflective and participative approach to decision making. It is common for task forces and project teams to be formed to analyze major capital expenditures, innovations or acquisitions. Groups of experts come together to analyze problems and to generate and evaluate different solution alternatives in a systematic and scientific way. Some firms begin adopting divisional and matrix structures for the first time in order to cope with the more complex and heterogeneous markets. Decision-making needs to be accelerated, and thus typically pushed down lower in the organization and with fewer formal hurdles at an executive level.

Information processing also becomes much more diverse and expanded. Instead of a focus on financial controls and performance reporting, the need for information to inform about market and customer opportunities is required. Reorganizing data around markets and sub-segments is required, in addition to potential research into new trends and opportunities. In order to support an innovation mindset across the organization, information availability and sharing must be enabled.

Significant changes begin to take place in the product-market strategies being followed. For example, there are more major and minor product-line and service innovations than in any other period. Also, new markets are entered for the first time as firms seek to become more diversified. For the product development and delivery organizations, this can be a very exciting time and also very chaotic. The drivers and expectations are on rapid growth and opportunities are high, but analysis and internal coordination across a number of different functions is demanded. Acquisitions require due diligence activities in addition to post agreement product and system integration. Collaboration is key, both through formal structures and processes, and through informal networks and partnerships.

The crisis that results from the Revival stage can follow one of two paths: the revival itself was not successful and sales growth does not occur; or the revival was successful and maintaining continued high growth is challenging for such a diverse and large firm.

Decline Stage

The Decline stage is market by declining sales and profitability. It is often preceded by market stagnation and firms begin to decline with them. Profitability drops because of the external challenges and because of the lack of innovation. Firms in the decline stage react to adversity in their markets by becoming stagnant. Decision making is characterized by extreme conservatism. There is little innovation, an abhorrence of risk taking, and a reluctance even to imitate competitors' innovations, let alone lead the way.

Firms tend to conserve resources depleted by poor performance by abstaining from product or service innovation. Their sales are poor because their product lines are unappealing versus alternatives, such as new technology solutions. The market scope of declining firms is quite narrow as they begin to sell-off non-core or underperforming divisions, laying somewhere between that of firms in the Start-up and Growth stages. One of the most notable structural features of firms in the Decline stage is the absence of any well-developed information processing mechanisms. Finally, communications between hierarchical levels and across departments are poor.

The product development and delivery functions are likely minimal or non-existent. It's possible that a Revival stage will be initiated, but the reality may be that the company can no longer afford to invest due to the decline of the entire market. The cash cow is already ground beef.

Summary

The Organizational Life Cycle illustrates 5 stages companies can go through as they grow. The stages include Start-up, Growth, Maturity, Revival and Decline. Much like the Product Life Cycle, the strategies, objectives, organization, threats and opportunities of the firm vary significantly by stage and also affects the product development and delivery organizations.

Most of the content for this article was derived from published academic research and from the author's own experience across a number of different stage high tech companies. For additional reading on this topic, the following sources also contain good references to other publications.

> Organizational Life Cycle (from Inc Magazine)
>
> Organizational Life Cycle (from Reference for Business)

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