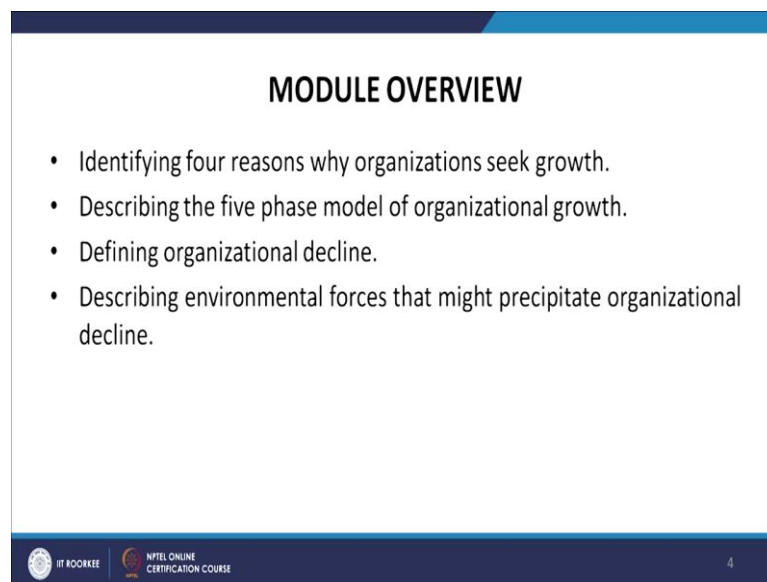


**Organization Theory/Structure and Design**  
**Prof. Zillur Rahman**  
**Department of Management Studies**  
**Indian Institute of Technology, Roorkee**

**Lecture - 39**  
**Managing Organizational Evolution - I**

Welcome to module 39 on this course on Organization Theory Structure and Design. In these two last modules, that is module 39 and 40, we will be talking about Managing Organizational Evolution. Now let us see, what are the things that we will talk about in this module 39. So, we will start with identifying 4 reasons why organizations seek growth, describe the 5 phase model of organizational growth,

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A presentation slide titled 'MODULE OVERVIEW' with a blue header and footer. The slide lists four bullet points: 'Identifying four reasons why organizations seek growth.', 'Describing the five phase model of organizational growth.', 'Defining organizational decline.', and 'Describing environmental forces that might precipitate organizational decline.' The footer contains the IIT Roorkee logo, the text 'IIT ROORKEE', the NPTEL logo, the text 'NPTEL ONLINE CERTIFICATION COURSE', and the number '4'.

**MODULE OVERVIEW**

- Identifying four reasons why organizations seek growth.
- Describing the five phase model of organizational growth.
- Defining organizational decline.
- Describing environmental forces that might precipitate organizational decline.

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Then, we will define organizational decline and thereafter we will describe environmental forces that might precipitate organizational decline.

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**INTRODUCTION**

**The decline of Western Union**

- For many generations of Americans, word of momentous personal events like marriages, births, and deaths arrived first by Western Union telegram.
- Founded in 1856, Western Union's management made its first, and maybe most catastrophic, strategic error in the late nineteenth century.
- By refusing to buy Alexander Graham Bell's telephone patents and letting a shaky start-up firm, which was to become the American Telephone & Telegraph Co., get monopoly control of the fledgling telephone business.

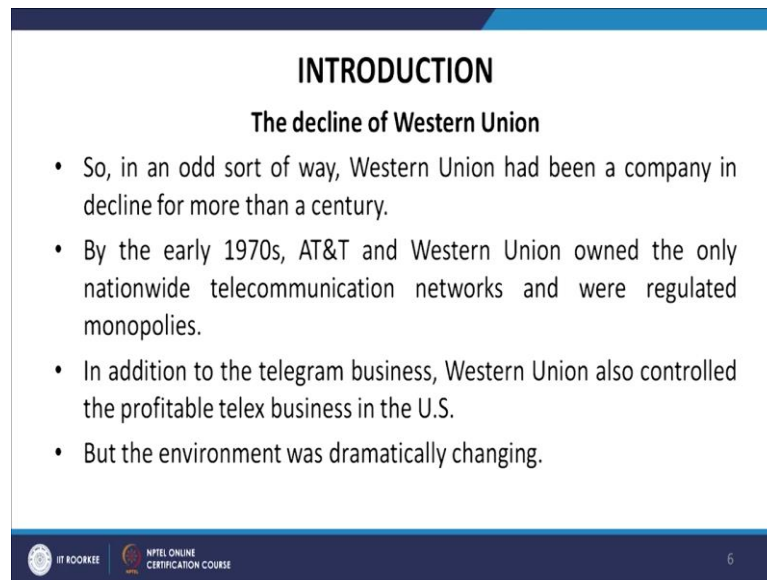
IIT ROORKEE NPTEL ONLINE CERTIFICATION COURSE 5

Now to start with, let us look at this example, the decline of Western Union. For many generations of Americans, word of momentous personal events like marriages, births, deaths, arrived first by Western Union telegram. Founded in 1856, Western Union's management made its first and maybe most catastrophic, strategic error in the late 19th century.

By refusing to buy Alexander Graham bell's telephone patents and letting a shaky startup firm, which was to become the American Telephone and Telegraph company, get monopoly control of the fledgling telephone business. So, in an odd sort of way Western Union had become a company in decline for more than a century.

By the early 1970s AT and T and Western Union owned the only nationwide telecommunication networks and were regulated monopolies.

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**INTRODUCTION**

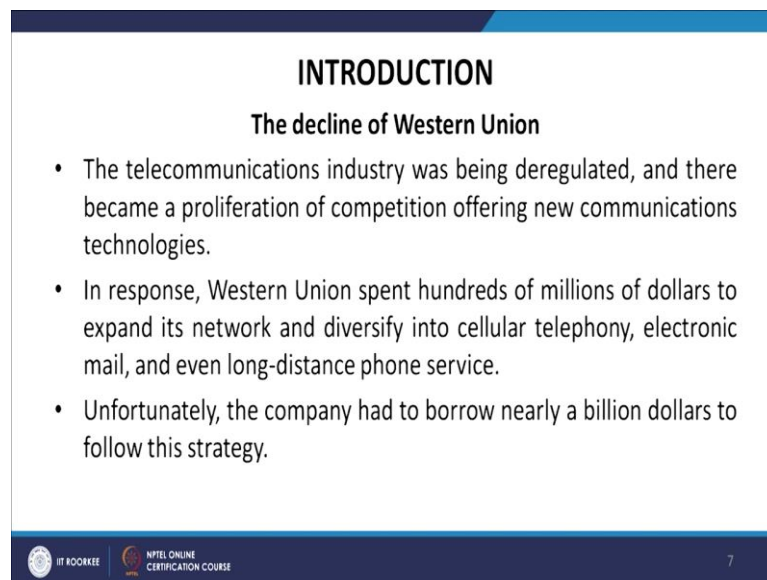
**The decline of Western Union**

- So, in an odd sort of way, Western Union had been a company in decline for more than a century.
- By the early 1970s, AT&T and Western Union owned the only nationwide telecommunication networks and were regulated monopolies.
- In addition to the telegram business, Western Union also controlled the profitable telex business in the U.S.
- But the environment was dramatically changing.

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In addition to the telegram business, Western Union also controlled the profitable telex business in the US. But the environment was dramatically changing.

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**INTRODUCTION**

**The decline of Western Union**

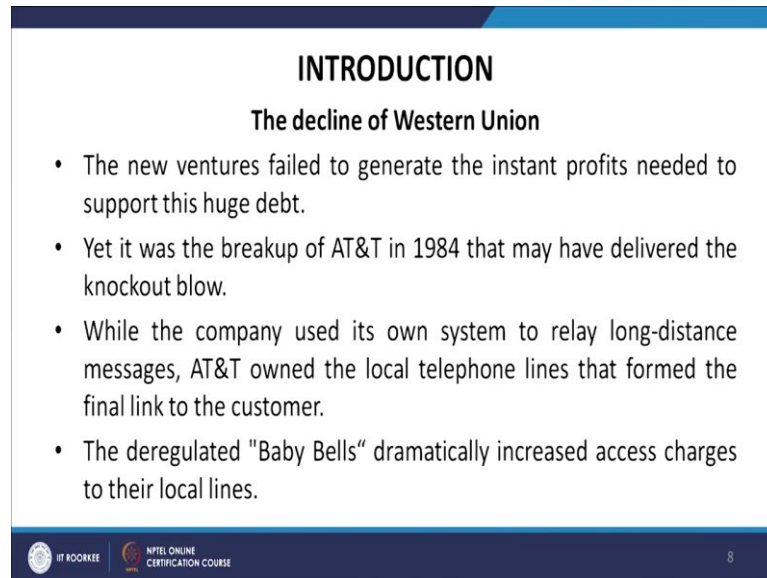
- The telecommunications industry was being deregulated, and there became a proliferation of competition offering new communications technologies.
- In response, Western Union spent hundreds of millions of dollars to expand its network and diversify into cellular telephony, electronic mail, and even long-distance phone service.
- Unfortunately, the company had to borrow nearly a billion dollars to follow this strategy.

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The telecommunication industry was being deregulated, and there became a proliferation of competition offering new communication technologies. In response western union spent hundreds of millions of dollars to expand its network and diversify into cellular telephony, electronic mail, and even long-distance phone service.

Unfortunately, the company had to borrow nearly a billion dollar to follow up this strategy. The new ventures failed to generate the instant profits needed to support this huge debt. Yet it was the breakup of AT and Ts in 1984 that may have delivered the knockout blow. While the company used its own system to relay long-distance messages, AT and T owned the local telephone lines that formed the final link to the customer.

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**INTRODUCTION**

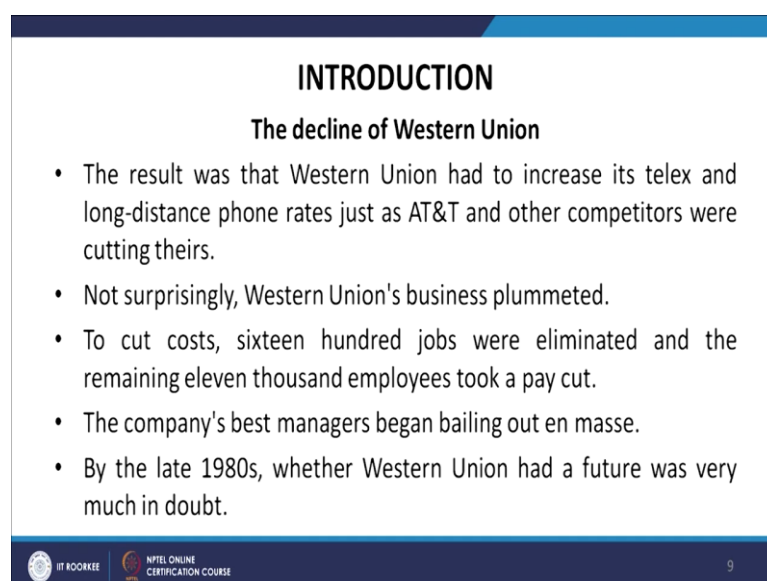
**The decline of Western Union**

- The new ventures failed to generate the instant profits needed to support this huge debt.
- Yet it was the breakup of AT&T in 1984 that may have delivered the knockout blow.
- While the company used its own system to relay long-distance messages, AT&T owned the local telephone lines that formed the final link to the customer.
- The deregulated "Baby Bells" dramatically increased access charges to their local lines.

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The deregulated "Baby Bells" dramatically increased access charges to their local lines.

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**INTRODUCTION**

**The decline of Western Union**

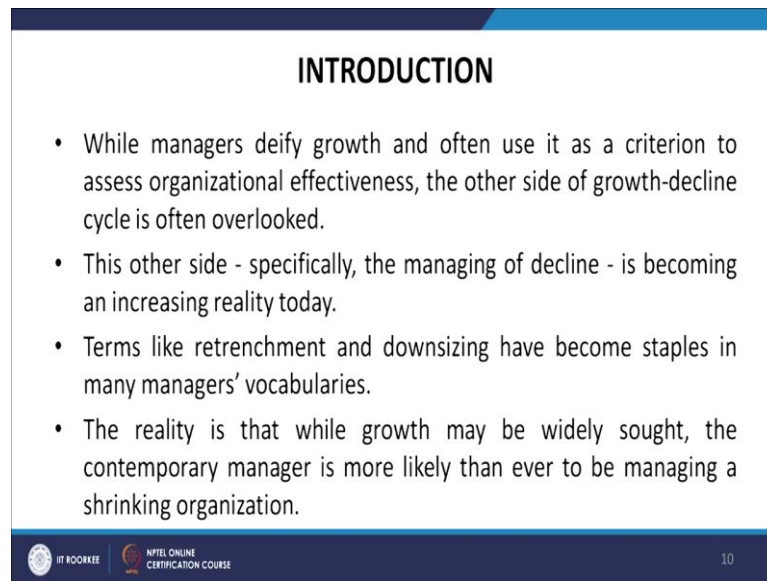
- The result was that Western Union had to increase its telex and long-distance phone rates just as AT&T and other competitors were cutting theirs.
- Not surprisingly, Western Union's business plummeted.
- To cut costs, sixteen hundred jobs were eliminated and the remaining eleven thousand employees took a pay cut.
- The company's best managers began bailing out en masse.
- By the late 1980s, whether Western Union had a future was very much in doubt.

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The result was that Western Union had to increase its telex and long-distance phone rates just as AT and T and other competitors were cutting theirs. Not surprisingly, Western Union's business plummeted. To cut costs, sixteen hundred jobs were eliminated and the remaining eleven thousand employees took a pay cut.

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### INTRODUCTION

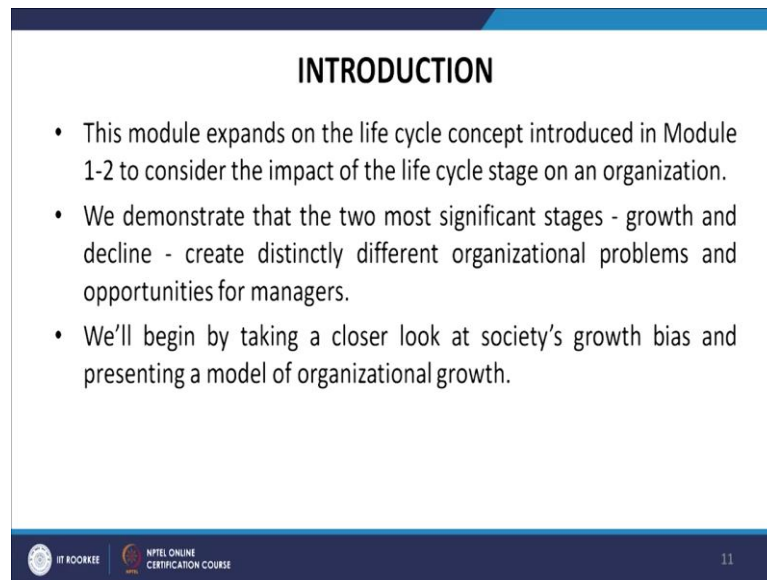
- While managers deify growth and often use it as a criterion to assess organizational effectiveness, the other side of growth-decline cycle is often overlooked.
- This other side - specifically, the managing of decline - is becoming an increasing reality today.
- Terms like retrenchment and downsizing have become staples in many managers' vocabularies.
- The reality is that while growth may be widely sought, the contemporary manager is more likely than ever to be managing a shrinking organization.

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So, while managers deify growth and often use it as a criterion to assess organizational effectiveness, the other side of growth- decline cycle is often overlooked. The other side- specifically, the managing of decline is becoming an increasing reality today. Terms like, retrenchment and downsizing have become staples in many managers' vocabularies.

The reality is that while growth may be widely sought, the contemporary manager is more likely than ever to be managing a shrinking organization.

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**INTRODUCTION**

- This module expands on the life cycle concept introduced in Module 1-2 to consider the impact of the life cycle stage on an organization.
- We demonstrate that the two most significant stages - growth and decline - create distinctly different organizational problems and opportunities for managers.
- We'll begin by taking a closer look at society's growth bias and presenting a model of organizational growth.

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This module expands on the lifecycle concept introduced in module 1 and 2 to consider the impact of the lifecycle stage on an organization. We demonstrate that the two most significant stages- growth and decline- create distinctly different organizational problems and opportunities for managers. We will begin by taking a closer look at society's growth biases and presenting a model of organizational growth.

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**MANAGING GROWTH**  
**OUR VALUES FAVOUR GROWTH**

- Traditional values include optimism about the future. In India, any young person can grow up to be president.
- You can become rich and successful regardless of the economic status of your family.
- Parents expect that their children will have more of "the good life" than they had.
- These notions, while under some attack in the last decade, are relatively accurate descriptions of our fundamental confidence that the future will be better than the present.

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Now, let us start talking about managing growth; our values favor growth. Traditional values include optimism about the future. In India, any young person can grow up to be

president. You can become rich and successful regardless of the economic status of your family; parents expect that their children will have more of “the good life” than they had.

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**MANAGING GROWTH**  
**OUR VALUES FAVOUR GROWTH**

- These optimistic values have permeated our ideas on organizations.
- Managers and researchers alike have allowed the goal of growth to become a means to express this confidence in an organizational context.
- Growth came to represent a way to make tomorrow's organizations better than today's.

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These optimistic values have permeated our ideas on organizations. Managers and researchers alike have allowed the goal of growth to become a means to express this confidence in an organizational context. Growth came to represent a way to make tomorrow's organizations better than today's.

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**MANAGING GROWTH**  
**OUR VALUES FAVOUR GROWTH**

**Bigger Is Better**

- One of the strong forces for growth has been the "bigger is better" notion.
- Large organizations were desirable, as were large cars and large homes.
- But large size, when applied to organizations, could also be justified in economic terms.
- Growth was desirable because with increases in size came economies of scale.

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Now, we will talk about, Bigger is Better. One of the strong forces for growth has been the “bigger is better” notion. Large organizations were desirable, as were large cars and large homes, but large size, when applied to organizations, could also be justified in economic terms. Growth was desirable because with increase in size, came economies of scale.

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**MANAGING GROWTH**  
**OUR VALUES FAVOUR GROWTH**

**Bigger Is Better**

- Bigger, in fact, was frequently more efficient.
- The bigger is better notion, it should be pointed out, still dominates the securities markets.
- Growth rates continue to be a primary determinant of a stock's value.
- Stocks that show compounded sales growth rates of 20 percent and higher year after year become the darlings of Dalal Street.

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Bigger, in fact, was frequently more efficient. The bigger is better notion; it should be pointed out, still dominates the securities markets. Growth rates continue to be a primary



determinant of a stock's value. Stocks that show compounded sales growth rates of 20 percent and higher year after year become the darlings of Dalal Street.

They frequently carry price-earnings ratios of thirty, forty, or higher. However, let that growth curve flatten, and the stock prices can be expected to dive.

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**MANAGING GROWTH**  
**OUR VALUES FAVOUR GROWTH**

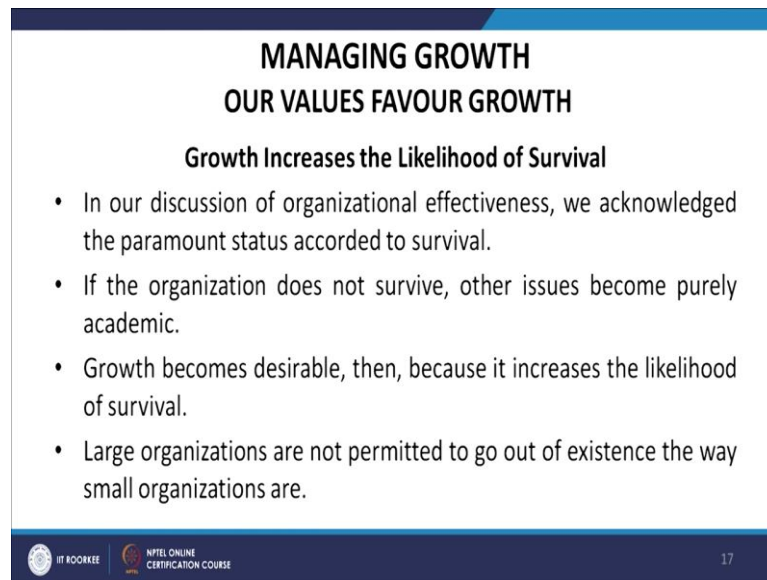
**Bigger Is Better**

- They frequently carry price-earnings ratios of thirty, forty, or higher.
- However, let that growth curve flatten, and the stock's price can be expected to dive.
- Why does this happen? Growth serves as an indicator of an organization's fitness for the future.
- Since an optimistic future influences the extent to which the organization can obtain continued or increased support from its specific environment, managers are motivated to seek growth.

IT ROOKIEE | NPTEL ONLINE CERTIFICATION COURSE | 16

Why does this happen? Growth serves as an indicator of an organization's fitness for the future. Since an optimistic future influences the extent to which the organization can obtain continued or increased support from its specific environment, managers are motivated to seek growth.

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**MANAGING GROWTH**  
**OUR VALUES FAVOUR GROWTH**

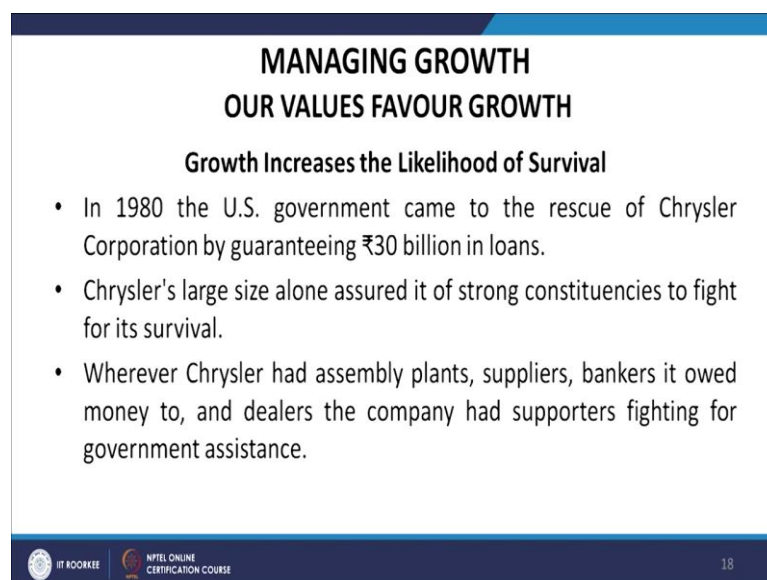
**Growth Increases the Likelihood of Survival**

- In our discussion of organizational effectiveness, we acknowledged the paramount status accorded to survival.
- If the organization does not survive, other issues become purely academic.
- Growth becomes desirable, then, because it increases the likelihood of survival.
- Large organizations are not permitted to go out of existence the way small organizations are.

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Another issue is growth increases the likelihood of survival in our discussion of organizational effectiveness, we acknowledged the paramount status accorded to survival. If the organization does not survive, issues become purely academic. Growth becomes desirable, then, because it increases the likelihood of survival. Large organizations are not permitted to go out of existence the way small organizations are.

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**MANAGING GROWTH**  
**OUR VALUES FAVOUR GROWTH**

**Growth Increases the Likelihood of Survival**

- In 1980 the U.S. government came to the rescue of Chrysler Corporation by guaranteeing ₹30 billion in loans.
- Chrysler's large size alone assured it of strong constituencies to fight for its survival.
- Wherever Chrysler had assembly plants, suppliers, bankers it owed money to, and dealers the company had supporters fighting for government assistance.

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In 1980, the US government came to the rescue of Chrysler Corporation by guaranteeing rupees 30 billion in loans. Chrysler's large size alone assured it of strong constituencies to fight for its survival.

However, Chrysler had assembly plants, suppliers, bankers, it owned money to, and dealers the company had supporters fighting for government assistance. Your community kirana store or drycleaners, should it face financial difficulties, certainly does not attract that kind of support.

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**MANAGING GROWTH**  
**OUR VALUES FAVOUR GROWTH**

**Growth Increases the Likelihood of Survival**

- Your community kirana store or drycleaners, should it face financial difficulties, certainly does not attract that kind of support.
- This same logic, of course, holds for hospitals, colleges, and government agencies.
- In addition to providing a large constituency, growth facilitates survival by providing more resources with which the organization can buffer itself against uncertainty.

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The same logic, of course, holds for hospitals, colleges, and government agencies. In addition to providing a large constituency, growth facilitates survival by providing more resources with which the organization can buffer itself against uncertainties.

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**MANAGING GROWTH**  
**OUR VALUES FAVOUR GROWTH**

**Growth Increases the Likelihood of Survival**

- Larger organizations can make errors and live to talk about them.
- Reliance (\$92 billion revenue), for instance, has a greater margin for error than does newer organization like Zomato (\$210 million revenue).
- A \$200 million mistake at Reliance is an annoyance. The same mistake at Zomato would be a catastrophe.
- Similarly, more resources provide a buffer in times of setbacks.

IT ROORKEE | NPTEL ONLINE CERTIFICATION COURSE 20

Large organizations can make errors and live to talk about them. Reliance that is dollar 92 billion revenue, for instance, has a greater margin for error than does new newer organizations like Zomato, that is, dollar 210 million revenue. Dollar 200 million mistake at reliance is an annoyance. The same mistake at Zomato would be catastrophic.

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**MANAGING GROWTH**  
**OUR VALUES FAVOUR GROWTH**

**Growth Increases the Likelihood of Survival**

- Growing organizations have slack resources that can be cut more easily than do small or stable organizations.
- The growing organization that has to reduce its budget by 10 percent can often cut fat without threatening its survival.
- The stagnant organization is often forced to cut bone.
- Cosmetic surgery in the first case becomes life-threatening major surgery in the second.

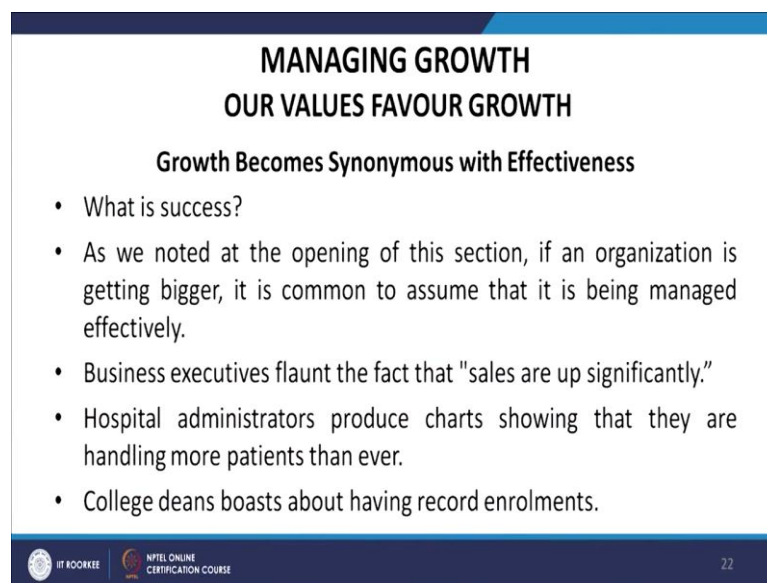
IT ROORKEE | NPTEL ONLINE CERTIFICATION COURSE 21

Similarly, more resources provide a buffer in times of setbacks. Growing organizations have slack resources that can be cut more easily than do small or stable organizations.

The growing organization that has to reduce its budget by 10 percent can often cut fat without threatening its survival.

The stagnant organization is often forced to cut bone. Cosmetic surgery in the first case becomes life threatening, major surgery in the second. Then this growth becomes synonymous with effectiveness. What is success? As we noted in the opening of this section, if an organization is getting bigger, it is common to assume that it is being managed effectively.

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**MANAGING GROWTH**  
**OUR VALUES FAVOUR GROWTH**

**Growth Becomes Synonymous with Effectiveness**

- What is success?
- As we noted at the opening of this section, if an organization is getting bigger, it is common to assume that it is being managed effectively.
- Business executives flaunt the fact that "sales are up significantly."
- Hospital administrators produce charts showing that they are handling more patients than ever.
- College deans boasts about having record enrolments.

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Business executives flaunt the fact that “sales are up significantly”. Hospital administrators produce charts showing that they are handling more patients than ever. College deans boast about having record enrollments. As one business dean remarked, “We must be doing something right.

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**MANAGING GROWTH**  
**OUR VALUES FAVOUR GROWTH**

**Growth Becomes Synonymous with Effectiveness**

- As one business dean remarked, "We must be doing something right. Our enrolments are up more than 15 percent for the fourth year in a row."
- These examples all illustrate how organizations, rightly or wrongly, use growth as a synonym for effectiveness.
- If those in the specific environment on whom the organization depends for continued support also equate growth with effectiveness, managers will obviously be predisposed to the values of growth.

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Our enrollment are up more than 15 percent for the fourth year in a row". These examples all illustrate how organizations, rightly or wrongly, use growth as a synonym for effectiveness. If those in the specific environment on whom the organization depends for continued support also equates growth with effectiveness, managers will obviously be predisposed to the values of growth.

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**MANAGING GROWTH**  
**OUR VALUES FAVOUR GROWTH**

**Growth Becomes Synonymous with Effectiveness**

- The interlacing of growth and effectiveness is seen explicitly in the systems concept, which we discussed in Module 1-2.
- If you remember, organizations were described as open systems.
- In this context, organizations are analogous to living organisms, maintaining themselves by acquiring inputs from, and disposing of their output to, the environment.
- The systems approach favours growth.

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The interlacing of growth and effectiveness is seen explicitly in the systems concept, which we discussed in module 1 and 2. If you remember, organizations were described

as open systems. In this context, organizations are analogous to living organisms, maintaining themselves by acquiring inputs from, and disposing of their outputs to, the environment.

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**MANAGING GROWTH**  
**OUR VALUES FAVOUR GROWTH**

**Growth Becomes Synonymous with Effectiveness**

- Growth is sought because it connotes youth and vitality. Growth is evidence that the organization is in good health.
- And expansion, again consistent with the systems perspective, increases the likelihood that the organization will survive.

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The systems approach favors growth. Growth is sought because it connotes youth and vitality. Growth is evidence that the organization is in good health. And expansion, again consistent with the systems perspective, increases the likelihood that the organization will survive.

Now, another point in favor of growth is, growth is power. The argument that growth: can be consistent with economies of scale, can be used by specific environment to assess the organization's effectiveness,

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**MANAGING GROWTH**  
**OUR VALUES FAVOUR GROWTH**

**Growth Is Power**

- The arguments that growth:
  - can be consistent with economies of scale,
  - can be used by the specific environment to assess the organization's effectiveness, and
  - can increase the likelihood of survivalare all economically rational explanations for the pro-growth bias.
- Now we want to present a political argument in favour of growth.

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and can increase the likelihood of survival are all economically rational explanations for the pro growth bias. Now, we want to present a political argument in favor of growth.

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**MANAGING GROWTH**  
**OUR VALUES FAVOUR GROWTH**

**Growth Is Power**

- Growth is almost always consistent with the self-interest of the top management in the organization.
- It increases prestige, power, and job security for this group.
- It should certainly be of more than passing interest to know that growth is undoubtedly linked to executive compensation.
- The evidence indicates that profit rates generally increase in business firms until the organization achieves a reasonably moderate size. Then the profit rate remains stable or declines.

IT ROORKEE NPTEL ONLINE CERTIFICATION COURSE 27

Growth is almost always consistent with the self-interest of the top management in the organization. It increases prestige, power, and job security for this group. It should certainly be of more than passing interest to know that growth is undoubtedly linked to executive compensation.



The evidence indicates that profit rates generally increase in business firm until the organization achieves a reasonably moderate size. Then the profit rate remains stable or decline. As we learnt in the earlier modules, size, specifically large size does not necessarily generate economies.

The cost of coordination can exceed the benefits from economies of scale. This is what is relevant from the power control perspective, executive salaries are related to size. Size in fact, is a better predictor of executive salaries than is profit margin.

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**MANAGING GROWTH**  
**OUR VALUES FAVOUR GROWTH**

**Growth Is Power**

- As a case in point, a survey found that the heads of *Fortune* 100 companies made more than twice that of their counterparts at companies ranked in *Fortune*'s 401-500 category.
- Should we not expect, therefore, top business executives to be motivated toward expanding their firms?
- Growth also provides an organization more power relative to other organizations and groups in its environment. Larger organizations have more influence with suppliers, unions, large customers, government, and the like.

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As a case in point, a survey found that the heads of fortune 100 companies made more than twice that of their counterparts at companies ranked in fortune's 401 to 500 category.

Should we not expect, therefore, top business executives to be motivated towards expanding their firms? Growth also provides an organization more power relative to other organizations and groups in its environment. Large organizations have more influence with suppliers, unions, large customers, governments, and the like.

So, this leads us to the obvious conclusion that growth is not a chance occurrence. It is a result of conscious managerial decisions. Growth typically provides both economic benefits to the organization and the political benefits to the organization's executive decision makers.

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## MANAGING GROWTH

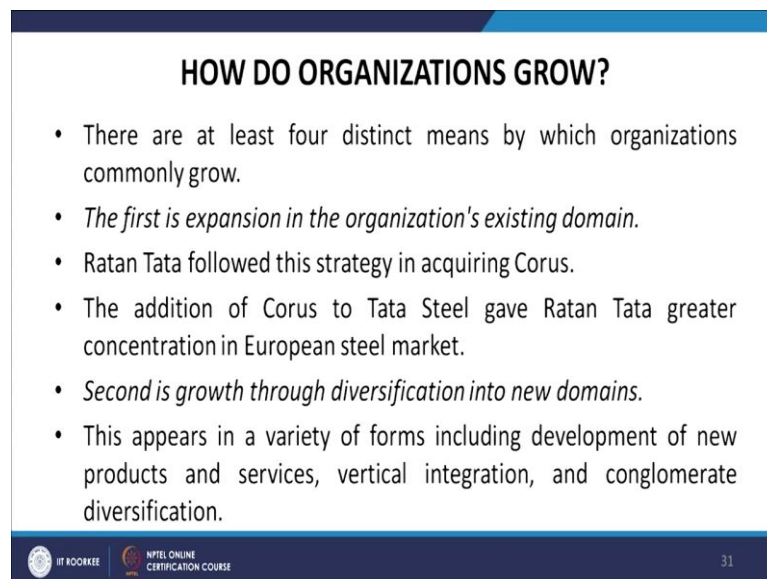
### OUR VALUES FAVOUR GROWTH

- This leads us to the obvious conclusion that growth is not a chance occurrence.
- It is the result of conscious managerial decisions.
- Growth typically provides both economic benefits to the organization and political benefits to the organization's executive decision makers.
- As such, strong forces are continually encouraging organizations to grow and expand.

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As such, strong forces are continually encouraging organizations to grow and expand.

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## HOW DO ORGANIZATIONS GROW?

- There are at least four distinct means by which organizations commonly grow.
- *The first is expansion in the organization's existing domain.*
- Ratan Tata followed this strategy in acquiring Corus.
- The addition of Corus to Tata Steel gave Ratan Tata greater concentration in European steel market.
- *Second is growth through diversification into new domains.*
- This appears in a variety of forms including development of new products and services, vertical integration, and conglomerate diversification.

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Now, we will address this question: how do organizations grow? There are at least four distinct means by which organizations commonly grow. The first is expansion in the organization's existing domain. Ratan Tata followed this strategy in acquiring Corus. The addition of Corus to Tata Steel gave Ratan Tata greater concentration in the European steel market.

The second is growth through diversification into new domains. This appears in a variety of forms including development of new products and services, vertical integration, and conglomerate diversification. Reliance, which owns such operations as Reliance Communications, Reliance Power, and Reliance Fresh, use this strategy.

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**HOW DO ORGANIZATIONS GROW?**

- Reliance which owns such operations as Reliance Communications, Reliance Power, and Reliance Fresh, uses this strategy.
- So did Western India Vegetable Products Limited a few decades ago, when it diversified from consumer goods to information technology.
- *Third is growth through technological development.*
- Most large universities, for example, use increased class size as a means to expand.
- Federal Express has been able to expand rapidly by using computer technology to precisely track packages from receipt to delivery.

IT ROOKIEE NPTEL ONLINE CERTIFICATION COURSE 32

So, did western India Vegetable Products Limited a few decades ago, when it diversified from consumer goods to information technology. Third is the growth through technological development. Most large universities, for example, use increased class size as a means to expand. Federal Express has been able to expand rapidly by using computer technology to precisely track packages from receipt to delivery.

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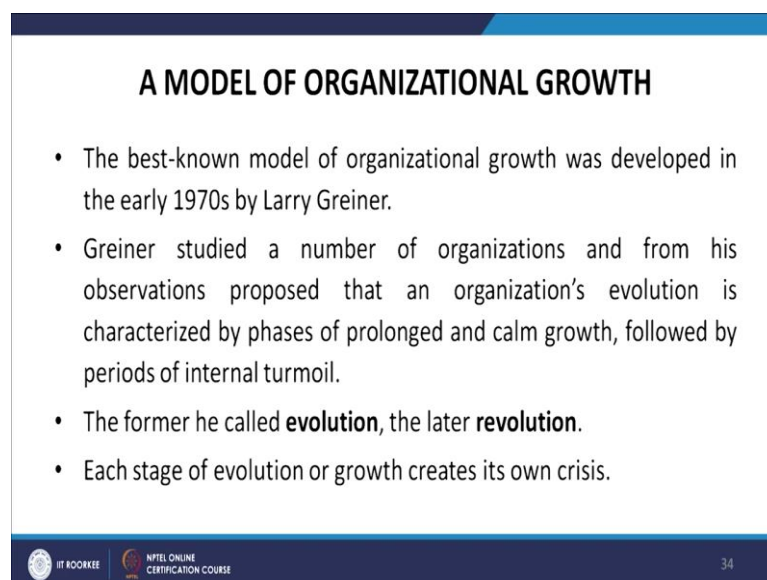
### HOW DO ORGANIZATIONS GROW?

- *Fourth is growth through improved managerial techniques.*
- This strategy seeks to increase the efficiency of the management process.
- Infosys is a good illustration of a firm that has developed a large cadre of outstanding managers, which, in turn, has provided the impetus for growth of the firm.

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Fourth is the growth through improved managerial techniques. This strategy seeks to increase the efficiency of the management process. Infosys is a good illustration of a firm that has developed a large cadre of outstanding managers, which, in turn has provided the impetus for growth of the firm. Now, we will look at a model of organizational growth.

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### A MODEL OF ORGANIZATIONAL GROWTH

- The best-known model of organizational growth was developed in the early 1970s by Larry Greiner.
- Greiner studied a number of organizations and from his observations proposed that an organization's evolution is characterized by phases of prolonged and calm growth, followed by periods of internal turmoil.
- The former he called **evolution**, the later **revolution**.
- Each stage of evolution or growth creates its own crisis.

IIT ROORKEE NPTEL ONLINE CERTIFICATION COURSE 34

The best-known model of organizational growth was developed in the early 1970s by Larry Greiner. Greiner studied a number of organizations and from his observations

proposed that an organization's evolution is characterized by phases of prolonged and calm growth, followed by periods of internal turmoil.

The former is called evolution, and the latter is called revolution. Each stage of evolution or growth creates its own crisis.

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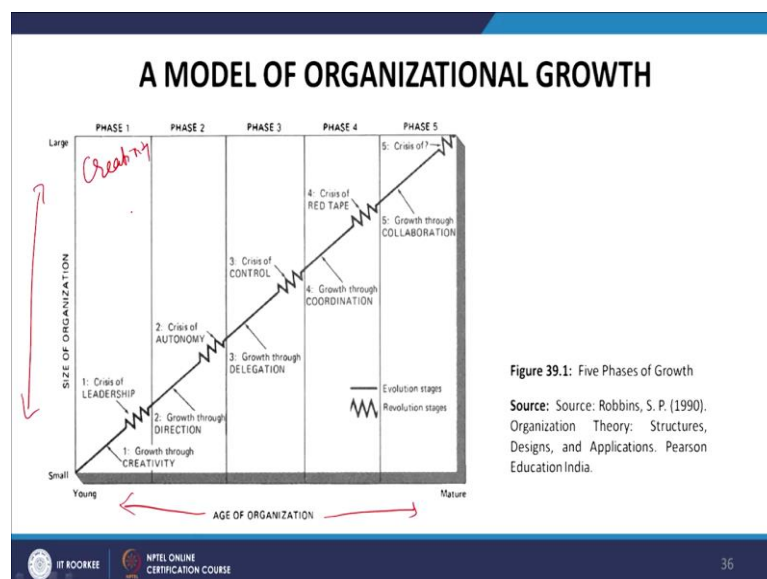
### A MODEL OF ORGANIZATIONAL GROWTH

- The resolution of the crisis, however, initiates a new evolutionary phase.
- This evolution crisis evolution process creates the five-phase model shown in Figure 39.1 (next slide).

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The resolution of the crisis, however, initiates a new evolutionary phase. This evolution crisis evolution process creates the five-phase model shown in figure 39.1 on the next slide.

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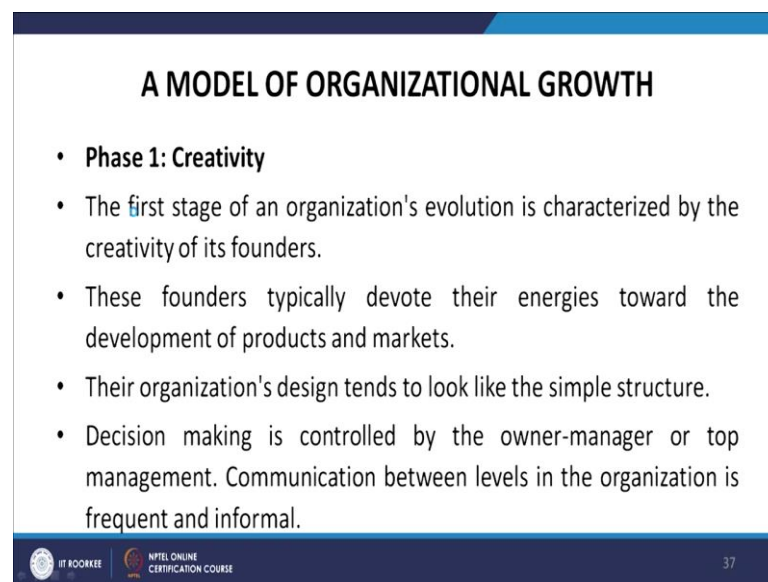


So, this is the 5 phases of growth as shown in figure 39.1. So, on this x axis we have the age of the organization and it moves from being young to mature, and on the y axis we have the size of organization: large and small. So, now as you see that, a young organization is small or a small organization maybe young and then it moves on and then there are the spikes.

So, the growth through creativity is then followed through crisis of leadership. Then comes growth through direction and crisis of autonomy. Then as we move on to the phase 3, the growth there is growth through delegation and it is followed by crisis of control. In phase 4 comes this straight line represents growth through coordination, while again there are spikes which denote crisis of red tape.

Then in the 5th phase, there is growth through collaboration and then again there comes crisis. So, these straight lines they are evolution stages and the spikes they are revolution stages. So, evolution and revolution they keep on coming and going. So, let us look at the phase 1, that is creativity.

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### A MODEL OF ORGANIZATIONAL GROWTH

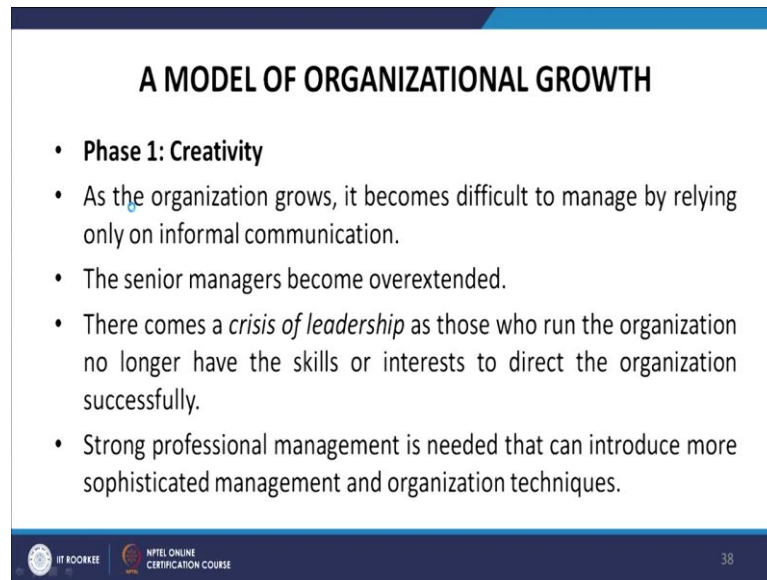
- **Phase 1: Creativity**
- The first stage of an organization's evolution is characterized by the creativity of its founders.
- These founders typically devote their energies toward the development of products and markets.
- Their organization's design tends to look like the simple structure.
- Decision making is controlled by the owner-manager or top management. Communication between levels in the organization is frequent and informal.

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The first stage of an organization's evolution is characterized by the creativity of its founders. These founders typically devote their energies towards the development of products and markets.

Their organization's design tends to look like the simple structure. Decision making is controlled by the owner-manager or top management. Communication between levels in the organization is frequent and informal.

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### A MODEL OF ORGANIZATIONAL GROWTH

- **Phase 1: Creativity**
- As the organization grows, it becomes difficult to manage by relying only on informal communication.
- The senior managers become overextended.
- There comes a *crisis of leadership* as those who run the organization no longer have the skills or interests to direct the organization successfully.
- Strong professional management is needed that can introduce more sophisticated management and organization techniques.

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As the organization grows, it becomes difficult to manage by relying only on the informal communication. The senior managers become overextended. There comes a crisis of leadership as those who run the organization no longer have the skills or interests to direct the organization successfully. Strong professional management is needed that can introduce more sophisticated management and organizational techniques.

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**A MODEL OF ORGANIZATIONAL GROWTH**

- **Phase 2: Direction**
- If the leadership crisis is resolved, strong leadership will have been acquired.
- This new leadership will formalize communication and put accounting, budget, inventory, and other systems into place.
- The organization's design will become increasingly bureaucratic.
- Specialization will be introduced, as will a functional structure, so as to separate production and marketing activities.
- This new direction, however, will create a crisis of its own making.

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The 2nd phase that is followed by creativity is direction. If the leadership crisis is resolved, strong leadership will have been acquired. This new leadership will formalize communication and put accounting, budget, inventory, and other systems in place.

The organization's design will become increasingly bureaucratic. Specialization will be introduced, as well a functional structure, so as to separate production and marketing activities. The new direction, however, will create a crisis of its own making.

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**A MODEL OF ORGANIZATIONAL GROWTH**

- **Phase 2: Direction**
- Lower level managers will become frustrated and seek greater influence in decisions that affect them.
- The new management, though, is reluctant to give up authority.
- The result is a *crisis of autonomy*.
- The solution tends to lie in decentralizing decision making.

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Lower-level managers will become frustrated and seek greater influence in decisions that affect them. The new management though, is reluctant to give up authority, the result is a crisis of autonomy. The solution tends to lie in decentralizing decision making.

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### A MODEL OF ORGANIZATIONAL GROWTH

- **Phase 3: Delegation**
- If decisions are decentralized, the crisis of phase two will have been resolved.
- Lower level managers will now have relative autonomy to run their units. Top management will devote its energy to long run strategic planning.
- Internal control systems will be developed to monitor the decisions of lower level managers.

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Then comes phase 3, that is delegation. If decisions are decentralized, the crisis of phase two will have been resolved. Lower-level managers will now have relative autonomy to run their units. Top management will devote its energy to long run strategic planning. Internal control systems will be developed to monitor the decisions of lower-level managers.

Delegation, however, eventually creates a crisis of control. Lower-level managers enjoy their autonomy, but top-level managers fear that the organization is going in many directions at the same time.

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**A MODEL OF ORGANIZATIONAL GROWTH**

- **Phase 3: Delegation**
- Delegation, however, eventually creates a *crisis of control*.
- Lower level managers enjoy their autonomy, but top level managers fear that the organization is going in many directions at the same time.
- Top management's response is to attempt to return to centralized decision making. Centralization is viewed as the means to provide unity of direction.
- But this is rarely realistic. Some other means of coordination needs to be found and implemented.

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Top management's response is to attempt to return to centralized decision making. Centralization is viewed as the means to provide unity of direction. But this is rarely realistic. Some other means of coordination needs to be found and implemented.

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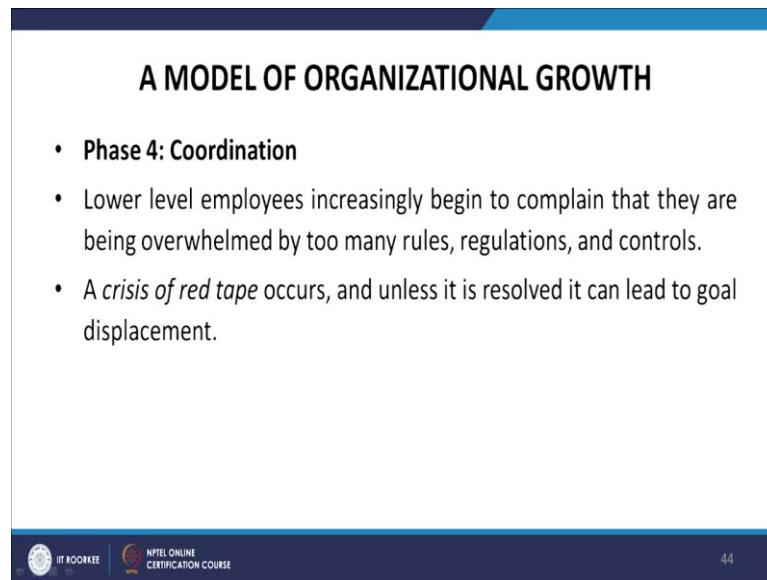
**A MODEL OF ORGANIZATIONAL GROWTH**

- **Phase 4: Coordination**
- The control crisis is solved by implementing staff units to review, evaluate, and control line management activities and product groups to facilitate coordination.
- These coordination devices create their own problems.
- Line staff conflicts, for example, begin to consume a great deal of time and effort.

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The 4th phase is, coordination. The control crisis is resolved by implementing staff units to review, evaluate, and control line management activities with and product groups to facilitate coordination. These coordination devices create their own problems. Line staff conflicts for example, begin to consume a great deal of time and effort.

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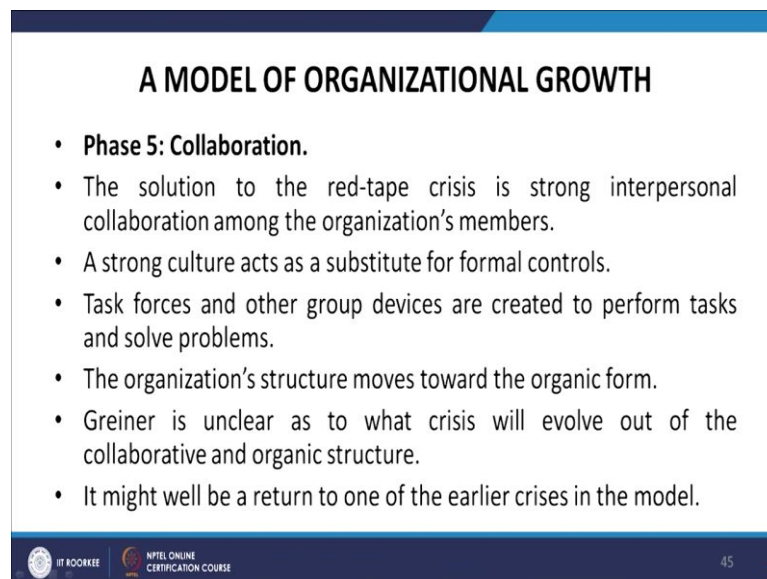
**A MODEL OF ORGANIZATIONAL GROWTH**

- **Phase 4: Coordination**
- Lower level employees increasingly begin to complain that they are being overwhelmed by too many rules, regulations, and controls.
- A *crisis of red tape* occurs, and unless it is resolved it can lead to goal displacement.

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Lower-level employees increasingly begin to complain that they are being overwhelmed by too many rules, regulations, and controls. The crisis of red tape occurs, and unless it is resolved it can lead to goal displacement. Then comes this final phase, that is, phase 5, which is collaboration.

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**A MODEL OF ORGANIZATIONAL GROWTH**

- **Phase 5: Collaboration.**
- The solution to the red-tape crisis is strong interpersonal collaboration among the organization's members.
- A strong culture acts as a substitute for formal controls.
- Task forces and other group devices are created to perform tasks and solve problems.
- The organization's structure moves toward the organic form.
- Greiner is unclear as to what crisis will evolve out of the collaborative and organic structure.
- It might well be a return to one of the earlier crises in the model.

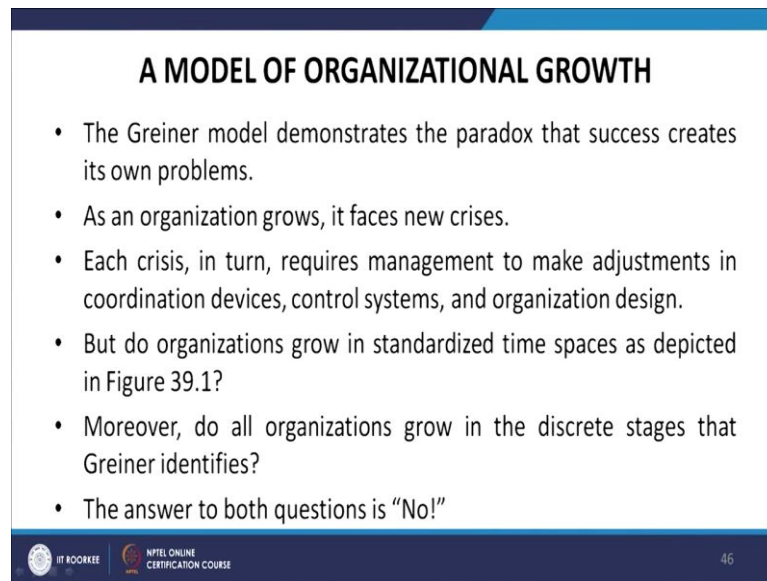
IT ROORKEE | NPTEL ONLINE CERTIFICATION COURSE 45

The solution to the red-tape crisis is strong interpersonal collaboration among the organization's members. A strong culture acts as a subculture for formal controls. Task forces and other group devices are created to perform tasks and solve problems. The

organization's structure moves towards the organic form, Greener is unclear as to what crisis will evolve out of the collaborative and organic structure. It might well be a return to one of the earlier crises in the model.

The Greener model demonstrates the paradox that, success creates its own problems. As an organization grows, it faces new crisis. Each crisis, in turn, requires management to make adjustments in coordination devices, control systems, and organization design.

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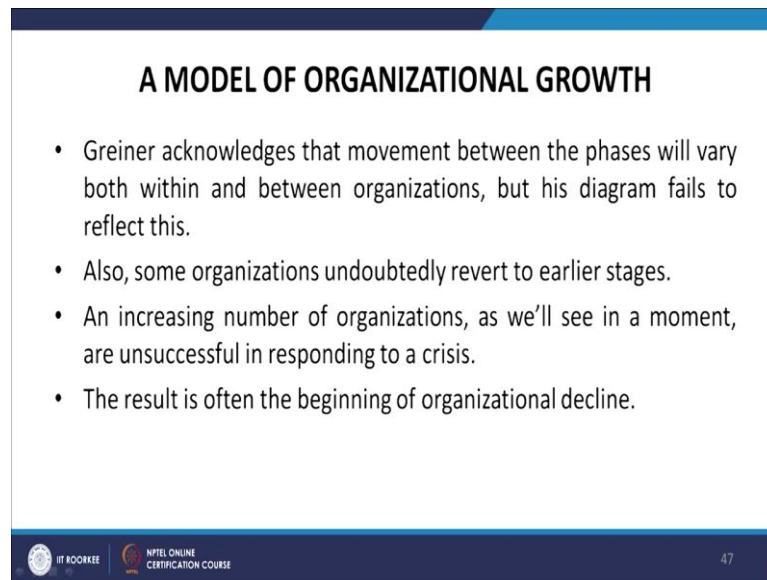
**A MODEL OF ORGANIZATIONAL GROWTH**

- The Greiner model demonstrates the paradox that success creates its own problems.
- As an organization grows, it faces new crises.
- Each crisis, in turn, requires management to make adjustments in coordination devices, control systems, and organization design.
- But do organizations grow in standardized time spaces as depicted in Figure 39.1?
- Moreover, do all organizations grow in the discrete stages that Greiner identifies?
- The answer to both questions is “No!”

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But, do organizations grow in standardized time spaces as depicted in figure 39.1? Moreover, do all organizations grow in the discrete stages that Grenier identifies? The answer to both question is “No”.

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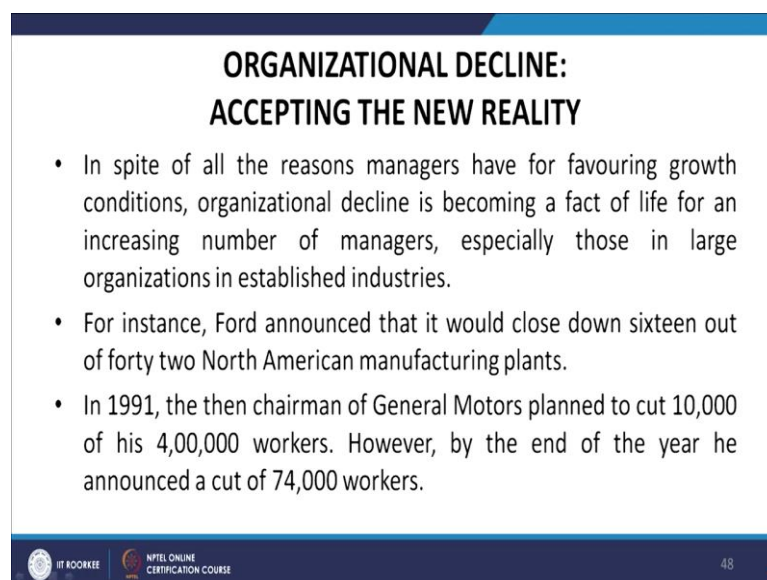
**A MODEL OF ORGANIZATIONAL GROWTH**

- Greiner acknowledges that movement between the phases will vary both within and between organizations, but his diagram fails to reflect this.
- Also, some organizations undoubtedly revert to earlier stages.
- An increasing number of organizations, as we'll see in a moment, are unsuccessful in responding to a crisis.
- The result is often the beginning of organizational decline.

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Greiner acknowledges that movement between the phases will vary both within and between organizations, but his diagram fails to reflect this. Also, some organizations undoubtedly revert to earlier stages. An increasing number of organizations, as we will see in a moment, are unsuccessful in responding to a crisis. The result is often the beginning of organizational decline.

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**ORGANIZATIONAL DECLINE:  
ACCEPTING THE NEW REALITY**

- In spite of all the reasons managers have for favouring growth conditions, organizational decline is becoming a fact of life for an increasing number of managers, especially those in large organizations in established industries.
- For instance, Ford announced that it would close down sixteen out of forty two North American manufacturing plants.
- In 1991, the then chairman of General Motors planned to cut 10,000 of his 4,00,000 workers. However, by the end of the year he announced a cut of 74,000 workers.

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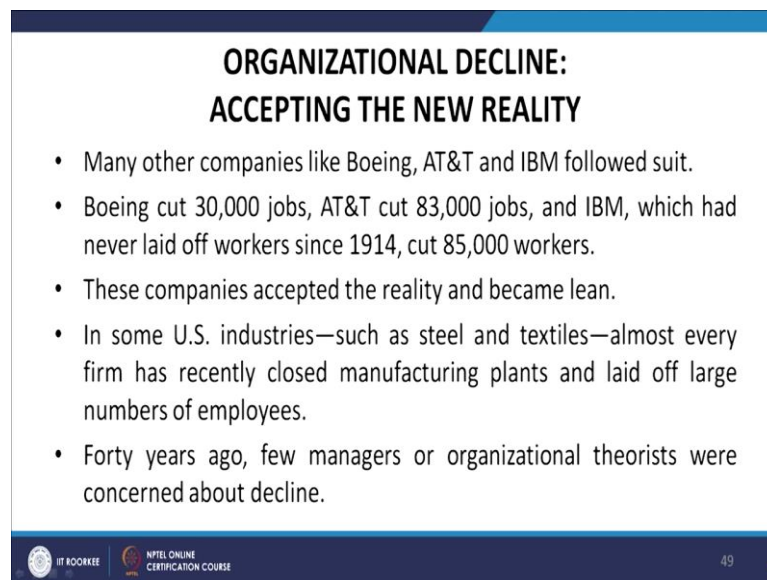
Now, we come to the issue of organizational decline, that is, accepting the new reality. In spite of all the reasons managers have for favoring growth conditions, organizations

decline is becoming a fact of life for an increasing number of managers, especially those in large organizations in established industries. For instance, Ford announced that it would close down 16 out of 42 North American manufacturing plants.

In 1991, the then chairman of General Motors planned to cut 10000 of his 400000 workers. However, by the end of the year he announced a cut of 74000 workers. Many other companies like Boeing, AT and T and IBM followed suit. Boeing cut 30000 jobs, AT and T cut 83000 jobs, and IBM which had never laid off workers since 1914, cut 85000 workers.

These companies accepted the reality and became lean.

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**ORGANIZATIONAL DECLINE:  
ACCEPTING THE NEW REALITY**

- Many other companies like Boeing, AT&T and IBM followed suit.
- Boeing cut 30,000 jobs, AT&T cut 83,000 jobs, and IBM, which had never laid off workers since 1914, cut 85,000 workers.
- These companies accepted the reality and became lean.
- In some U.S. industries—such as steel and textiles—almost every firm has recently closed manufacturing plants and laid off large numbers of employees.
- Forty years ago, few managers or organizational theorists were concerned about decline.

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In some US industries- such as the steel and textiles -almost every firm has recently closed manufacturing plants and laid off large numbers of employees. Forty years ago, few managers or organizational theorists were concerned about decline.

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### ORGANIZATIONAL DECLINE: ACCEPTING THE NEW REALITY

- Growth was the *natural* state of things, and decline, when it occurred, was viewed as an *aberration*, a mistake created by poor management, or merely a brief setback in a long-term growth trend.
- What, then, has changed?
- Have we merely ignored reality, or have more organizations actually entered the decline stage of their life cycle?

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Growth was the natural state of things, and decline, when it occurred, was viewed as an aberration, a mistake created by poor management, or merely a brief setback in a long-term growth trend. What, then, has changed? We have merely ignored reality, or have more organizations actually entered the declining stage of their lifecycle.

Let us clarify the semantics. Before we look at the causes underlying the increase in declining organizations, let us clarify our terminology.

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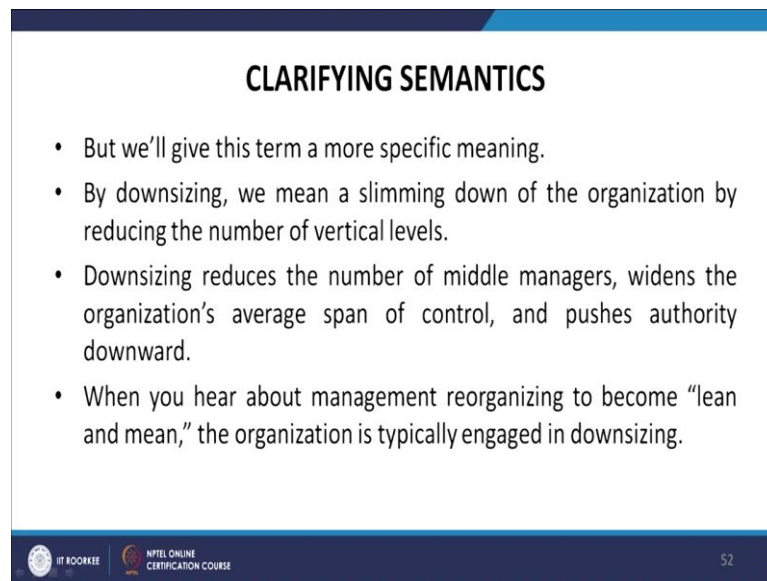
### CLARIFYING SEMANTICS

- Before we look at the causes underlying the increase in declining organizations, let's clarify our terminology.
- When we refer to **organizational decline**, we mean a prolonged decrease in the number of personnel in an organization.
- It is synonymous with any form of permanent retrenchment.
- It is not meant to describe temporary aberrations in an organization's growth curve.
- Another term closely aligned with organizational decline, and sometimes used interchangeably with it, is **downsizing**.

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When we refer to organizational decline, we mean a prolonged decrease in the number of personnel in an organization. It is synonymous with any form of permanent retrenchment. It is not meant to describe temporary aberrations in an organization's growth curve. Another term closely aligned with organizational decline and sometimes used interchangeably with it, is downsizing.

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**CLARIFYING SEMANTICS**

- But we'll give this term a more specific meaning.
- By downsizing, we mean a slimming down of the organization by reducing the number of vertical levels.
- Downsizing reduces the number of middle managers, widens the organization's average span of control, and pushes authority downward.
- When you hear about management reorganizing to become "lean and mean," the organization is typically engaged in downsizing.

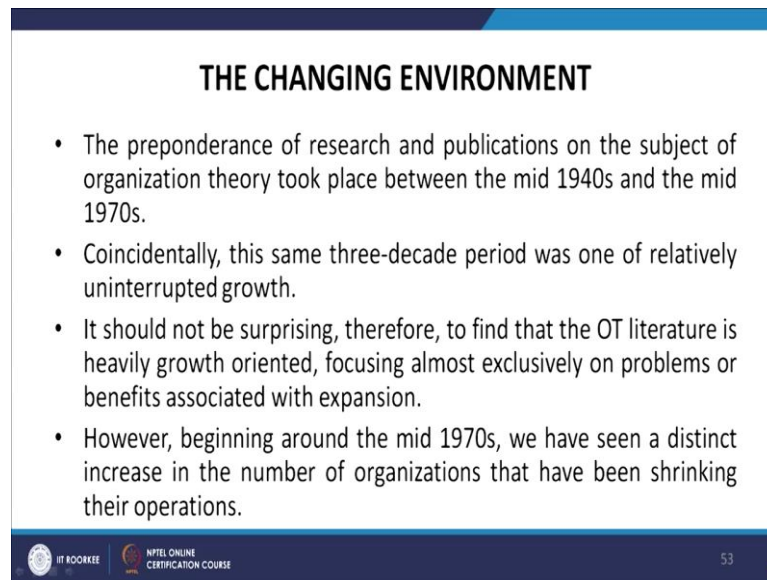
IT ROORKEE NPTEL ONLINE CERTIFICATION COURSE 52

But we will give this term a more specific meaning. By downsizing; we mean a slimming down of the organization by reducing the number of vertical levels. Downsizing reduces the number of middle managers, widen the organization's average span of control and pushes authority downwards. When you hear about management reorganizing to become "lean and mean", the organization is typically engaged in downsizing.

Now, let us look at the changing environment, the preponderance of research and publications on the subject of organization theory took place between the mid 1940s and the mid 1970s. Coincidentally, the same three-decade period was one of relatively uninterrupted growth.



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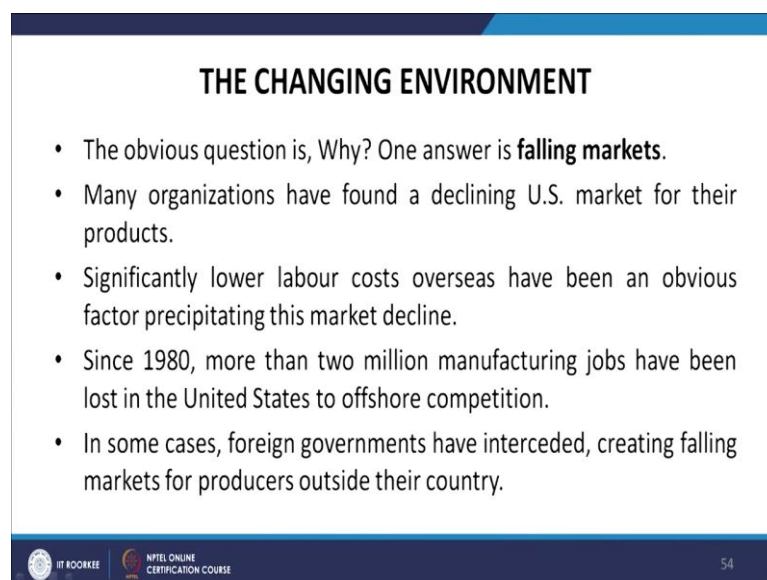
**THE CHANGING ENVIRONMENT**

- The preponderance of research and publications on the subject of organization theory took place between the mid 1940s and the mid 1970s.
- Coincidentally, this same three-decade period was one of relatively uninterrupted growth.
- It should not be surprising, therefore, to find that the OT literature is heavily growth oriented, focusing almost exclusively on problems or benefits associated with expansion.
- However, beginning around the mid 1970s, we have seen a distinct increase in the number of organizations that have been shrinking their operations.

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It should not be surprising; therefore, to find that the OT literature is heavily growth oriented, focusing almost exclusively on problems or benefits associated with expansion. However, beginning around the mid 1970s we have seen a distinct increase in number of organizations that have been shrinking their operations. The obvious question is, why? One answer is falling markets.

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**THE CHANGING ENVIRONMENT**

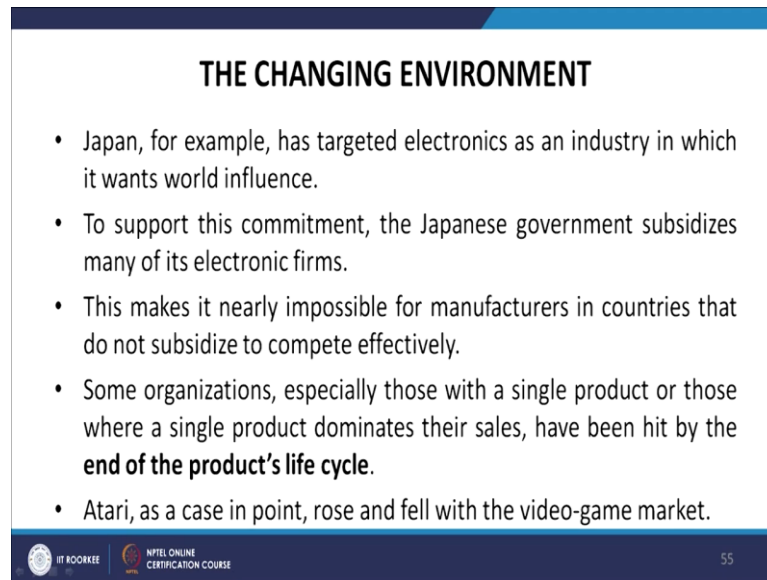
- The obvious question is, Why? One answer is **falling markets**.
- Many organizations have found a declining U.S. market for their products.
- Significantly lower labour costs overseas have been an obvious factor precipitating this market decline.
- Since 1980, more than two million manufacturing jobs have been lost in the United States to offshore competition.
- In some cases, foreign governments have interceded, creating falling markets for producers outside their country.

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Many organizations have found a declining US market for their products. Significantly lower labor costs overseas have been an obvious factor precipitating this market decline.

Since 1980, more than two million manufacturing jobs have been lost in the United States to offshore competition. In some cases, foreign governments have interceded, created falling markets for producers outside their country.

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**THE CHANGING ENVIRONMENT**

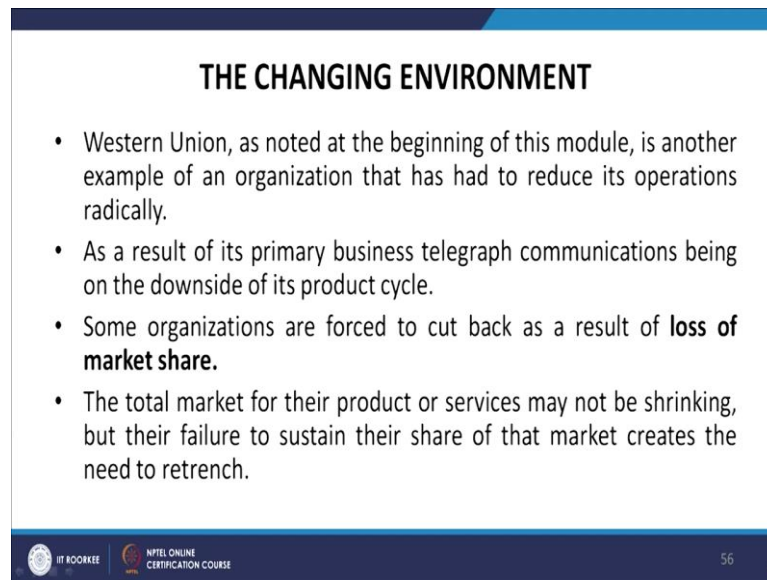
- Japan, for example, has targeted electronics as an industry in which it wants world influence.
- To support this commitment, the Japanese government subsidizes many of its electronic firms.
- This makes it nearly impossible for manufacturers in countries that do not subsidize to compete effectively.
- Some organizations, especially those with a single product or those where a single product dominates their sales, have been hit by the **end of the product's life cycle**.
- Atari, as a case in point, rose and fell with the video-game market.

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Japan, for example, have targeted electronics as an industry in which it wants world influence. To support this commitment, the Japanese government subsidizes many of its electronic firms; this makes it nearly impossible for manufacturers in countries that do not subsidize to compete effectively.

Some organizations, especially those with a single product or those where a single product dominate their sales, have been hit by the end of the product lifecycle. Atari, as a case in point, rose and fell with the video-game market.

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**THE CHANGING ENVIRONMENT**

- Western Union, as noted at the beginning of this module, is another example of an organization that has had to reduce its operations radically.
- As a result of its primary business telegraph communications being on the downside of its product cycle.
- Some organizations are forced to cut back as a result of **loss of market share**.
- The total market for their product or services may not be shrinking, but their failure to sustain their share of that market creates the need to retrench.

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Western Union, as noted at the beginning of this module, is another example of an organization that has had to reduce its operations radically. As a result of its primary business telegraph communications being on the downside of its product lifecycle. Some organizations are forced to cut back as a result of loss of market share.

The total market for their products or services may not be shrinking, but their failure to sustain their share of that market creates the need to retrench. Deregulation has produced a loss in market share for many firms in the trucking and airline industries.

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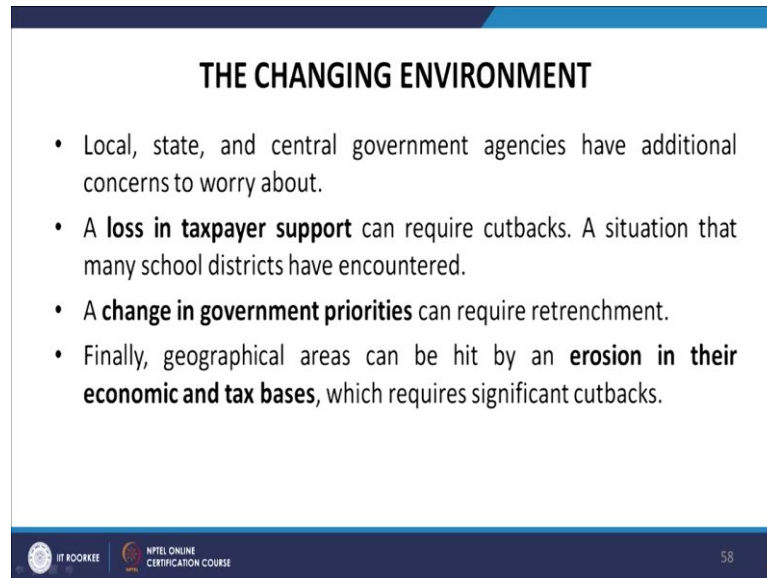
**THE CHANGING ENVIRONMENT**

- Deregulation has produced a loss in market share for many firms in the trucking and airline industries.
- Not surprisingly, most of these large firms have also been undergoing some shrinking of their operations.
- The recent rash of **mergers and acquisitions** has created redundancy in many companies.
- When banks merge, for instance, efficiencies often dictate consolidating operations and staff personnel in functions such as legal, accounting, purchasing, and human resources.

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Not surprisingly, most of these large firms have also been undergoing some shrinking of their operations. The recent rash of mergers and acquisitions has created redundancies in many companies. When banks merge, for instance, efficiencies often dictate consolidating operations and staff personnel in functions such as legal, accounting, purchasing, and human resources.

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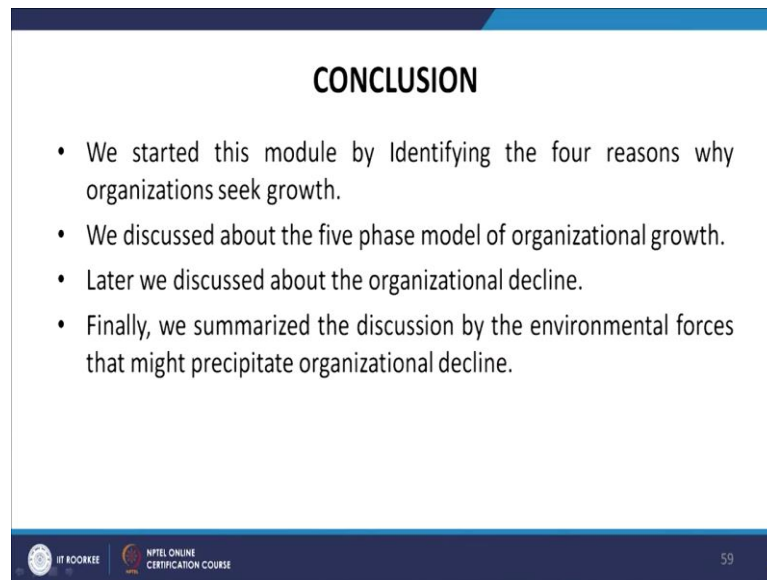
The slide is titled "THE CHANGING ENVIRONMENT" in bold, black, uppercase letters. It contains four bullet points, each starting with a black dot. The text is as follows:

- Local, state, and central government agencies have additional concerns to worry about.
- A **loss in taxpayer support** can require cutbacks. A situation that many school districts have encountered.
- A **change in government priorities** can require retrenchment.
- Finally, geographical areas can be hit by an **erosion in their economic and tax bases**, which requires significant cutbacks.

At the bottom of the slide, there is a dark blue footer bar. On the left, it contains the logos for "IIT ROORKEE" and "NPTEL ONLINE CERTIFICATION COURSE". On the right, the number "58" is displayed.

Local, state, and central government agencies have additional concerns to worry about. A loss in taxpayer support can require cutbacks. A situation that many school districts have encountered. A change in government popularities can require retrenchment. Finally, geographical areas can be hit by erosion of their economic and tax bases, which requires significant cutbacks. So, to conclude we started this module by identifying the four reasons why organizations seek growth.

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**CONCLUSION**

- We started this module by Identifying the four reasons why organizations seek growth.
- We discussed about the five phase model of organizational growth.
- Later we discussed about the organizational decline.
- Finally, we summarized the discussion by the environmental forces that might precipitate organizational decline.

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Then, we had discussed about the five phase model of organizational growth. Later we discussed about the organizational decline and finally, we summarized the discussion by the environmental forces that might precipitate organizational decline.

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And these are the four books from which the material for this module was taken.

Thank you.