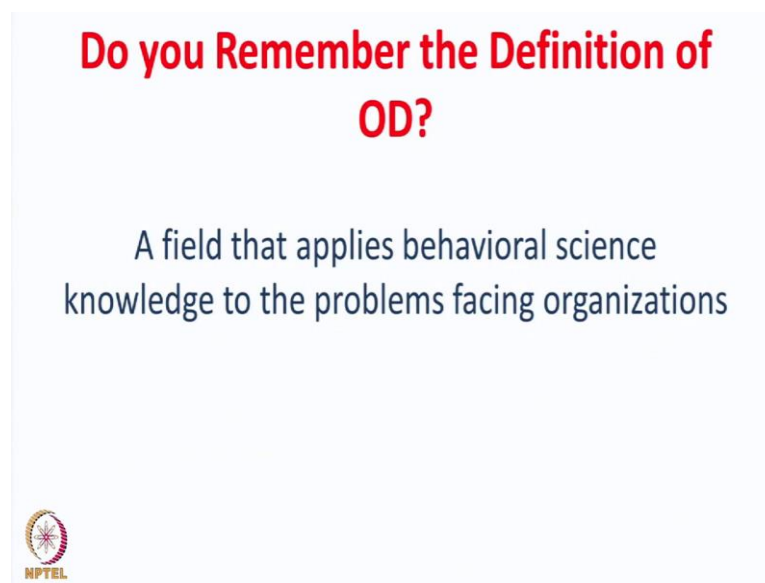**Organization Development and Change in 21st Century**
Prof. Ashish Pandey
Shailesh J. Mehta School of Management
Indian Institute of Technology, Bombay

Lecture – 32
Organization Development in Entrepreneurial Firms

This session is on Organization Development in Entrepreneurial Firms.

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Do you remember the definition of OD? Which we discussed in the very beginning of this course. This is a field that applies behavioral science knowledge to the problems faced by organizations.

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Evolution of the field of OD

- **'Process' based OD**: Process reflects perceptions, attitudes, reasoning. Largely based on unfreeze-move-refreeze model. (Kurt Lewin)

- **SocioTechnical wave**: Technical and human (sub) systems constitute one system, it is different from Taylorism or scientific management in terms of psychological content and participative techniques (Trist and Emery)

- **Facilitation wave**: (Instead of giving solutions) creating a learning climate and *structuring the tasks that people can do for themselves* by assessing the potential for action through committed leadership, sensing business opportunity through dialogue and collaboration, energizing people, *getting 'whole system'* in the room and *focusing on the future*

Weisbord, M. R. (1987). Toward third-wave managing and consulting. Organizational Dynamics, 15(3), 5-24.

The field of OD, if we reflect on last 8 years has evolved through 3 or 4 waves. 3 waves were identified by Weisbord in 1987, and much water has flown since 1987, and in 2020, we can very well think about conceptualizing even the 4th wave.

We may not talk in great detail about the possibility of fourth wave, but the 3 waves which Weisbord identified in it 1987, are as follows. And, if you reflect on the course, we have touched upon interventions and different approaches related to different processes of OD which have emerged in these 3 waves.

First wave started with the evolution of the field of OD itself. That is called process-based OD. Process means human process, and human process means, what are the intra personal or psychological processes through which we convert the different stimuli into our response, or how my behavior at workplace emerges through different processes related to perception, attitude, reasoning etcetera.

And, you might also remember, we discussed the 3-step, the core model of change management, that is unfreezing, movement and refreezing, and that was given by father of OD, Kurt Lewin. And, hallmark of that wave, the process-based OD is sensitivity training and t-group training. These are still very popular individual level interventions in the corporate setting and society in general. So, this was the first wave of OD.

The second wave of OD started in the early 50's and concretized and conceptualized in the 60's that we called socio-technical wave or Tavistock School of thought. Tavistock,

because it was developed in the institute located in Tavistock. And, the famous social scientist Trist and Emery contributed immensely towards developing this wave.

The essential aspect, the core aspect of socio-technical school of OD or socio-technical wave is that technical and human system constitute one system in an organization. That is why the name socio-technical wave came into existence.

It is different from the scientific management approach proposed by Frederick Taylor in the first decade of the 20th century. Scientific management assumed that there is one best way of doing a job and that can be identified by an expert and a specialist and people working on the shop floor have to be trained to follow that process.

Whereas, the socio-technical school though recognizes the importance of the technical system, it also recognizes that technical system independently cannot result in productivity. And, we need to take care of the social system as well. So, in the socio-technical school psychological content is also prominent. Participative techniques are also part of the socio-technical wave of OD.

Third wave which we can name as facilitation wave. Though this name exactly was not used by Weisbord in his famous 1987 paper, which is quoted here. But what he talks about is creating a learning climate and structuring the task that people can do for themselves.

So, expert orientation meaning someone outsider knows the solution and that solution can be given to the actors or the working managers or executives. That assumption is not the strongest assumption behind this facilitation wave, but the role of a facilitator is considered to be creating a learning climate. In that climate people can identify the solution of their problem by themselves.

Learning climate requires committed leadership. Role of a facilitator in this kind of OD setting is also about helping group to sense the business opportunities and facilitating dialogue and collaboration. So that is the first tenet of the facilitation wave.

That is structuring task that people can do for themselves. Second element in the third wave is bringing whole system into the room. Meaning, bringing the representative of different stakeholders together and facilitating a dialogue amongst them.

If we are able to facilitate the dialogue, different stakeholders can understand the world view of each other. They can be more appreciative of each other's challenges and perspective. And, in that understanding, what is to be done, what are the working propositions about solving an issue or realizing the business opportunity can emerge.

Third wave of OD focuses on the future as a very important element. They are less interested in resolving the past issues, but the third wave of OD focuses more on what we can achieve in future. And, appreciative inquiry is one of the foremost development in the field of OD. They are talking about creating a future. Future is not something which is given, you have to grab it.

That is not the assumption of the third wave of OD, and particularly the later part; means, after the 1987 the basic tenet is that, if we can together create a shared picture of future, we can also create that. So, these are the three waves of OD which we must be aware of, while looking at this field and seeing how the field of OD can be applicable to the different context. Here, in this session, we are talking about entrepreneurial firm, the smaller firms as our context.

Now, if we look at the evolution of OD, one prominent feature comes to our mind, that is interventions which were developed by Kurt Lewin, which later on clubbed in the process wave of OD or interventions developed by Emery and Trist, which later on termed as socio-technical school or the even the appreciating query process. Most of these interventions were developed in the large groups or in the large organizational setting.

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Evolution of the OD Approaches and Methods: A General Observation

- We studied the interventions like Human Process interventions, Socio-technical interventions, HRM based OD interventions, integrated interventions (Digital transformation, Organization learning and KM), Appreciative Inquiry.
- Most of these works are grounded in large institutions.

So, naturally the diagnosis which was used before identifying the interventions and implementing these interventions was also done in the bigger systems or bigger organizations. That points out the need to think about OD specifically in the context of smaller firms and entrepreneurial firms.

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Era of Start Ups: Looking up to Innovation Based Economy

- MSME in India contributes about 50 percent of GDP and employs more than 40 percent of work force. More than 99% are micro enterprises and employ 5 people on average.

- India has the 3rd largest startup ecosystem in the world; expected to witness YoY growth of a consistent annual growth of 12-15%. India has about 50,000 startups in 2018.

If we look at the business scenario, how work is done in different forms of organizations, in current times; we see, and if we take the example of India; micro, small and medium

size enterprises, they contribute to 50 percent of GDP and employ more than 40 percent of workforce.

In fact, according to the most recent assessments, MSME sector might be contributing to more than 60 percent of the India's GDP. Out of these MSME sector 99 are actually micro enterprises, and micro enterprises meaning they employ on average 5 people. A small enterprises or medium size enterprises also are those which employ about 250-300 employees.

So when we look at the contribution of MSME sector, there is certainly a need to contextualize OD discussion towards this sector. At the same time, we also need to look at another data about India, that is third largest startup ecosystem is in India. And, this ecosystem is expected to witness year on year growth of consistent annual percentage of somewhere between 12 to 15 percent. India has about 50,000 startups in 2018.

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Few Pertinent Questions

- Do diagnostic models we studied during this course suitably capture the essence of an entrepreneurial firm?

- Can interventions such as team building or Future Search Conference be applied similarly in both large corporations and in entrepreneurial firms?

- Are the change processes similar in large corporations and small entrepreneurial firms?

So, pertinent questions are, that do the diagnostic models we study during this course suitably capture by essence of entrepreneurial firm? Can the intervention such as team building or future search conferences be applied similarly in both large corporations as well as entrepreneurial firm? Or the change processes we observe in the large organizations are same in the smaller organization or what we call MSME organizations as well? Let us look at this context of entrepreneurial firm more closely.

The Difference between Large and Small Entrepreneurial Firms

- History (Presence or lack of routines and traditions)
- Leadership (Formal, informal and shared leadership)
- Organizational structure (Hierarchy and formality)
- Ownership (Publically and privately held)
- Governance (Role of the board in decision making)
- Family (Involvement of family in business decisions)

And, how it is different from established corporate or bigger organizations. First difference is the difference of history itself. Generally, the large corporations have a tradition, an inertia, also a well-established systems and process. History also includes learning; that also includes collective memory; that also includes experience.

So, routine and traditions are very well established in the large corporations; whereas, in the entrepreneurial firm you will see more spontaneity, more innovativeness, but they are also in the beginning of their learning curve. History is the first point of difference between large corporations and small entrepreneurial firms.

Then there is also a difference in terms of leadership. In the established corporation, leadership is generally formal and owner and leaders, managers have a distinct role to play. Whereas, in the entrepreneurial firm you can have owner who is also the leader and also the chief executive officer or the chief manager of the firm. In the entrepreneurial firms, shared leadership and informal leadership also play a very important role.

Shared leadership meaning, the role of leadership keeps changing and shifting from one team member to the next team member depending on the situation or depending on the project. Third important point of difference between established corporations and entrepreneurial firm is organizational structure.

In the corporations which are there for some time, which are of the large size, they have established hierarchy, they have different departments, they are designed to harness economy of scale as well as economy of scope. They have formal rules, procedures; whereas, in the entrepreneurial firms, organizational structure is generally flat. So everybody can talk to everyone else, and more informal kind of communication and more role fluidity is prominent in the entrepreneurial firm.

Fourth point of difference is of the ownership. Large corporations are generally owned by a few promoters and many times the shares are also held by the larger public. Whereas, entrepreneurial firms are generally partnership firms or proprietary firms, where ownership is centered to very few people in the organization.

Many a time, owners are the only managers and executives of the firm in the beginning of entrepreneurial firms. As a result of that governance also changes. Board of director is a very prominent decision-making body in the large corporations; whereas, a board of director for a smaller organization or particularly entrepreneurial firm has generally a role of a facilitator or a mentor, mostly the decisions are made by the owner himself.

Role of family is also very prominent in the entrepreneurial firm. Many a time, entrepreneurial firm is started by the family itself, and most of the employees of the firm are actually from the same family. And, if family owns a major capital in the firm, it has a role to play in decision-making or deciding the direction of the business and direction of the activities of the firm, which is many a time not the case in large corporations.

Even if a large corporation is owned by a family or led by a family, role of professionally appointed managers or careerist manager is more prominent in the large corporations. So, these are the points of difference in the large corporation and the entrepreneurial firm which signify the importance of looking at OD processes, specifically from the entrepreneurial firm's point of view.

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Diagnostic Framework

- Can you recall the diagnostic models taught during the beginning of this course?

- Open system, Feedback, Higher level system becomes input to the next level of system etc.

So first we will talk about the diagnostic framework. Can you recall the diagnostic model taught during the beginning of the course? You might remember, in the third chapter we talked about the importance of diagnosis and different diagnostic models. The diagnostic model which was useful at organizational level, team level and level of the individual or individual roles.

You might also remember that we studied diagnostic model which was based on the open system approach. We looked at feedback as one of the very important feature sof the open system. And, higher levels of system would include the lower levels of the system. Probably, by looking at this slide you will recall.

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Organization-Level Diagnostic Model: A Flashback

Cummings & Worley, 9e (c) 2008 South-Western/Cengage Learning
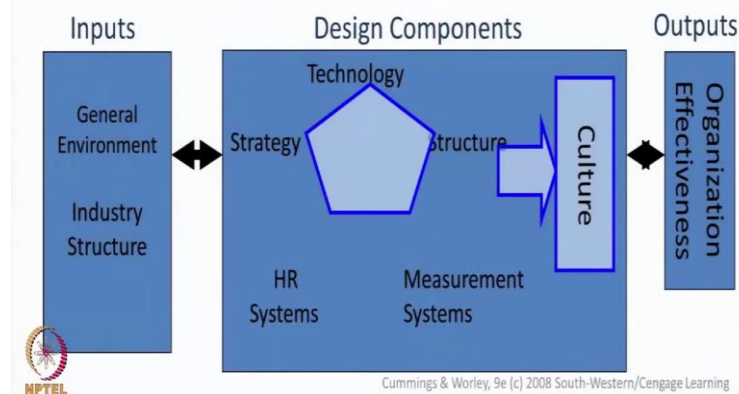
This is the diagnostic model at organizational level. Input for an organization is the general environment or industry environment. Looking at taking the inputs from the industry organization applies some strategy. They employ some structure, technology. They create human resource system or measurement system that co-creates culture and this processing result into some output.

Output, the quality of output also gives us feedback and that enriches the different components of input. So that is how the diagnostic model looks like at the organizational level, what we discussed in the third session. And, you might also remember that general environment or industry environment are the input to the organization; whereas, organization is input to the team, team process is understood in terms of role clarity, resource allocation, team roles etcetera and that also has its output.

And, team becomes the input at the individual level or level of role; whereas, we look at how much autonomy and resources and skill set required etcetera are there in the individual role, and the individual also has a output. So input-process-output is very well defined in this diagnostic model which is generally used in the large corporations. This model is difficult to be employed in the entrepreneurial firm.

Because, in the entrepreneurial firm, distinction between organizational level, team level and individual level is very difficult. Secondly, in all of these models we did not see, we did not discuss the role of family members of the founders or of the partners, but in most of the entrepreneurial firm family also play a significant role. Third difference is, that government regulation plays a very important role in promoting entrepreneurial firm or not promoting entrepreneurial firm in certain sectors.

Now, we see in India, there is a lot of emphasis through mudra yojana and budgetary as well as non-budgetary allocation for the MSME sector. So, government regulation also plays a very important role. Very recently, as a reform taken up as a result of the Covid epidemic, the very definition of MSME sector has also changed. Earlier, the micro enterprise was considered to have 25 rupees capital investment; now 1 crore turnover is considered to be the limit for a micro enterprise.

So the very definition of assessing micro enterprise as well as the small enterprise and the medium size enterprise, their definition has also changed. Earlier they were defined in terms of the capital investment, now they are defined in terms of the turnover. So, these

things keep getting evolved at the level of government norms. So, what we see in the entrepreneurial firm, there are 3 systems which we need to look at for diagnosing.

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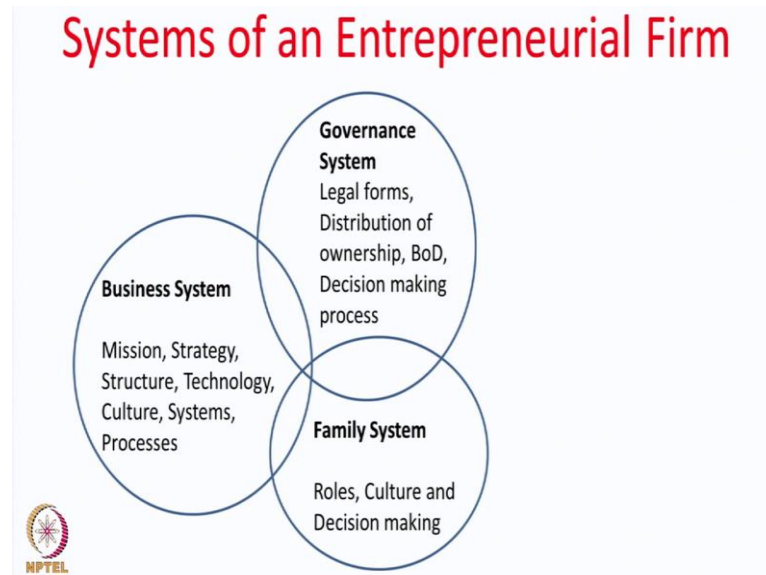
First the core business itself. What is the mission, strategy, structure, technology, espoused culture, existing culture, or the nature of interaction, systems and processes of the firm. We also need to look at the governance system. The legal form, what is the distribution of ownership, board of directors, decision-making process. The forms of integral form become very important because they can be of different variety.

Family system also need to be looked at. Roles, culture and decision-making carried out, practiced in a particular family might be different and that also has to be taken into account to understand the entrepreneurial firm. The culture of entrepreneurial firm also happens to be different. You might recall that we use competing values framework to understand the organization culture.
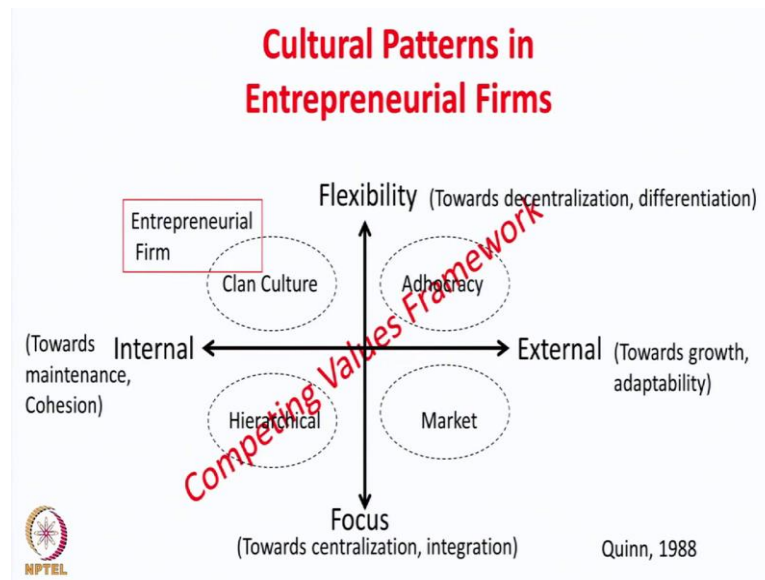
Competing value framework says that values of organization may be at two continuums: flexibility versus focus continuum versus of internal focus versus external focus continuum. Flexibility is about decentralization, differentiation. Focus is about centralization and integration. Internal focus meaning, toward maintaining the cohesion and looking at the internal organizational processes.

External focus meaning, looking at the growth opportunity, adaptability etcetera. Based on these, we come across four types of organization cultures: hierarchical culture, market culture, adhocracy culture and clan culture. You can very well gauge looking at this framework, what is the prominent culture of entrepreneurial firm. Many of you must have guessed correctly.

Generally, entrepreneurial firms have the clan culture; which means, they have high level of flexibility and generally they have an internal focus because they need to identify the appropriate roles, they need to define the roles, they have to establish the systems and processes.

There are specific cultural patterns in the entrepreneurial form, like paternalistic nature of leadership. This is the kind of leadership, where founder takes care of the employees and in return, he or she expects loyalty from the employees. Generally, the decision-making process as we discussed before is centralized, board of directors' role is mostly to ratify the decision or to be the mentor and guide rather than a decision-making body for most of the matters.

Family values and the dynamics also affect the business. So, these are some of the important cultural patterns of entrepreneurial firms. In light of these facts, we need to recognize that the typical input-process-output based approach of diagnosis should be replaced with a holistic approach of diagnosis in the entrepreneurial firms. So, typical business objectives or the success indicators like market share, profitability; reach etcetera need not be the only main objectives of the entrepreneurial firm.

Approach to Diagnosis in Entrepreneurial Firm

- In place of input-process-output based approach to wholistic approach of diagnosis
- Understand the unique business objective of the firm
- More sensitive in interpreting the data due to family involvement
- Data must be collected from the founder, family members of the founder, key managers, Office layout and other artefacts
- Way of conducting meetings and taking decisions
- Perception of the customers and suppliers

Those objectives must be understood. There is a need to be more sensitive in interpreting the data coming out of the diagnostic process, because family is involved. Family not only brings the formal roles, but also involves emotional issues. So, whatever data is being collected by the OD professional in the entrepreneurial firm need to be done in a very sensitive way.

Data must be collected from the founder, family members of the founder, key managers; office layout must be looked at; other artifacts like who has got much space in the organization, what is the office design. What are the different artifacts, that means, the physical evidences of the cultural assumptions or values there in the office. All these small and the obvious things plus subtle things must be looked at as diagnostic data to understand the culture and the general climate of the entrepreneurial firm.

Ways of conducting meeting and taking decision also must be looked at carefully by the OD professional in the diagnostic process. Since, the firm is new and small, number of customer base is also smaller compared to the larger organizations, there might be few suppliers. How company establishes its record with the suppliers and customers is a great indicator of its business values, its culture and its approach towards business.

So, it is very useful to talk to the prominent customers of the firm, also suppliers of the firm to understand the general approach of business of the entrepreneurial firm. So, all this data can contribute to thorough understanding about what is going on, what is the course

of action being followed by the entrepreneurial firm. After the diagnosis, comes the intervention part.

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Entrepreneurial Life Cycle and OD

STAGES	Birth Stage	Survival	Success and succession
MAJOR CHALLENGE	Struggle to achieve viability, Defining work roles, Dealing with institutional overlap	Division of labor, Economies of scale, Development of Organization design	Growth management, Organization design, Balancing design challenges
OD INTERVENTIONS	Business Planning, Partner relationship	Strategic planning. Org design, Team and Career, Board of Directors interventions	Strategic planning, Succession planning, Asset Mgt., Conflict Mgt, Ownership and Board transition

This table may look little scary, so please look at this table in a step-by-step manner. What is the meaning of that? First you look at the stages, and then you look at the major challenges and OD intervention. When we look at the different components presented in the table, we can figure out what are the most appropriate OD interventions in the entrepreneurial firms. First, we need to understand that any entrepreneurial firm goes through 4, 5, 3 stages, depending on which author you are following.

In general, all the authors are talking about birth stage, survival stage, success stage and succession stage. Birth stage means, emergence of the firm itself. Survival stage means, when it is able to sustain its business in the marketplace. Success phase means, the phase of growth and sooner or later entrepreneurial firm has to hand over a significant part of management.

Significant management responsibility steward to the professional managers. So, that is a very important stage in the life cycle of entrepreneurial firm. Major challenges are different in different stages. Accordingly, we need to identify and we need to implement the OD interventions. First major challenge for any entrepreneurial firm in the birth stage is struggle to achieve the viability. How to ensure that they are able to start and run the business. Then comes defining the work rules.

Role clarity gradually comes as they go on in the business and as they go on they figure out who is good at what and accordingly the role starts emerging. What I am good at, what is my perception about competency, what is my interest, what I aspire to be and where I am demonstrating the capability, these may not be 100 percent matching and that is where the role of a facilitator comes.

An OD facilitator can help people recognize which role they are most suitable for. Another challenge is dealing with the institutional overlap. Meaning, if it is a family firm, role in the family and role in the organization may overlap. How do we negotiate these roles? We will talk about these things in the later part of this session. In the birth stage of entrepreneurial firm, most important OD interventions are business planning and strengthening the relationship amongst the partners.

Strengthening of relationship among the partners may be done by looking at each other's feedback, and passing on the feedback to each other. It involves role clarity to a great deal. It also involves distribution of authority, identifying who is good at what and what functions to be given to whom, all these kinds of boundary management and contracting is required at this stage.

If an organization or a firm is able to sustain in this stage, meaning, if it is able to launch the product or service; if it is able to remain in the market for a few months, is able to grab some market orders, then it may lead to survival stage. We all know, that less than 10 percent of entrepreneurial firms actually sustain beyond 2 years. So, the firms which are able to move to the next stage which is called survival stage, they face another type of challenge.

The major challenges in the survival stage are division of labor, economy of the scale, development of the organization design. Accordingly, the role of intervention also changes. So, in the survival stage the major interventions are related to strategic planning, establishing organization design, identifying which are the most appropriate design forms.

Organization can be designed in the form of a product or in the form of a division, who will report to whom? How many hierarchical levels should be there? How we ensure the interaction of the different departments? If we create more departments, how much authority should be given to which level of hierarchy? How much formalization should be

introduced? And to what extent things can be informal and spontaneous? These are the trickiest questions to be handled in the survival stage.

If these questions are handled well, that entrepreneurial firm can taste the success and enter into the growth stage. At the survival level, OD intervention requires team building process, career planning process, strategic planning; helping firm to choose the appropriate design, working of the board of director also starts getting concretized in this stage. OD professional has to help the entrepreneurial firm to identify, how to divide the role of board of director and the role of the chief executive officer or the managing director of the firm.

If an organization or entrepreneurial firm is able to survive for some time, if it keeps growing, it reaches to the success stage or what we also call the growth stage. In the success phase, one of the most important challenge is managing the growth. If a firm is able to realize the economy of a scale, if it is able to also develop the economy of scope, then the next question comes, how to manage that growth. Naturally, the organization design related questions which we enumerated just a short while ago becomes even more important in this stage. Balancing the design challenges, becomes very prominent in the growth stage or success stage.

What are the design challenges? The design challenges we discussed in the previous session are about managing the level of hierarchies. How many levels of hierarchy an organization can create. Balancing between differentiation and integration. When we create new departments, it may result in differentiation in the organization, if sufficient integration mechanism is not included in the process of creating economy of scale or in the process of creating new departments.

We also need to have management of the challenges about ensuring different levels of autonomy at different levels of hierarchy, and to what extent the standardization should be promoted and to what extent the formalization should be introduced, these questions become even more important in the success phase.

An organization which is able to deal with these challenges can sustain and grow further. At this stage, OD interventions are related to strategic planning, but strategic planning related questions become different at this stage. In the survival stage, the questions about strategic planning are solely about how to grow as a business. In this stage, in the success

phase or the growth phase, strategic planning questions are also about managing growth, consolidation, etcetera.

Succession planning becomes a very important question. An organization which has reached growth stage, which has reached to a size, where inviting external managers or the career managers become inevitable, an organization has to identify succession planning. Who will take the rein? Who will be in charge of the organization in the next phase of the organizational survival and growth?

Succession is one of the trickiest questions in family business as well, which we are going to discuss in the later part of this session. Asset management becomes important. Conflict management, how to take the course of action about growth of the business. Different people, different founding managers, different founding members can have different perspective about taking forward the company.

How to negotiate among those different perspectives? How to resolve the conflict among them becomes one of the most important OD interventions. Another important OD intervention is about ownership and board transition. This also includes shared transition. How authority will be divided between the chairman and the managing director is one of the most important questions at this stage. So, you can look at how the nature of OD intervention can vary according to different stages of the entrepreneurial firm.