

# Organizational Transformations: Birth, Growth, Decline, and Death

# Learning Objectives

- Appreciate the problems involved in surviving the perils of organizational birth and what actions founders can take to help their new organizations survive
- Describe the typical problems that arise as an organization grows and matures, and how an organization must change if it is to survive and prosper

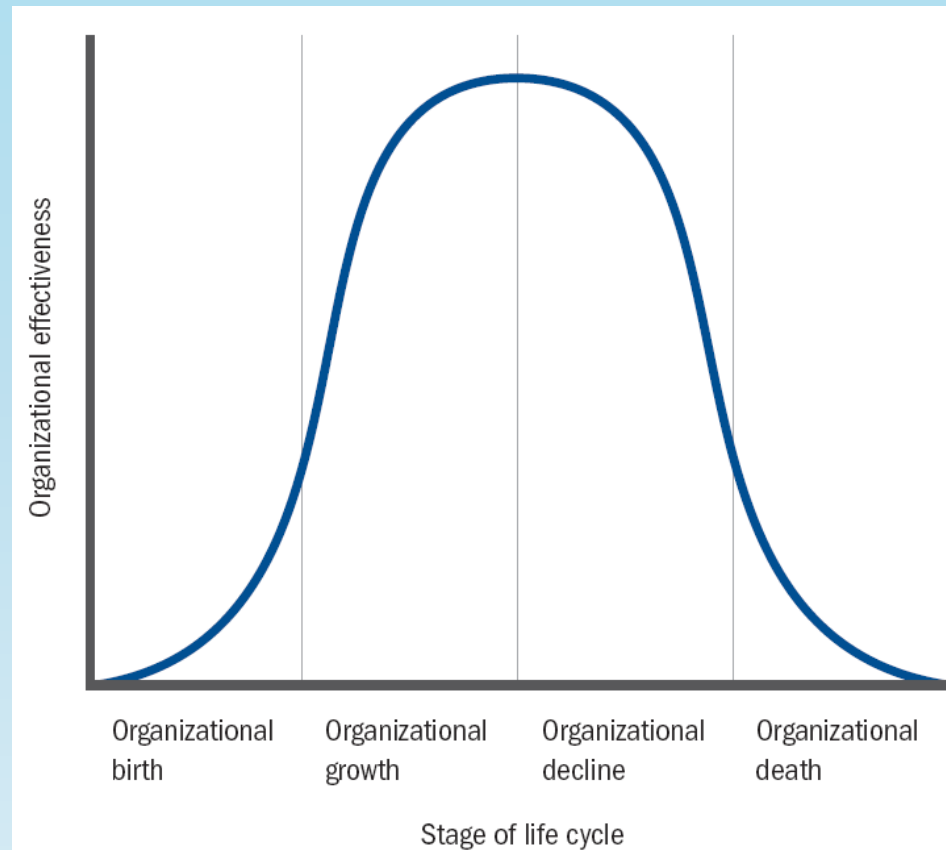
# Learning Objectives

- Discuss why organizational decline occurs, identify the stages of decline, and describe how managers can work to prevent the failure and even the death or dissolution of an organization

# The Organizational Life Cycle

- Organizational life cycle: A sequence of stages of growth and development through which organizations may pass
- The four principal stages of the organizational life cycle:
  - Birth
  - Growth
  - Decline
  - Death

# Figure 11.1 – A Model of the Organizational Life Cycle



# Organizational Birth

- Organizational birth: The **founding** of an organization
- Occurs when entrepreneurs take advantage of opportunities to use their skills and competences to **create value**
- Demand some product.. Started the business.. Just Born babies.. Birth stage..

# Organizational Birth (cont.)

- A dangerous life cycle stage **associated with the greatest chance of failure**– Birth
  - Liability of newness: The dangers associated with being the first in a new environment
  - A new organization is **fragile** because it lacks a formal structure...
  
- Wood – Iron– Gold – Glass –

# Table 11.1 – Developing a Business Plan

1. Notice a product opportunity, and develop a basic business idea
  - Goods/services
  - Customers/markets
2. Conduct a strategic (SWOT) analysis
  - Identify opportunities
  - Identify threats
  - Identify strengths
  - Identify weaknesses
3. Decide whether the business opportunity is feasible
4. Prepare a detailed business plan
  - Statement of mission, goals, and financial objectives
  - Statement of strategic objectives
  - List of necessary resources
  - Organizational timeline of events



# A Population Ecology Model of Organizational Birth

- Population ecology theory: A theory that seeks to explain the factors that affect the rate at which new organizations are born (and die) in a population of existing organizations
  - Population of organizations: The organizations that are competing for the same set of resources in the environment
  - Environmental niches: Particular sets of resources

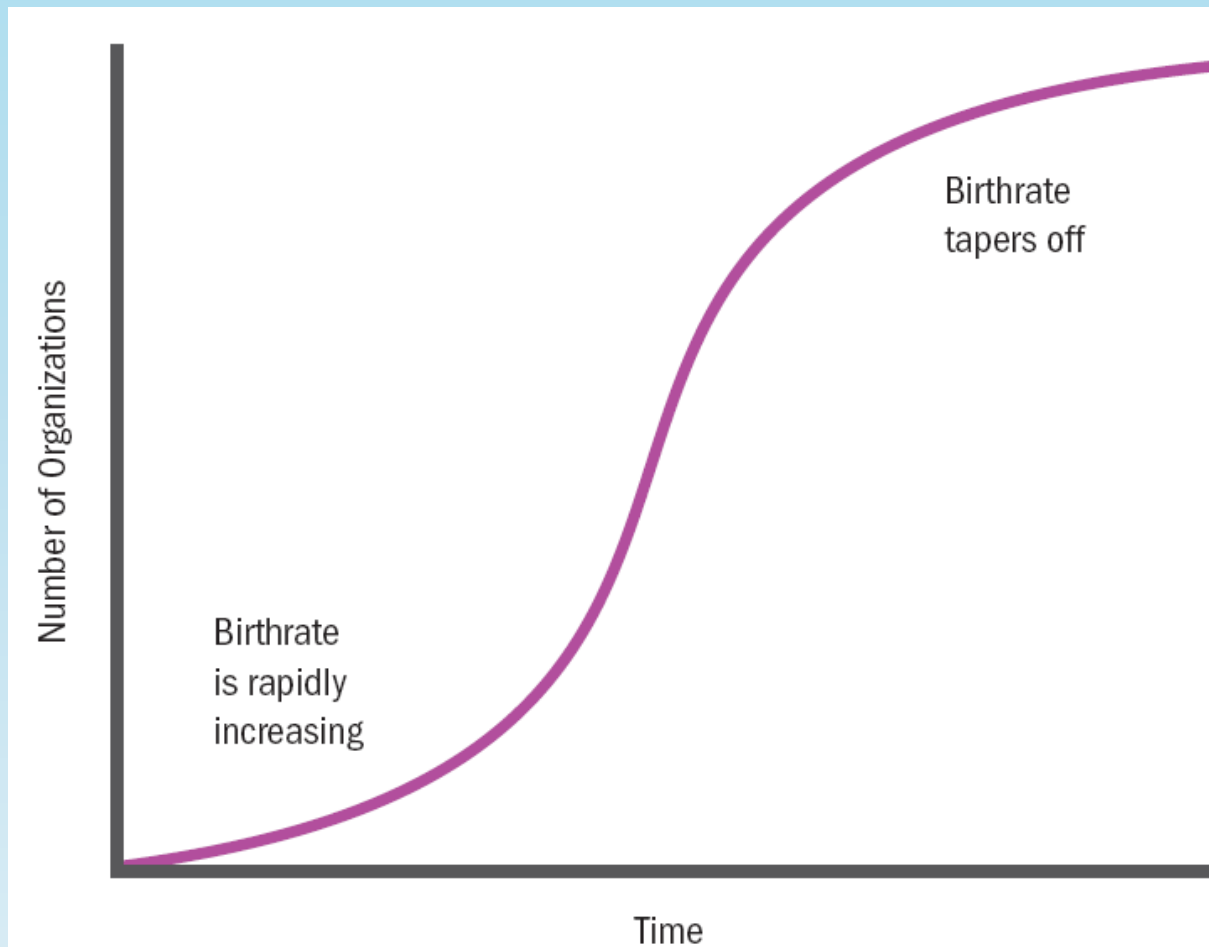
# Population Ecology Model (cont.)

- Number of births determined by the availability of resources
  - Population density: The number of organizations that can compete for the same resources in a particular environment
  - Factors that produce a rapid birthrate
    - Availability of knowledge and skills to generate similar new organizations
    - New organizations that survive provide role models and confer legitimacy

# Population Ecology Model (cont.)

- As the environment is populated with a number of successful organizations, birthrate tapers off because:
  - Fewer resources are available for newcomers
    - First-mover advantages: Benefits derived from being an early entrant into a new environment
  - Difficulty of competing with existing companies

# Figure 11.2 – Organizational Birthrates Over Time



# Population Ecology Model (cont.)

- Survival strategies
  - Strategies that organizations can use to gain access to resources and enhance their chances of survival in the environment
  - **r-strategy versus K-strategy**
    - r-strategy: A strategy of entering a **new** environment **early**-
    - K-strategy: A strategy of entering an environment **late**, after other organizations have tested the environment..

# Population Ecology Model (cont.)

- Specialist strategy versus generalist strategy
  - **Specialists**: Organizations that concentrate their skills to pursue a narrow range of resources in a **single niche** (market)
  - **Generalists**: Organizations that spread their skills thin to compete for a broad range of resources in many niches
- Face Mask.. Erbil ...
- Face Mask... Sell it in Asia, Africa, Europe

# Population Ecology Model (cont.)

- Process of natural selection
  - Two sets of strategies result in: r-Specialist, r-Generalist, K-Specialist, K-Generalist
    - Early in an environment, new organizations are likely to become r-Specialists
      - Move quickly to focus on serving the needs of a particular group
      - As r-Specialists grow, they often become generalists and compete in new niches

# Population Ecology Model (cont.)

- K-Generalists move into the market and threaten the weaker r-Specialists..
- The market is dominated by the strongest r-Specialists, r-Generalists, and K-Generalists



# Figure 11.3 – Strategies

	Specialist Strategy (operates in one niche)	Generalist Strategy (operates in several niches)
r-Strategy (early entry into environment)	r-Specialist	r-Generalist
K-Strategy (late entry into environment)	K-Specialist	K-Generalist

# Population Ecology Model (cont.)

- Natural selection: the process that ensures the survival of organizations that have the skills and abilities that best fit with the environment
  - Over time, weaker organizations die because they cannot adapt their procedures to fit changes in the environment
  - Natural selection is a competitive process

# The Institutional Theory of Organizational Growth

- Organizational growth: The life-cycle stage in which organizations develop value-creation skills and competences that allow them to acquire additional resources
  - Organizations can develop competitive advantages by increasing division of labor
  - Creates surplus resources that foster greater growth
  - Growth should not be an end-in-itself

# The Institutional Theory of Organizational Growth (cont.)

- Institutional theory: A theory that studies how organizations can increase their ability to grow and survive in a competitive environment by becoming legitimate in the eyes of their stakeholders
- Institutional environment: Values and norms in an environment that govern the behavior of a population of organizations

# The Institutional Theory of Organizational Growth (cont.)

- Organizational isomorphism: the similarity among organizations in a population
  - Three processes that explain why organizations become similar are:
    - Coercive isomorphism
    - Mimetic isomorphism
    - Normative isomorphism

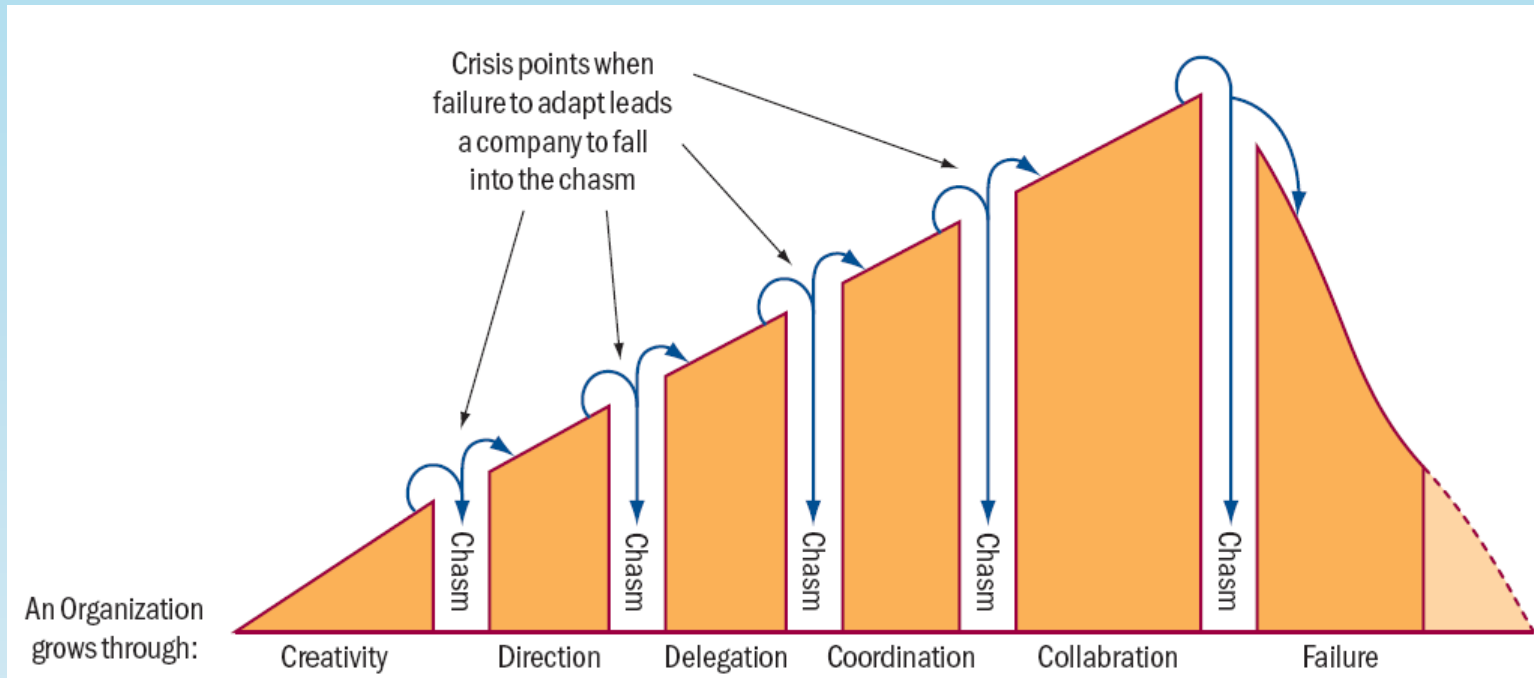
# The Institutional Theory of Organizational Growth (cont.)

- Disadvantages of isomorphism
  - Organizations may learn ways to behave that have become outdated and no longer lead to organizational effectiveness
  - Pressure to imitate may reduce the level of innovation in the environment

# Greiner's Model of Organizational Growth

- Greiner proposes 5 sequential growth stages
  - Each stage results in a crisis
  - Advancement to the next stage requires successfully resolving the crisis in the previous stage

# Figure 11.4 – Greiner's Model of Organizational Growth





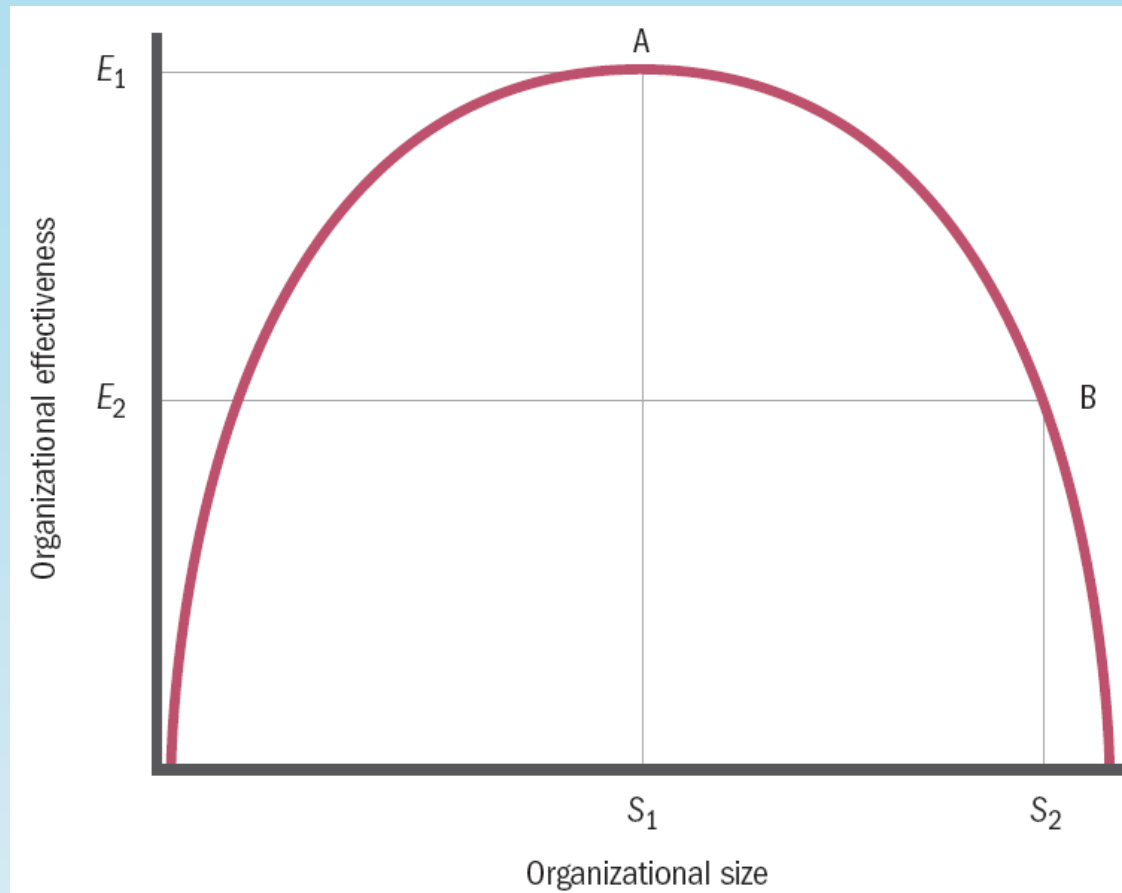
# Organizational Decline and Death

- Organizational decline: the life-cycle stage that an organization enters when it fails to anticipate, recognize, avoid, neutralize, or adapt to external or internal pressures that threaten its long-term survival
  - May occur because organizations grow too much

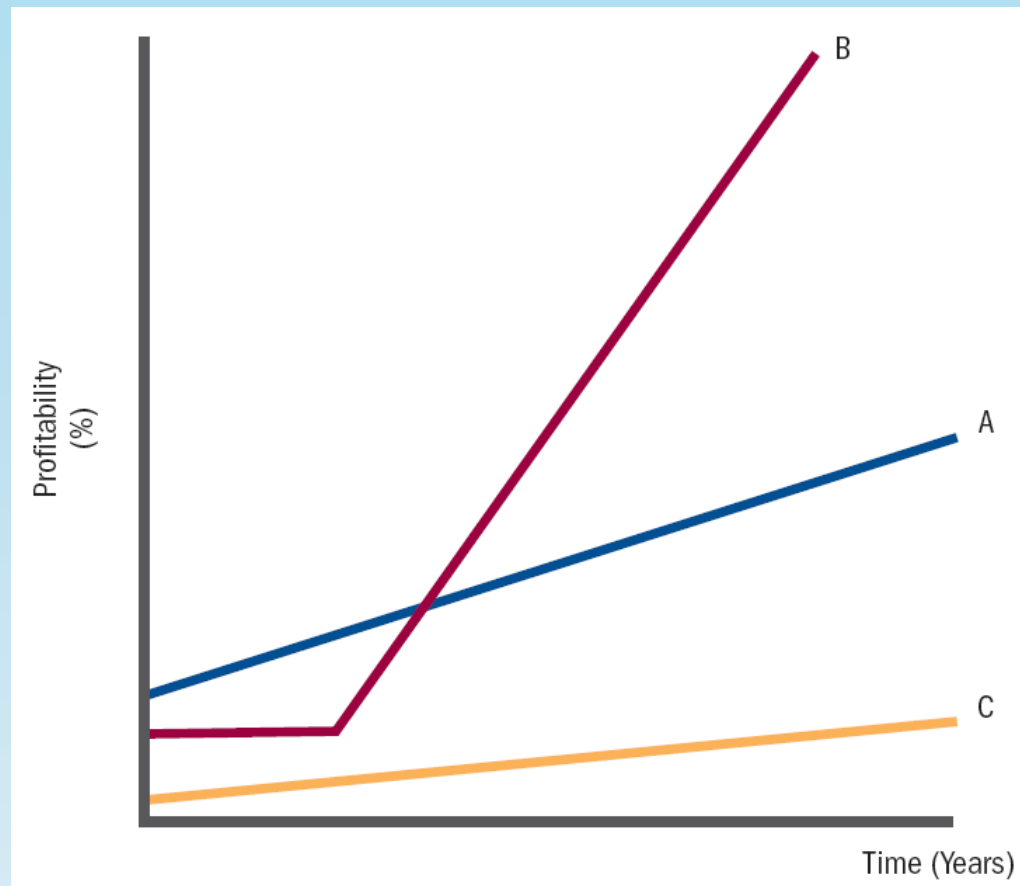
# Organizational Decline and Death (cont.)

- Effectiveness and profitability
  - Assessing an organization's effectiveness involves comparing its profitability relative to others
- Profitability: Measures how well a company is making use of its resources by investing them in ways to create goods and services that generate profit when sold
  - Short-term profits say little about how well managers are using resources to generate future profits

# Figure 11.5 – The Relationship Between Organizational Size and Organizational Effectiveness



# Figure 11.6 – Differences in Profitability



# Organizational Decline and Death (cont.)

- Organizational inertia: The forces inside an organization that make it resistant to change
  - Risk aversion: Managers become unwilling to bear the uncertainty of change as organizations grow
  - The desire to maximize rewards: Managers may increase the size of the company to maximize their own rewards even when this growth reduces organizational effectiveness

# Organizational Decline and Death (cont.)

- Overly bureaucratic culture: In large organizations, property rights can become so strong that managers spend all their time protecting their specific property rights instead of working to advance the organization

# Organizational Decline and Death (cont.)

- Changes in the environment
  - Affect an organization's ability to obtain scarce resources, thereby leading to decline
  - Makes it difficult for top management to anticipate the need for change and to manage the way organizations change and adapt to the environment

# Weitzel and Jonsson's Model of Organizational Decline

- 5 stages of decline
  - Stage 1: Blinded
  - Stage 2: Inaction
  - Stage 3: Faulty action
  - Stage 4: Crisis
  - Stage 5: Dissolution