

Principles of Management
Prof. Usha Lenka
Department of Management Studies
Indian Institute of Technology, Roorkee
Lecture - 57
Change management - II

In organizational change part II, I will be discussing about organizational life cycle and change. The learning objective is here why to appreciate the problems involved in surviving the perils of organizational birth and what founders can do to help that new organization survive.

So, here basically I would like to emphasize on the organizations which were doing very well in the past and because of the environmental pressures, they were not able to or because of some internal turmoil they were not able to cope up and they are not no more existing.

I would like to quote the names of some organizations which were doing very well in the past like Kingfisher airlines, then Satyam and which is now rechristened as Mahindra Satyam then several organizations like Suviksha which was a brand name and in the retail market segment, but today it is not no more existing.

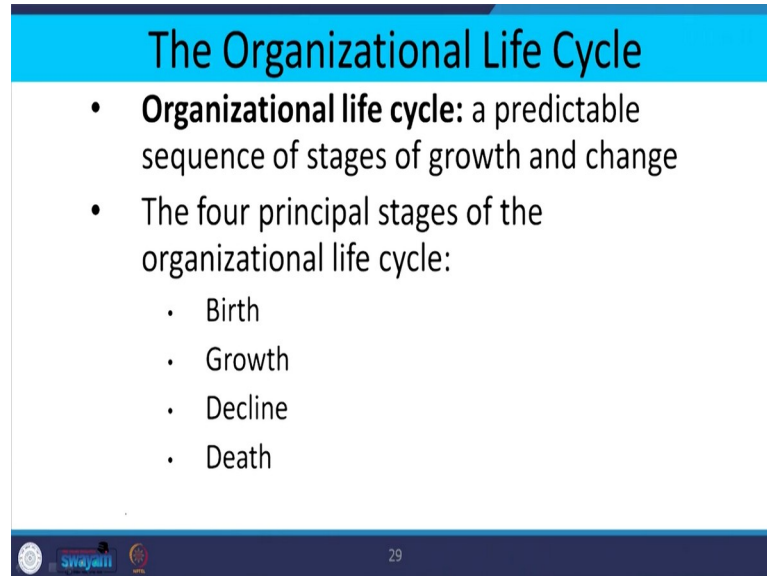
Similarly, there is Allwyn watches and then Hindustan motors and there are also HMT watches and so on. These are these were big names in the past and they have faced with some external factors of change on external forces of change and they could not sustain and survive.

So, our intention to learn in this chapter is to know exactly what are the factors which an organization faces or how the organization processes in the various life cycle stages and what changes, what factors or what crisis it encounters in each of these stage and then describe the typical problems that arise as an organization grows and matures and how an organization must change if it has to survive and prosper.

So, we will be discussing about each stage of like the growth, decline, maturity stage we will be discussing about the all these stages in more details. And discuss why organizations decline occurs identify the stages of decline and how managers can manage or can change their organization to prevent failure an eventual death or

dissolution. Organizational to start with organizational life cycle stages it is very analogous to human life cycle stages.

(Refer Slide Time: 02:55)



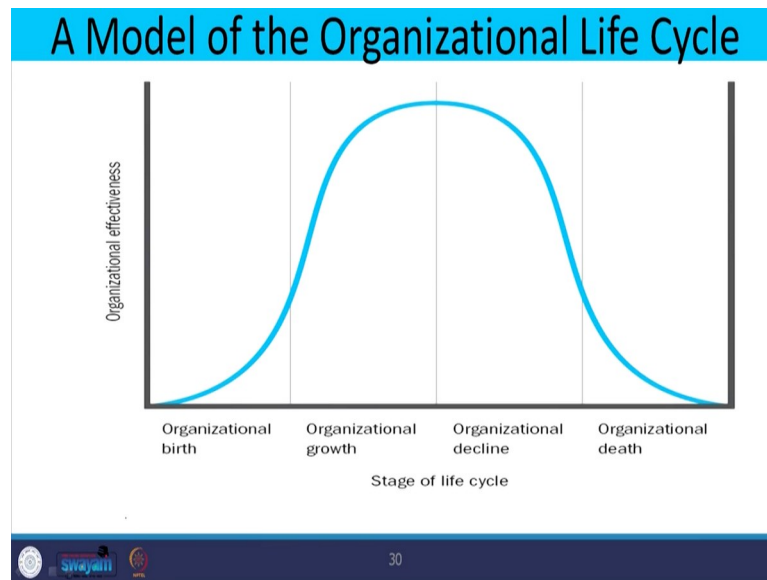
The slide is titled "The Organizational Life Cycle" in a blue header. It contains two main bullet points. The first bullet point defines the organizational life cycle as a predictable sequence of stages of growth and change. The second bullet point lists the four principal stages of the organizational life cycle: Birth, Growth, Decline, and Death. The slide has a dark blue footer with logos on the left and the number 29 in the center.

- **Organizational life cycle:** a predictable sequence of stages of growth and change
- The four principal stages of the organizational life cycle:
 - Birth
 - Growth
 - Decline
 - Death

Organizational life cycle is a predictable sequence of stages of growth and change. The four principle stages of organizational life cycle are birth, growth, decline and death. So, as I told you it is analogous to the human life cycle stages; in the birth stage or in the initial stages the organization has different challenges compared to the growth decline and death stage.

The growth stage there are again the competitive pressure is more, in the decline stage when the organization or otherwise we say it's a mature stage where the organization has been working very well and it has established itself in terms of its brand name and identity. But still the challenge is more even intense and if it is not able to withstand, the challenge if it is not able to address to those challenges, then the organization would die.

(Refer Slide Time: 03:59)



So, a model of organizational life cycle in the life cycle stages on one axis and organizational effectiveness on the other axis, we can see that the organization is moving through various ebbs and flows when the organizational birth, growth, decline and death stage there are different challenges. So, birth stage; the founding of an organization. When the organization is just beginning to take baby steps in the market.

(Refer Slide Time: 04:25)

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
- A dangerous life cycle stage associated with the greatest chance of failure
 - **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

31

So, occurs when entrepreneurs take advantage of opportunities to use their skills and competencies to create value. As we know that today there is an ample scope for growth

for the new entrepreneurs, new ventures keep coming up every day. So, in the initial stage they have various teething problems a dangerous life cycle stage associated with greatest chances of failure and liability of newness is the danger associated with being the first in the new environment.

When the banks came with the concept of ATM, the challenge was intense for the first bank which came with the concept of ATM because it was just venturing into a new environment. A new organization is fragile because it lacks a formal structure. I would like to quote another example of when Bisleri the bottled water concept came into India; it was a kind of entrepreneurial venture in the market which had never tasted the which had never accepted a concept of bottled water.

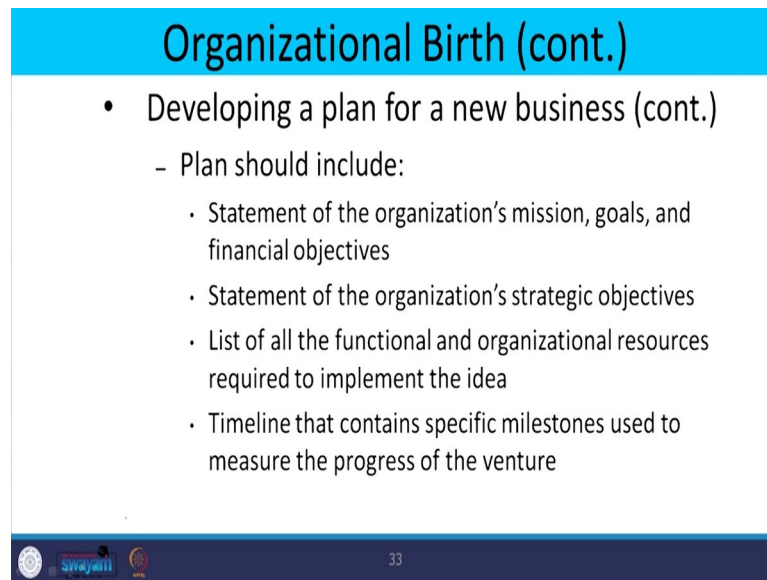
So, new organization is fragile because it lacks of formal structure and there is a liability of newness. Organizational birth development developing a plan for new business. So, the challenge before marketer, the challenge before the management is how to develop a plan for new business begins with an entrepreneur notices an opportunity. So, first step is opportunity identification to develop a new or improved the product or service.

When you have launched your product in the market you should try to do some newness or innovation in the product or services. Dettol was a well-established brand when it came. So, it was known in the segment of say the Dettol liquid and Dettol soap, but hand sanitizer concept was new in the market.

So, when it launched the hand sanitizer in the market, people it had to educate people it had to communicate with the audience communicate with the customers about that idea of hand sanitizer and how it can be useful.

So, test the feasibility of the new product, idea through SWOT analysis strength weakness opportunities and threat analysis. Examine the strength and weakness of the idea, you need to test whether what is the strength of the product and what is the weakness of the idea through that SWOT analysis. Decide whether the new product idea is feasible or not and so.

(Refer Slide Time: 07:24)



The slide has a blue header with the title 'Organizational Birth (cont.)'. Below the header, there is a bulleted list. The first bullet point is 'Developing a plan for a new business (cont.)'. Under this, there is a sub-bullet point 'Plan should include:' followed by four more bullet points: 'Statement of the organization's mission, goals, and financial objectives', 'Statement of the organization's strategic objectives', 'List of all the functional and organizational resources required to implement the idea', and 'Timeline that contains specific milestones used to measure the progress of the venture'. At the bottom of the slide, there is a dark blue footer bar containing logos on the left and the number '33' in the center.

Organizational Birth (cont.)

- Developing a plan for a new business (cont.)
 - Plan should include:
 - Statement of the organization's mission, goals, and financial objectives
 - Statement of the organization's strategic objectives
 - List of all the functional and organizational resources required to implement the idea
 - Timeline that contains specific milestones used to measure the progress of the venture

33

The plan should include statement of organizations mission goal and financial objective, statement of organizational strategic objective, list of the functional and organizational resources required to implement the idea. Time line that contains; so, it should also have the time line that should contain millstones use to measure progress of the venture.

How do we develop a business plan? Notice a product opportunity and develop a basic business idea. Goods or service customers or market conduct a SWOT analysis, identify opportunities, identify threats, strengths, weaknesses develop whether the business opportunity is feasible or not.

So, as in the case of hand sanitizer then the Dettol had to verify whether this hand sanitizer concept will work well or not. So, as people were not aware. So, they had to through various advertising campaigns through various communication strategies they had to tell or they had to explain that this is a sanitizer which will help you to or which will be useful in a place where there is water scarcity.

When there is no water you can still get your hands or make your hands clean. So, decide whether the opportunity is feasible or not whether it is viable, possible or not what is the cost benefit analysis. So, prepare a detailed business plan and state with a statement of mission, goals and financial objectives.

Statement of the strategic; that is plan of action strategic objectives and list of necessary resources. Organizational time line of events; that means, how much time would be required to develop the idea, to product develop the product and make it marketable make it available in the market. So, a complete time line need to be planned.

Population ecology model of organizational birth. So, there are several theories behind organizational birth and one such theory is population ecology theory with states that the factors that affect the rate at which new organizations are born and die in a population of existing organizations.

Population the organizations are competing for the same set of resources so; that means, there is an intense competition within a segment within a sector. So, only those organizations would strive would sustain and survive which is fit or which is strategically fit and which has offered something offered product or services which are innovative, which is strikingly different from the or which is having a distinct competitive advantage.

So, particular sets of resources or skills. So, population ecology model it emphasizes on the number of births determined by availability of resources, availability factors that produce a rapid birth rate, availability of knowledge and skills to generate similar new organizations, new organizations provide role models and confer legitimacy.

As the environment is populated with a number of successful organizations. The first mover advantage benefits derived from being an early entrant into the new environment like in the case of Bisleri, being a first entrant.

Difficulty of competing with the existing companies. The new companies find it difficult to compete with the existing companies because of their earlier existing brand names like when Reliance Jio was giving services for free to bring in more customer because the market was earlier, market was already saturated with other service providers like BSNL and the Vodafone and Airtel and so on.

So, it had to create. To create a name in that market which is which is completely saturated it is very difficult for a new entrant.

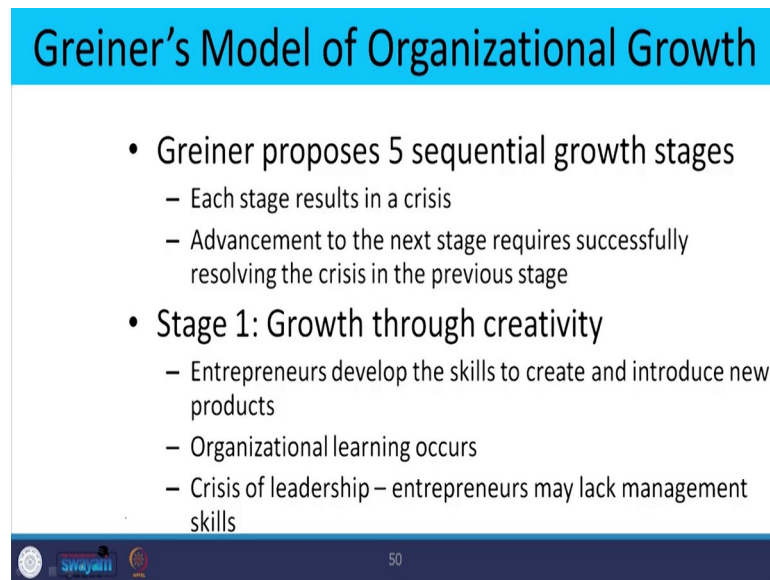
So, survival strategies. So, organization takes up different survival strategies like that that can help in gaining competitive that can cause to gain access to resources and enhance their chances of survival, then specialist and generalist strategy like organizations that concentrate their skills to perceive a narrow range of resources in a niche area, organizations that spread their skills to compete in a broad range of resources in many niches.

Then, natural selection process, the process that ensures that survival of organization can have the skills and abilities that best fit the environment. Over time weaker organizations die because they cannot adapt their procedures to fit to the change in the environment. Natural selection is a competitive process is a law of nature.

So, the survival or fittest, the company which is able to give a viable solution in a competitive market which is serving the needs of the customers which meets the or which provides value to the customers in terms of profit, in terms of its products and services would earn a competitive advantage. Organizational growth the life cycle stage in which organizations develop value creation value creation skills and competencies that allow them to acquire additional resources.

They can develop competitive advantage by increasing division of labour, by creating surplus resources that fosters greater growth, then institutional theory with states that studies how organization can increase their ability to grow and survive in a competitive environment by becoming legitimate in the eyes of the stakeholder and institutional environment means values and norms in an environment that governs the behavior of population.

(Refer Slide Time: 13:36)



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
- Stage 1: Growth through creativity
 - Entrepreneurs develop the skills to create and introduce new products
 - Organizational learning occurs
 - Crisis of leadership – entrepreneurs may lack management skills

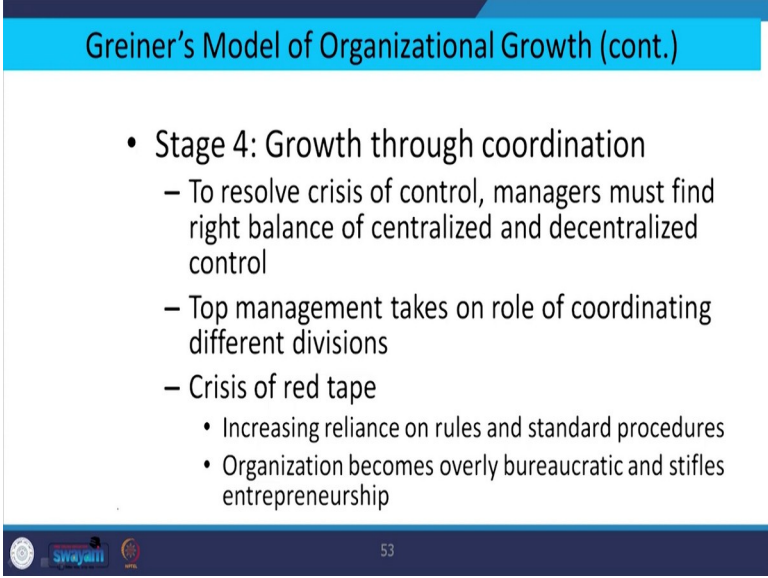
50

Then model of organizational growth. There are different stages of organizational growth five sequential growth strategies each stage results in some stage of crisis. Growth through creativity. Entrepreneurs develop the skills to create and introduce new products. Organizational learning occurs, crisis of leadership, entrepreneurs may lack management skills.

Then in the stage 2 crisis of leadership results in recruitment of top management who take on responsibility for organizations strategy then there is a crisis of autonomy; that means, creative people lose control over new product development, professional managers run the show decision making becomes centralized. Growth through delegation to solve the crisis of autonomy managers must delegate when the top managers or when the decision making becomes centralized at that time there is a crisis which occurs.

So, the organization should try to delegate power to the other managers must there must be delegation of power. To strike a balance between the need of a need for professional management and opportunity for entrepreneurship. Crisis of control is power struggle over resource emerge between top level and lower level of management.

(Refer Slide Time: 15:06)



The slide is titled "Greiner's Model of Organizational Growth (cont.)" in a blue header. It lists Stage 4: Growth through coordination with three sub-points: resolving crisis of control, top management's coordinating role, and crisis of red tape. The red tape crisis includes two sub-points: increasing reliance on rules and becoming overly bureaucratic. The slide footer contains logos for Swajathi and a page number 53.

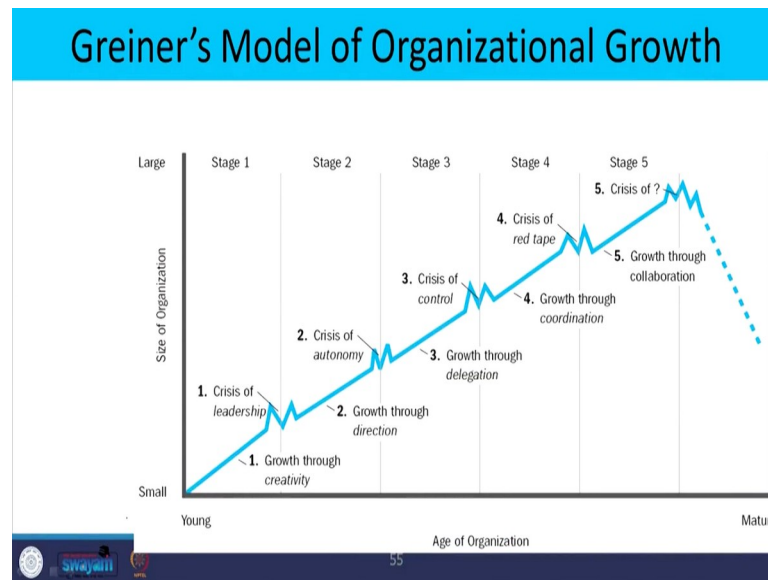
- Stage 4: Growth through coordination
 - To resolve crisis of control, managers must find right balance of centralized and decentralized control
 - Top management takes on role of coordinating different divisions
 - Crisis of red tape
 - Increasing reliance on rules and standard procedures
 - Organization becomes overly bureaucratic and stifles entrepreneurship

Growth through coordination in the next stage. Then the organization grows through coordination to resolve crisis of control and managers must find right balance of centralized and decentralization. Top management takes on role of coordinating, different divisions, crisis of red tapism, say there is an increasing reliance on rules red tapism is basically when the organization reliance too much on rules and regulations.

So, reliance on roles and regulations and standard procedure there is a highly bureaucracy the high level of bureaucracy which will again be a barrier to the growth, organization becomes overly bureaucratic and stifles the way of entrepreneurship. So, what we discuss so far is there are various stages of crisis which may emerge in each cycle of growth of an organization. It may be because of the growth through delegation, growth through direction and also it can be through in the coordination phase.

In the collaboration phase emphasizes greater spontaneity in management action, social control, self discipline takes over formal control, greater use of product team and metric structure, there is a collaboration makes use makes an organization more organic which can be difficult task.

(Refer Slide Time: 16:34)

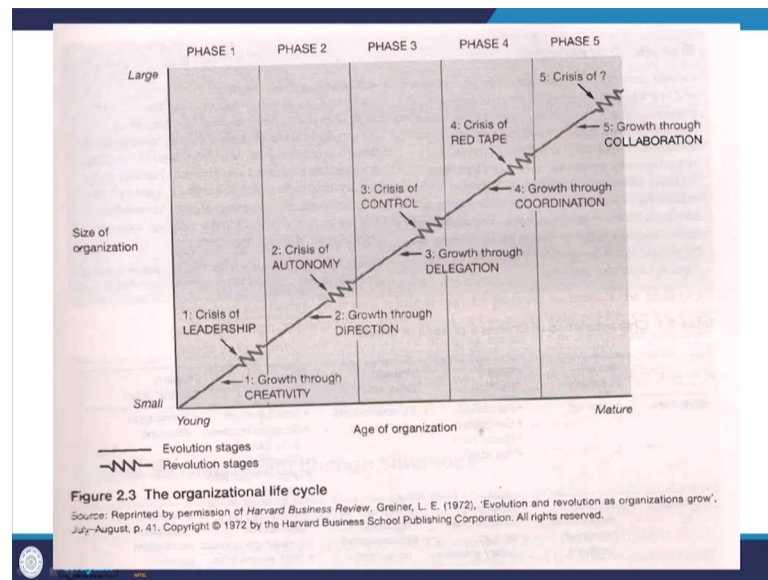


So, the overall model appears to be like when the organization is growing in the area age of organization on the x axis and if you look at the size of organization on the y axis. So, when an organization is new or new born baby. So, there are the organization is young and it is in the entrepreneurial stage.

As there is a growth through creativity, there is more openness more creativity emphasized on as it becomes larger in size. So, the leader becomes prominent, the control is exercise the and the organization is in the hands of the founder who and because of excessive control of the founder there is more centralization and there is crisis of leadership.

Further, then there emerges the need for delegation of power. And when there is delegation of power then after that stage there is a growth through delegation and then coordination there are too much of problem with the coordination and growth through collaboration.

(Refer Slide Time: 17:38)



So, there are various problems that encounter that an organization encounters in each stage, one is crisis for leadership, crisis for creativity, crisis due to autonomy, direction when there is say the organization has, delegated the power then there is there is no clear direction being provided and then there is a problem of coordination and collaboration which will lead to different phases of crisis and which need to be taken care of by organization.

So, these factors the crisis for leadership, crisis for delegation which will lead to some kind of you know inertia.

So, which will lead to organizations 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. It may occur because organizations grow too much when there is excessive growth. So, organizational decline and death is inevitable is inevitable.

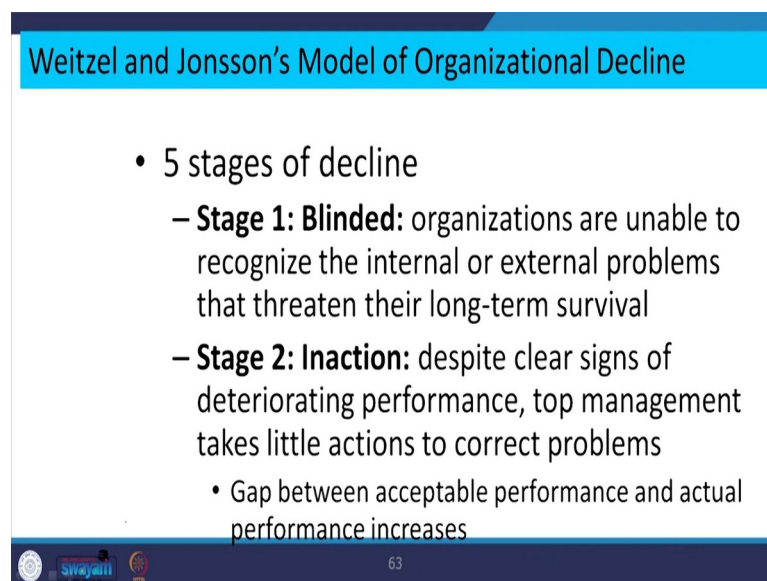
So, effectiveness and profitability accessing organizations effectiveness involves comparing its profitability relative to others, profitability measures how a well a company is making use of its resources by investing them in ways to create goods and services and then finally, or the organizational inertia, the forces inside make the organization make it resistant to change and there is risk aversion managers become unwilling to bear the uncertainty of change as the organization grows.

So, there is always a rift within the organization the desire to maximize rewards managers may increase the size of the company and they their own rewards even though when the growth reduces.

So, which reduces organizational effectiveness. Inertia could be due to bureaucratic culture that is highly bureaucratic rules regulations can also sometimes become barriers to the organizations growth. Property rights can large organizations can become so, strong that organizations the manager spend all their time protecting the special specific protecting their culture instead of working to advance for the organization.

Uncertain and changing organizations, affect organizations ability, to obtain scarce resources they are leading to decline and there by leading to decline. Make it difficult for top management to anticipate the need for change and to manage the way organizations change and adapt to environment. There are five stages in the decline process that is blinded, inaction, faulty action, crisis and dissolution.

(Refer Slide Time: 20:33)



The slide is titled "Weitzel and Jonsson's Model of Organizational Decline" in a blue header. It lists five stages of decline in a bulleted format. The first stage, "Blinded", describes organizations unable to recognize internal or external problems. The second stage, "Inaction", describes organizations ignoring clear signs of deteriorating performance. A sub-bullet under "Inaction" mentions a growing gap between acceptable and actual performance. The slide footer includes a logo, the name "Sydney", and the number "63".

- 5 stages of decline
 - **Stage 1: Blinded:** organizations are unable to recognize the internal or external problems that threaten their long-term survival
 - **Stage 2: Inaction:** despite clear signs of deteriorating performance, top management takes little actions to correct problems
 - Gap between acceptable performance and actual performance increases

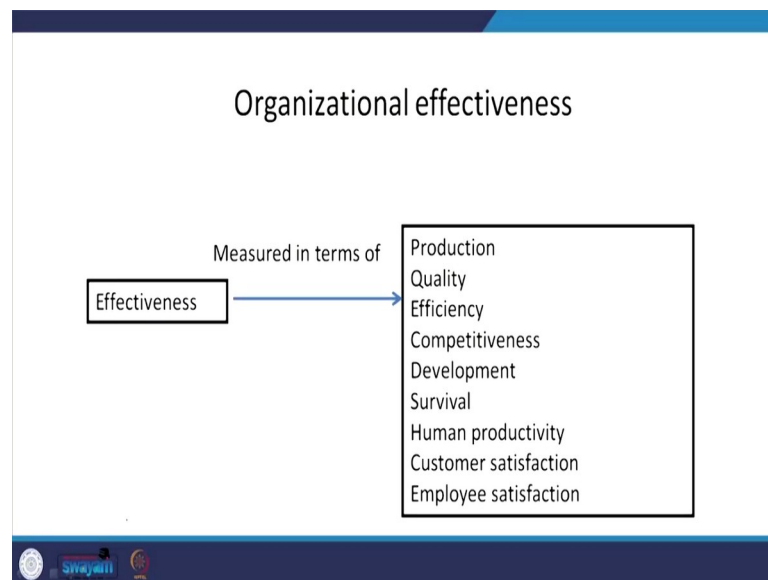
And these five stages are basically the blinded stages organizations are not able to recognize the internal or external problems. Inaction means; despite clear signs of deteriorating performance, top management takes little action and ignores the problems the signals and does not take any corrective action and faulty actions are managers may have made wrong decisions and because of the infighting within the top management

team or because of group decision making failures, the organization may have may not have made right decision corrective decision.

So, some faulty actions are being taken and crisis by the time the stage has arrived only radical changes in the strategy and structure can stop the decline. So, crisis is of phase where the organization must change completely or radically or transform from one status quo to a different status quo. Dissolution decline is irreversible and the organization cannot recover.

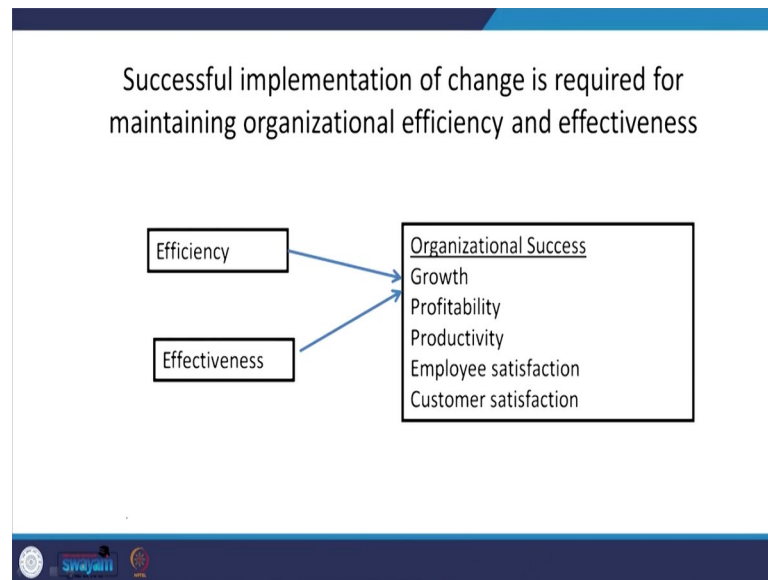
So, last stage is where the organization is not able to do anything and they have to meet the organization has to meet its ultimate destiny.

(Refer Slide Time: 21:58)



So, what we have understood is, effectiveness is measured in terms of product production, quality, efficiency, competitiveness, development, survival then customer satisfaction, employee satisfaction.

(Refer Slide Time: 22:27)



So, successful implementation of change is required for managing organizational efficiency and effectiveness both efficiency and effectiveness can lead to organizational growth. Profitability, productivity, employee satisfaction, customer satisfaction or otherwise it is called organizational success.

So, what we have learnt is an organization faces different stages of crisis right from its birth to death. The first stage is called the initial stage of when an organization is just growing it is a growth stage, then the first stage is birth, growth, decline and death. So, in the birth stage, there are some teething problems the organization is new in the environment, it does not have a brand name.

So, there the effort of manager, manager or the organization or the management has to give emphasis on creating an impact in the market with value creation ability by leveraging on the strengths or core competitive or core competence in order to create competitive advantage.

Once the organization has established itself in the market that is in the growth phase the organization is picking up its or is gaining recognition and it is recognized amongst the peer group or in the in the in that industry or the sector with its with new products and services, with the value it has provided to the customers and when it reaches the maturity stage, in the maturity stage the challenges are again many because the product is well

established and there are competitors which have offered innovative services innovative solutions.

So, if an organization does not change in each of the stage, it will not it will not be able to again sustain and survive. So, in each stage there is a need there is some kind of internal or external crisis which an organization encounters. So, some somewhere it is facing problems of problem of growth through direction, the problems of creativity growth like there is a problem of leadership issue or delegation or maybe the coordination issue or collaboration.

So, it has to manage effectively each and every stage each and every challenge, in such a manner that overall the organization effectively and efficiently functions.

Thank you.