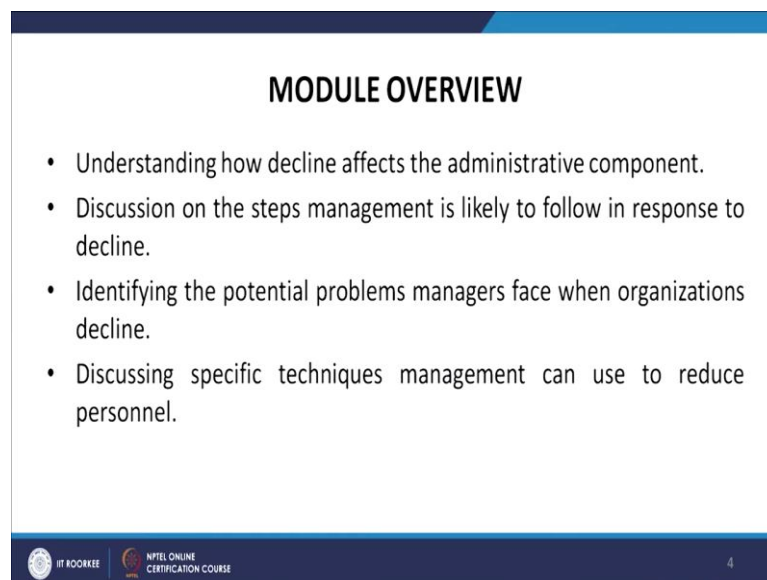


Organization Theory/Structure and Design
Prof. Zillur Rahman
Department of Management Studies
Indian Institute of Technology, Roorkee

Lecture - 40
Managing Organizational Evolution - II

Welcome to module 40, and the last module of this course on Organization Theory Structure and Design. And, we will continue our discussion on Managing Organizational Evolution in this module. Now, these are the things that we will talk about in this module, understanding how decline affects the administrative component. Discussion on the steps management is likely to follow in response to decline.

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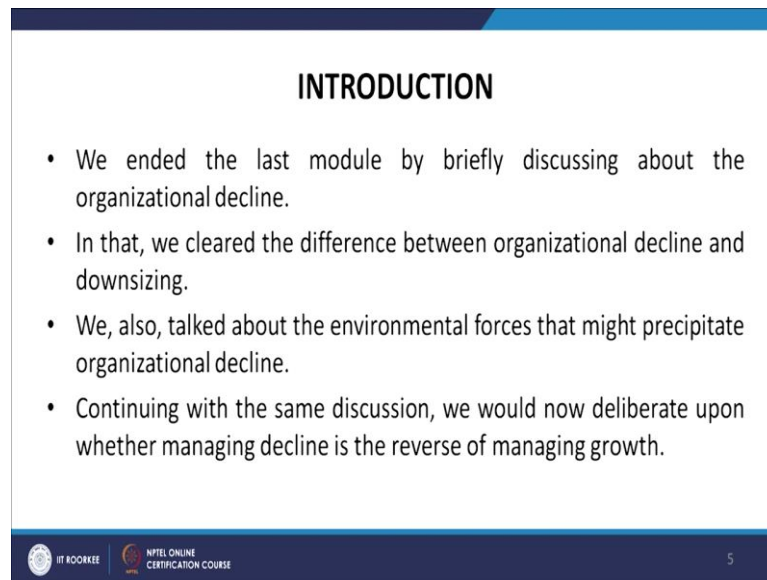
MODULE OVERVIEW

- Understanding how decline affects the administrative component.
- Discussion on the steps management is likely to follow in response to decline.
- Identifying the potential problems managers face when organizations decline.
- Discussing specific techniques management can use to reduce personnel.

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Identifying the potential problems managers face, when organizations decline and discussing specific techniques management can use to reduce personnel.

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INTRODUCTION

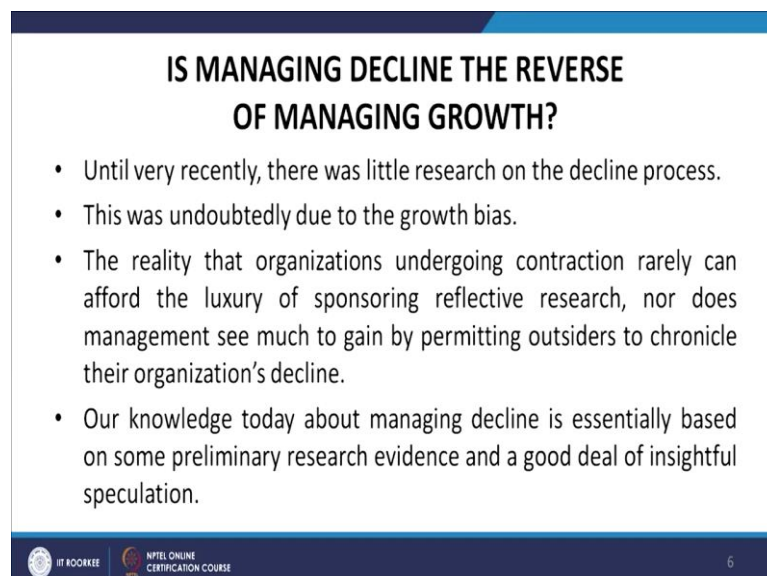
- We ended the last module by briefly discussing about the organizational decline.
- In that, we cleared the difference between organizational decline and downsizing.
- We, also, talked about the environmental forces that might precipitate organizational decline.
- Continuing with the same discussion, we would now deliberate upon whether managing decline is the reverse of managing growth.

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So, to introduce we ended the last module by briefly discussing about the organizational decline. In that we cleared the difference between organizational decline and downsizing. We, also, talked about the environmental forces that might precipitate organizational decline. Continuing with the same discussion, we would now deliberate upon whether managing decline is the reverse of managing growth.

So, now we are looking at this question: Is managing decline, the reverse of managing growth?

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IS MANAGING DECLINE THE REVERSE OF MANAGING GROWTH?

- Until very recently, there was little research on the decline process.
- This was undoubtedly due to the growth bias.
- The reality that organizations undergoing contraction rarely can afford the luxury of sponsoring reflective research, nor does management see much to gain by permitting outsiders to chronicle their organization's decline.
- Our knowledge today about managing decline is essentially based on some preliminary research evidence and a good deal of insightful speculation.

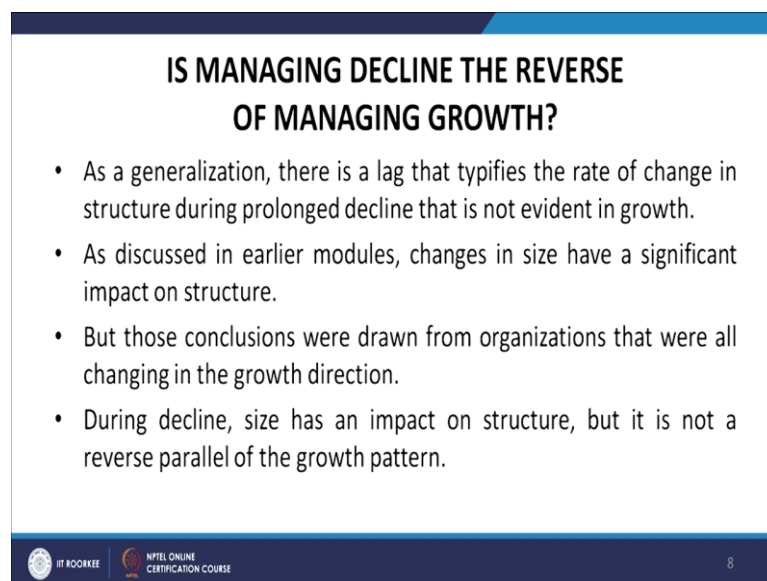
IT ROORKEE | NPTEL ONLINE CERTIFICATION COURSE 6

Until very recently, there was little research on the decline process. This was undoubtedly due to the growth bias. The reality that organizations undergoing contraction rarely can afford the luxury of sponsoring, reflective research, nor does management see much to gain by permitting outsiders to chronicle their organization's decline.

Our knowledge today about managing decline is essentially based on some preliminary research evidence, and a good deal of insightful speculation. We begin with the proposition that the management of decline is not merely a matter of reversing the process of managing growth.

An organization cannot be reduced piece by piece simply by reversing the sequence of activities, and resource building by which it grew. While the research is scant there does appear to be enough evidence to conclude that activities within same sized organizations during periods of growth and decline will not correspond directly.

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IS MANAGING DECLINE THE REVERSE OF MANAGING GROWTH?

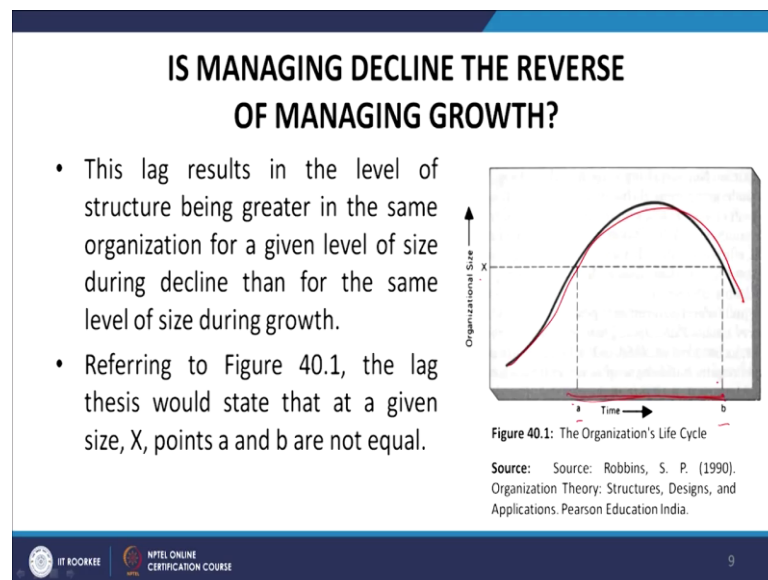
- As a generalization, there is a lag that typifies the rate of change in structure during prolonged decline that is not evident in growth.
- As discussed in earlier modules, changes in size have a significant impact on structure.
- But those conclusions were drawn from organizations that were all changing in the growth direction.
- During decline, size has an impact on structure, but it is not a reverse parallel of the growth pattern.

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As a generalization there is a lag that typifies the rate of change in structure during prolonged decline that is not evident in growth. As discussed in earlier modules, changes in size have a significant impact on structure. But those conclusions were drawn from organizations that were all changing in the growth direction.

During decline size has an impact on structure, but it is not a reverse parallel of the growth pattern. So, this lag results in the level of structure being greater in the same organization, for a given level of size, during decline, than for the same level of size during growth.

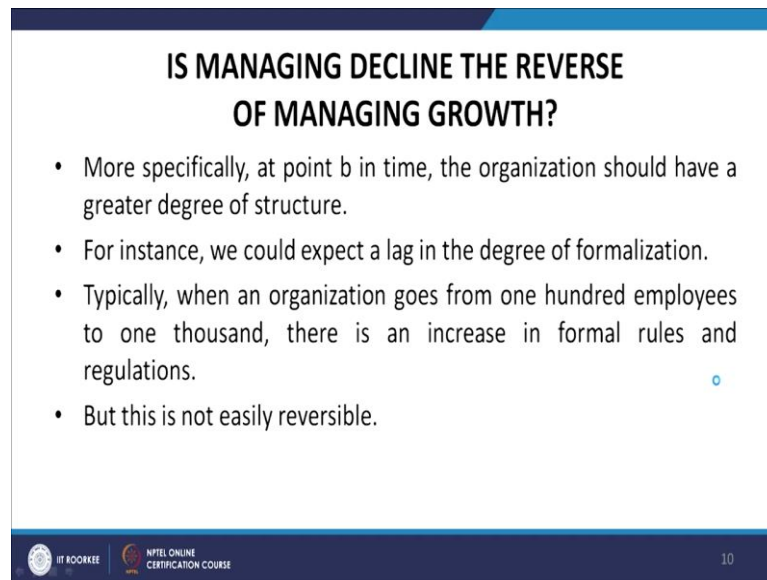
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Referring to figure 40.1, the lag thesis would state that at a given size X , point a and b are not equal. So, now, this is the organization lifecycle on the X axis, we have time and you see that we have these two time points a and b and on the Y axis we have organizational size. This is the organization cycle that we are talking about.

Now, at both these point a and b the organization size is the same. So, although the organization has moved on time, but the size has remained the same.

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IS MANAGING DECLINE THE REVERSE OF MANAGING GROWTH?

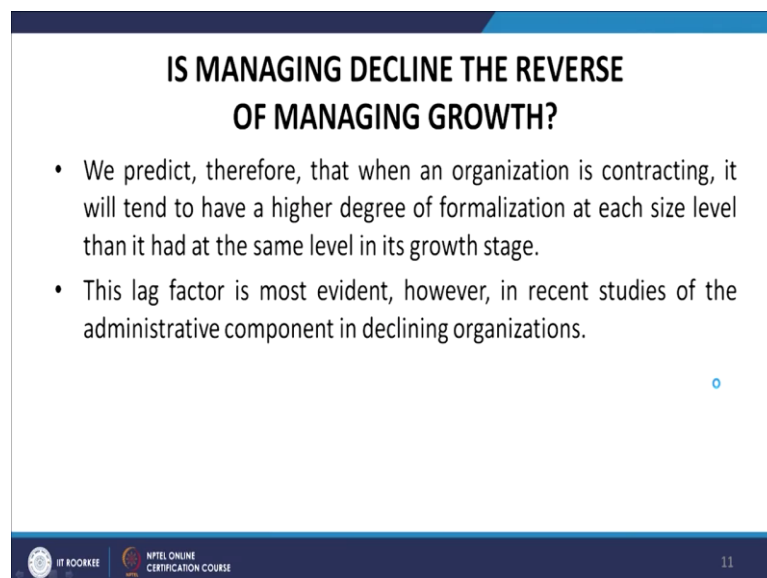
- More specifically, at point b in time, the organization should have a greater degree of structure.
- For instance, we could expect a lag in the degree of formalization.
- Typically, when an organization goes from one hundred employees to one thousand, there is an increase in formal rules and regulations.
- But this is not easily reversible.

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More specifically, at point b in time the organization should have a greater degree of structure. For instance, we could expect a lag in the degree of formalization. Typically, when an organization goes from one hundred employees to one thousand, there is an increase in formal rules and regulations.

But, this is not easily reversible. We predict, therefore, that when an organization is contracting, it will tend to have a higher degree of formalization at each size level than it had at the same level in its growth stage.

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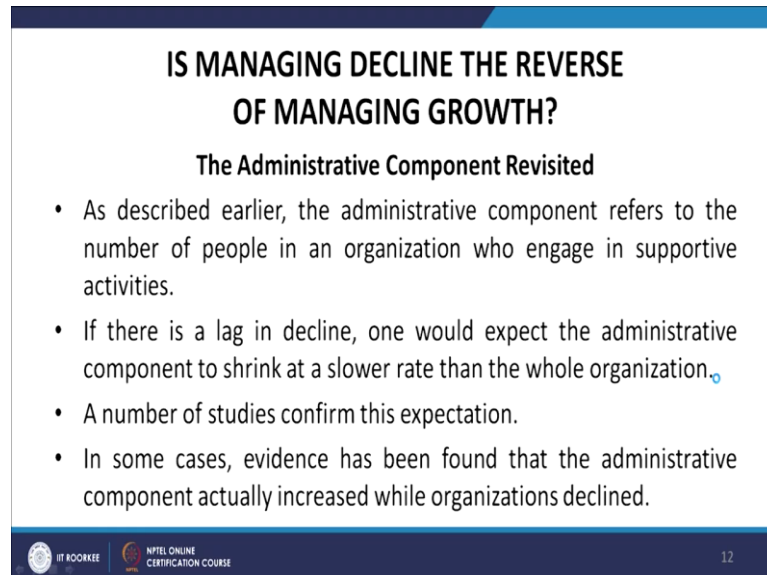
IS MANAGING DECLINE THE REVERSE OF MANAGING GROWTH?

- We predict, therefore, that when an organization is contracting, it will tend to have a higher degree of formalization at each size level than it had at the same level in its growth stage.
- This lag factor is most evident, however, in recent studies of the administrative component in declining organizations.

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This lag factor is most evident; however, in recent studies of the administrative component in the declining organizations.

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IS MANAGING DECLINE THE REVERSE OF MANAGING GROWTH?

The Administrative Component Revisited

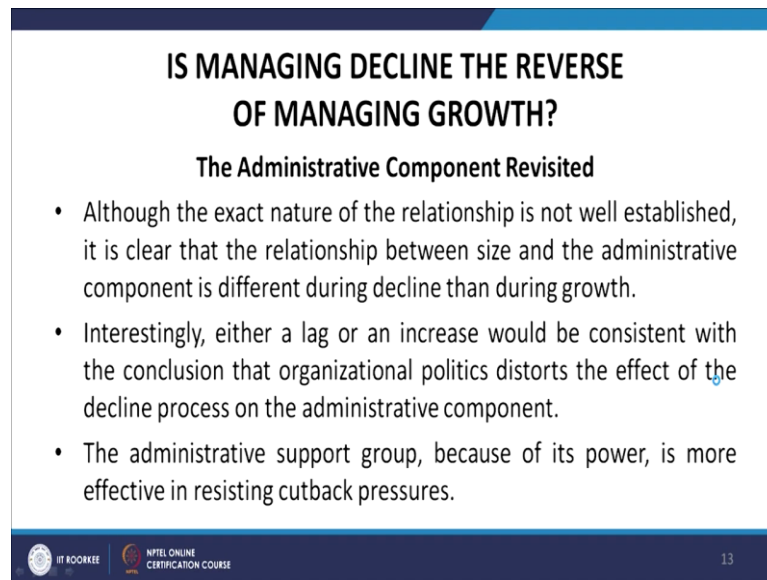
- As described earlier, the administrative component refers to the number of people in an organization who engage in supportive activities.
- If there is a lag in decline, one would expect the administrative component to shrink at a slower rate than the whole organization.
- A number of studies confirm this expectation.
- In some cases, evidence has been found that the administrative component actually increased while organizations declined.

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So, now let us revisit the administrative component. As described earlier the administrative component refers to the number of people in an organization who engage in supportive activities.

If, there is a lag in decline, one would expect the administrative component to shrink, at a slower rate than the whole organization. A number of studies confirm this expectation. In some cases evidences have been found that the administrative components actually increased while organizations declined.

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IS MANAGING DECLINE THE REVERSE OF MANAGING GROWTH?

The Administrative Component Revisited

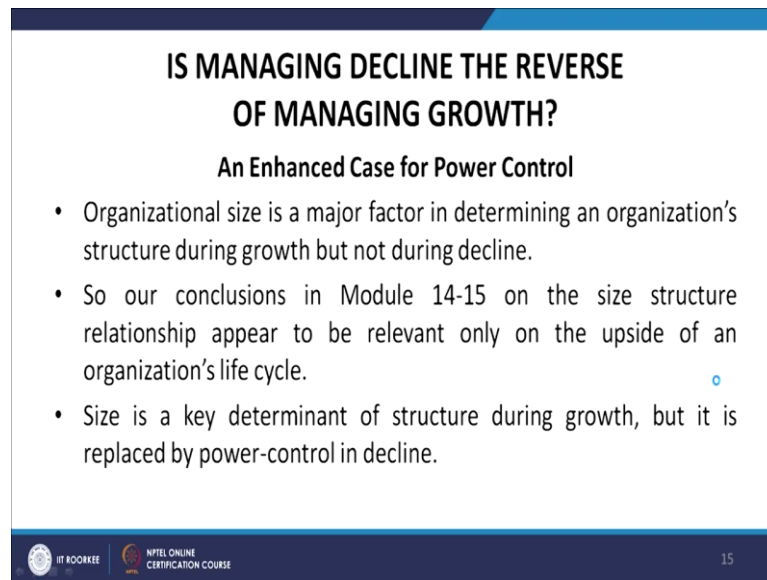
- Although the exact nature of the relationship is not well established, it is clear that the relationship between size and the administrative component is different during decline than during growth.
- Interestingly, either a lag or an increase would be consistent with the conclusion that organizational politics distorts the effect of the decline process on the administrative component.
- The administrative support group, because of its power, is more effective in resisting cutback pressures.

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Although the exact nature of the relationship is not well established, it is clear that the relationship between size and the administrative component is different during the decline than during growth. Interestingly either a lag or an increase would be consistent with the conclusion that, organization politics distorts the effect of the decline process on the administrative component.

The administrative support group, because of its power is more effective in resisting cut back pressures. As a result, the ratio of supportive staff to operatives will be higher at the same level of total organization size in the decline stage.

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IS MANAGING DECLINE THE REVERSE OF MANAGING GROWTH?

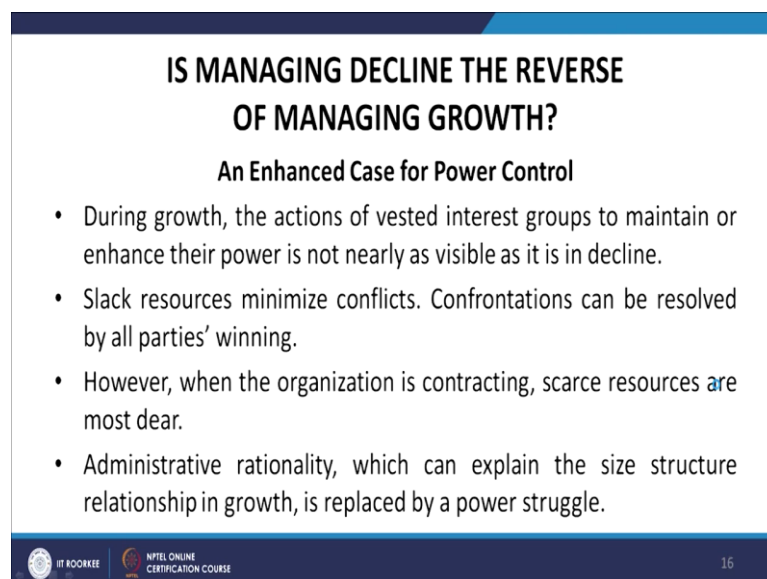
An Enhanced Case for Power Control

- Organizational size is a major factor in determining an organization's structure during growth but not during decline.
- So our conclusions in Module 14-15 on the size structure relationship appear to be relevant only on the upside of an organization's life cycle.
- Size is a key determinant of structure during growth, but it is replaced by power-control in decline.

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Now, we will talk about another argument that is an enhanced case for power control. Organizational size is a major factor in determining an organization's structure during growth, but not during decline. So, our conclusions in module 14 and 15, on the size-structure relationship appears to be relevant only on the upside of an organization's life cycle. Size is the key determinant of a structure during growth, but it is replaced by power-control in decline.

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IS MANAGING DECLINE THE REVERSE OF MANAGING GROWTH?

An Enhanced Case for Power Control

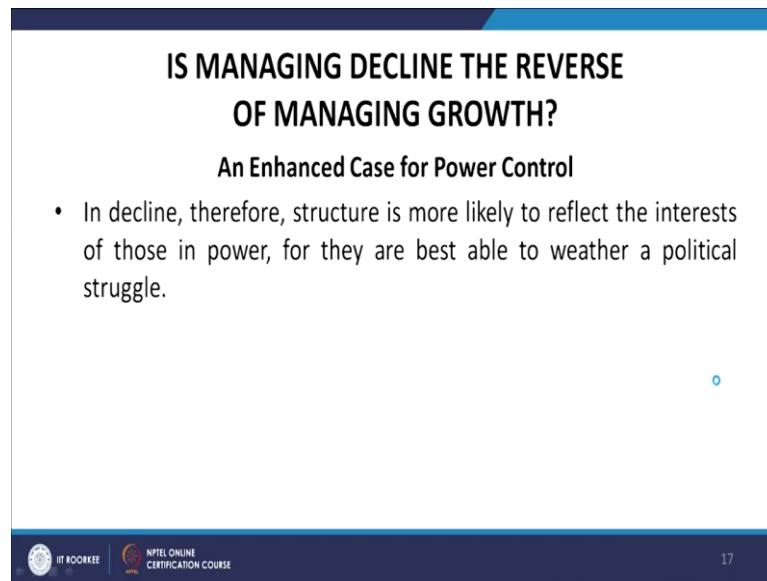
- During growth, the actions of vested interest groups to maintain or enhance their power is not nearly as visible as it is in decline.
- Slack resources minimize conflicts. Confrontations can be resolved by all parties' winning.
- However, when the organization is contracting, scarce resources are most dear.
- Administrative rationality, which can explain the size structure relationship in growth, is replaced by a power struggle.

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During growth the action of vested interest groups to maintain or enhance their power, is not nearly as visible as it is in decline. Slack resources minimize conflicts. Confrontations can be resolved by all parties winning.

However, when the organization is contracting, its scarce resources are most dear. Administrative rationality which can explain the size structure relationship in growth is replaced by a power struggle.

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**IS MANAGING DECLINE THE REVERSE
OF MANAGING GROWTH?**

An Enhanced Case for Power Control

- In decline, therefore, structure is more likely to reflect the interests of those in power, for they are best able to weather a political struggle.

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In decline therefore, structure is more likely to reflect the interests of those in power, for they are best able to weather a political struggle.

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IS MANAGING DECLINE THE REVERSE OF MANAGING GROWTH?

Decline Follows Stages

- A final speculation on the decline-structure relationship is based on the assumption that organizations are most likely, initially, to confront what will become a prolonged decline as if it is merely an aberration.
- If true, prolonged declines should find management treating it in stages.
- The initial reaction is shock.
- This first stage, then, is best described as numbed inaction.

Another dimension of this debate is decline follows stages. A Final speculation on the decline-structure relationship is based on the assumption that organizations are most likely, initially, to confront what will become a prolonged decline, as if it is merely an aberration. If true, prolonged declines should find management treating it in stages.

The initial reaction is shock. The final stage, then, is best described as numbed inaction. In the second stage management will posture itself in defensive retreat the decline is ignored or denied. Third, when the facts of decline are evident, it will be reacted to as if it is a temporary crisis.

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IS MANAGING DECLINE THE REVERSE OF MANAGING GROWTH?

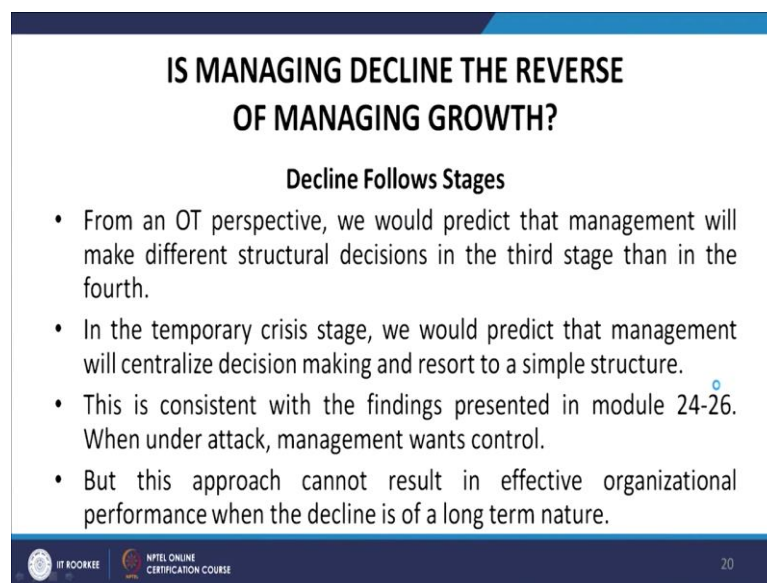
Decline Follows Stages

- In the second stage, management will posture itself in defensive retreat. The decline is ignored or denied.
- Third, when the facts of decline are evident, it will be reacted to as if it is a temporary crisis.
- Then, over time, management will begin realistically to make decisions as if it is confronting a prolonged contraction.
- So only in the fourth stage does management accept the new situation and make the necessary adjustments.

Then, over time, management will become realistically to make decisions as if it is confronting a prolonged contraction. So, only in the fourth stage does management accept the new situation and make the necessary adjustments.

From an OT perspective, we would predict that management will make different structural decisions in the third stage, rather than in the fourth. In the temporary crisis stage we would predict that management will centralize decision making and resort to a simple structure.

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IS MANAGING DECLINE THE REVERSE OF MANAGING GROWTH?

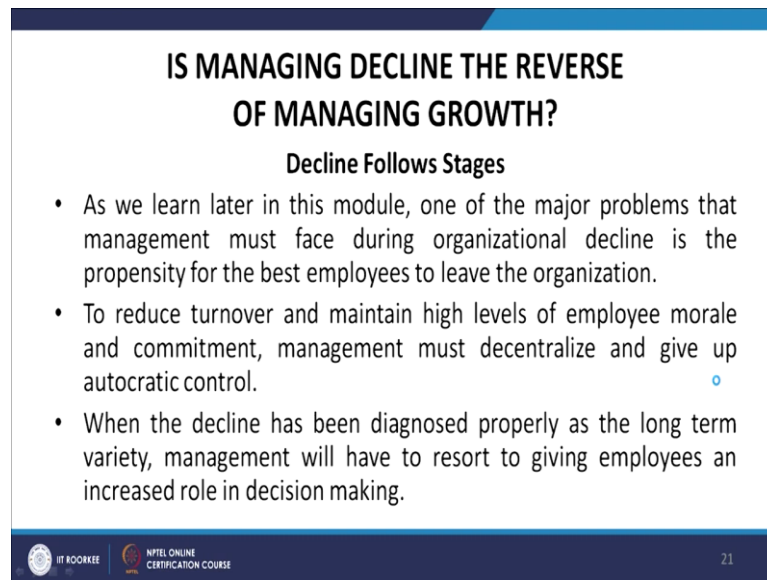
Decline Follows Stages

- From an OT perspective, we would predict that management will make different structural decisions in the third stage than in the fourth.
- In the temporary crisis stage, we would predict that management will centralize decision making and resort to a simple structure.
- This is consistent with the findings presented in module 24-26. When under attack, management wants control.
- But this approach cannot result in effective organizational performance when the decline is of a long term nature.

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This is consistent with the findings presented in module 24 to 26. When under attack, management wants control. But, this approach cannot result in effective organizational performance, when the decline is of a long term nature.

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IS MANAGING DECLINE THE REVERSE OF MANAGING GROWTH?

Decline Follows Stages

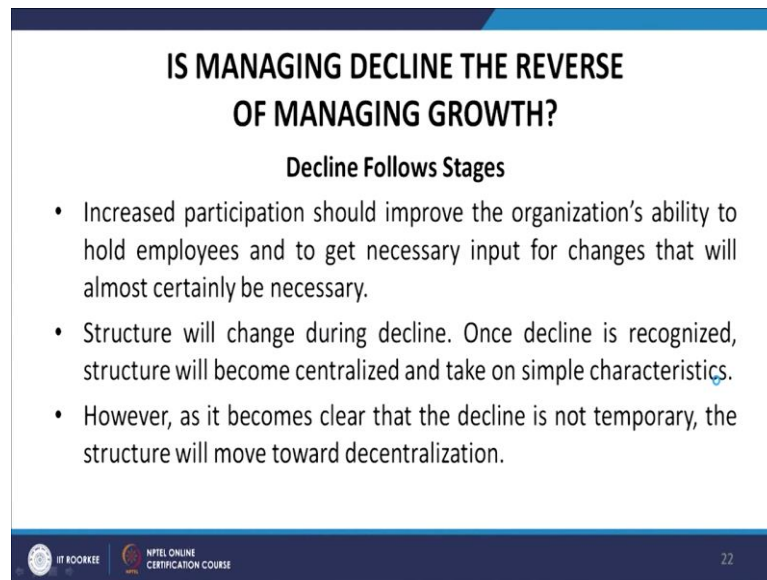
- As we learn later in this module, one of the major problems that management must face during organizational decline is the propensity for the best employees to leave the organization.
- To reduce turnover and maintain high levels of employee morale and commitment, management must decentralize and give up autocratic control.
- When the decline has been diagnosed properly as the long term variety, management will have to resort to giving employees an increased role in decision making.

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As we learn later in this module, one of the major problems that management must face, during organizational decline is the propensity for the best employees to leave the organization. To reduce turnover and maintain high levels of employee morale, and commitment, management must decentralize and give up autocratic control.

When the decline has been diagnosed properly as the long term variety, management will have to resort to giving employees an increased role in decision making. Increased participation will improve the organization's ability to hold employees, and to get necessary input for changes that will almost certainly be necessary.

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IS MANAGING DECLINE THE REVERSE OF MANAGING GROWTH?

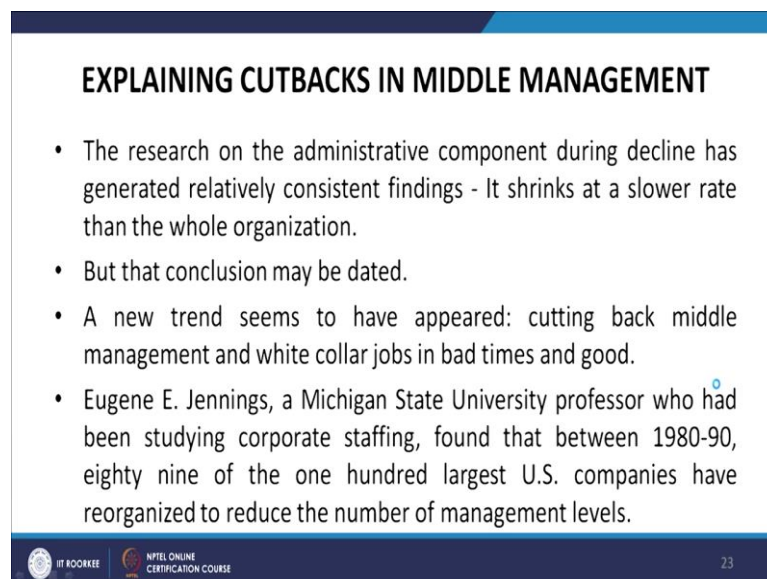
Decline Follows Stages

- Increased participation should improve the organization's ability to hold employees and to get necessary input for changes that will almost certainly be necessary.
- Structure will change during decline. Once decline is recognized, structure will become centralized and take on simple characteristics.
- However, as it becomes clear that the decline is not temporary, the structure will move toward decentralization.

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Structure will change during decline. Once decline is recognized, structure will become centralized and take on simple characteristics. However, as it becomes clear that the decline is not temporary, the structure will move towards decentralization.

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EXPLAINING CUTBACKS IN MIDDLE MANAGEMENT

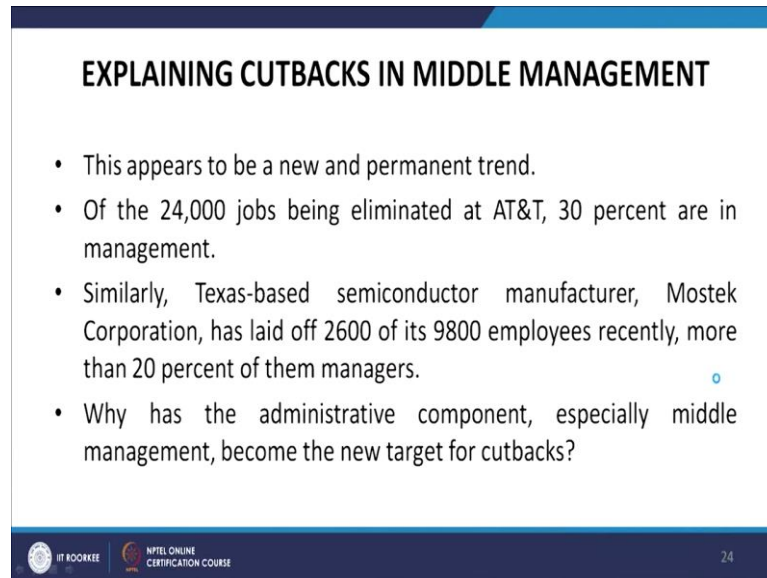
- The research on the administrative component during decline has generated relatively consistent findings - It shrinks at a slower rate than the whole organization.
- But that conclusion may be dated.
- A new trend seems to have appeared: cutting back middle management and white collar jobs in bad times and good.
- Eugene E. Jennings, a Michigan State University professor who had been studying corporate staffing, found that between 1980-90, eighty nine of the one hundred largest U.S. companies have reorganized to reduce the number of management levels.

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Now, we will talk about explaining cutbacks in middle management. The research on the administrative component during decline has generated relatively consistent findings; it shrinks at a lower rate than the whole organization. But, that conclusion may be outdated.

A new trend seems to have appeared cutting back middle management and white collar jobs in bad times and good. Eugene E Jennings, a Michigan State University professor who had been studying corporate staffing found that between 1980s and 90s, eighty nine or the one hundred largest U.S companies have reorganized to reduce the number of management levels.

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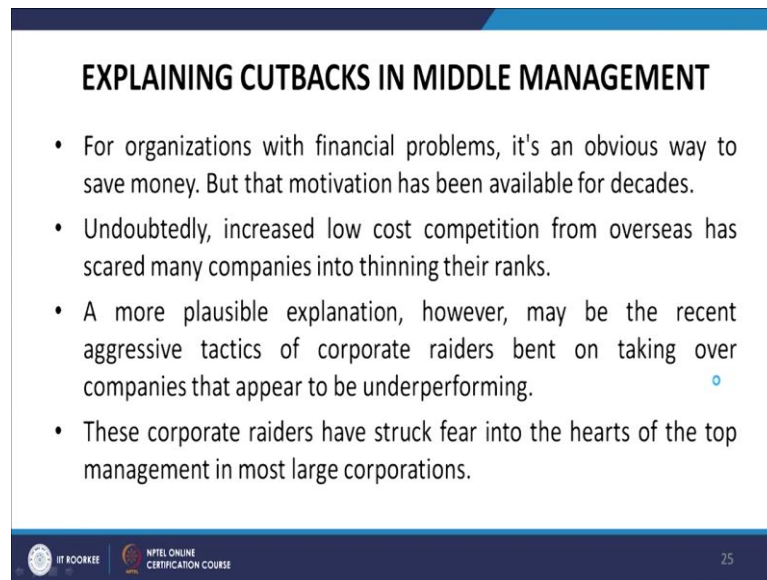
EXPLAINING CUTBACKS IN MIDDLE MANAGEMENT

- This appears to be a new and permanent trend.
- Of the 24,000 jobs being eliminated at AT&T, 30 percent are in management.
- Similarly, Texas-based semiconductor manufacturer, Mostek Corporation, has laid off 2600 of its 9800 employees recently, more than 20 percent of them managers.
- Why has the administrative component, especially middle management, become the new target for cutbacks?

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This appears to be a new and permanent trend. Of the 24000 jobs being eliminated at AT and T, 30 percent are in management. Similarly, Texas based semiconductor manufacturer, Mostek Corporation, has laid off 2600 off its 9800 employees recently, more than 20 percent of them managers. Why has the administrative component especially middle management become the new target for cutbacks? For organizations with financial problems, It is an obvious way to save money, but the motivation has been available for decades. Undoubtedly increased low-cost competition from overseas has, scared many companies into thinning their ranks.

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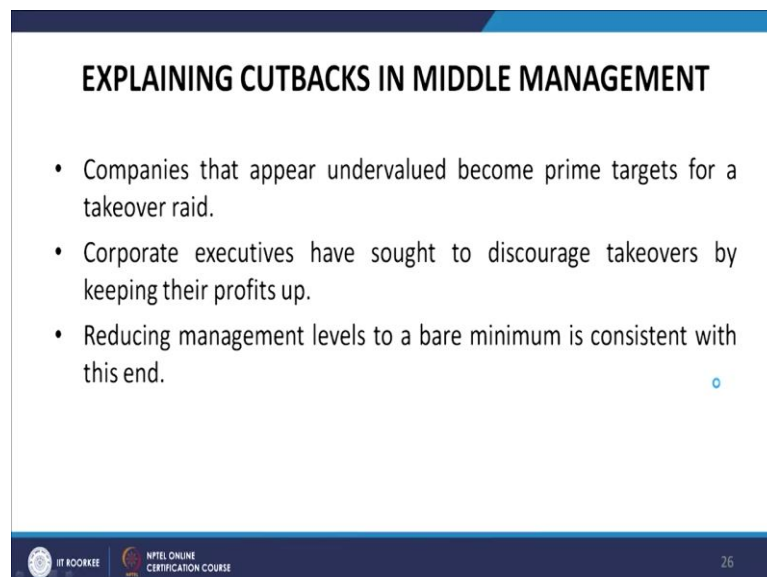
EXPLAINING CUTBACKS IN MIDDLE MANAGEMENT

- For organizations with financial problems, it's an obvious way to save money. But that motivation has been available for decades.
- Undoubtedly, increased low cost competition from overseas has scared many companies into thinning their ranks.
- A more plausible explanation, however, may be the recent aggressive tactics of corporate raiders bent on taking over companies that appear to be underperforming.
- These corporate raiders have struck fear into the hearts of the top management in most large corporations.

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A more plausible explanation; however, maybe the recent aggressive tactics of corporate raiders, bent on taking over companies that appear to be underperforming. These corporate raiders have struck fear into the heart of the top management in most large corporations.

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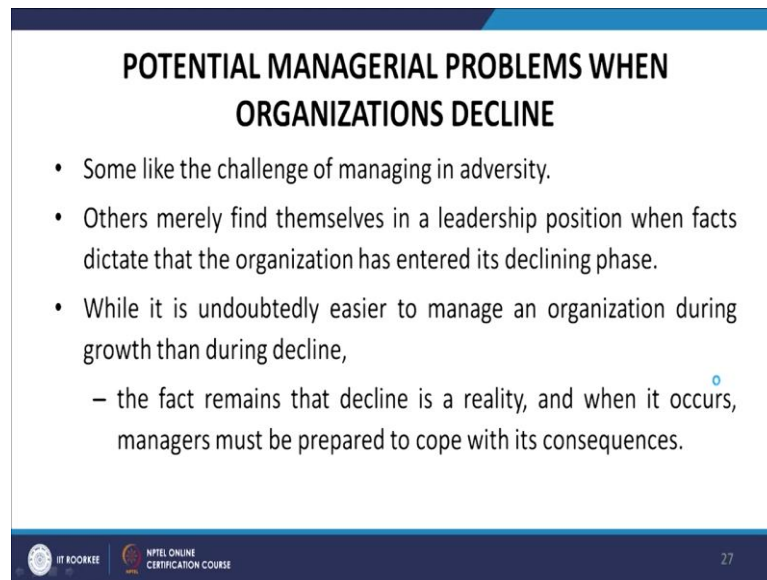
EXPLAINING CUTBACKS IN MIDDLE MANAGEMENT

- Companies that appear undervalued become prime targets for a takeover raid.
- Corporate executives have sought to discourage takeovers by keeping their profits up.
- Reducing management levels to a bare minimum is consistent with this end.

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Companies that appear undervalued become prime targets for a takeover raid. Corporate executives have sought to discourage takeovers by keeping their profits up. Reducing management levels to a bare minimum is consistent with this end.

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POTENTIAL MANAGERIAL PROBLEMS WHEN ORGANIZATIONS DECLINE

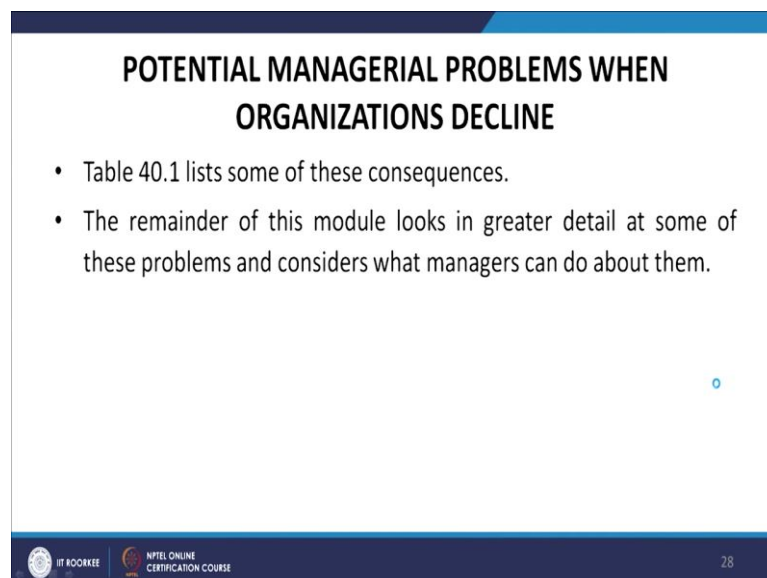
- Some like the challenge of managing in adversity.
- Others merely find themselves in a leadership position when facts dictate that the organization has entered its declining phase.
- While it is undoubtedly easier to manage an organization during growth than during decline,
 - the fact remains that decline is a reality, and when it occurs, managers must be prepared to cope with its consequences.

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Now, let us look at the potential managerial problems when organizations decline. Some like the challenge of managing in adversity. Others merely find themselves in a leadership position, when facts dictate that the organization has entered its declining phase.

While it is undoubtedly easier to manage an organization during growth than during decline, the fact remains that decline is a reality and when it occurs managers must be prepared to cope with its consequences.

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POTENTIAL MANAGERIAL PROBLEMS WHEN ORGANIZATIONS DECLINE

- Table 40.1 lists some of these consequences.
- The remainder of this module looks in greater detail at some of these problems and considers what managers can do about them.

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Table 40.1 lists some of these consequences. The remainder of this module looks in greater detail at some of these problems and considers what manager can do about them.

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POTENTIAL MANAGERIAL PROBLEMS WHEN ORGANIZATIONS DECLINE	
Dysfunctional Consequences of Organizational Decline	
1	Centralization. Decision making is passed upward, participation decreases, and control is emphasized.
2	No long-term planning. Crises and short-term needs drive out strategic planning.
3	Innovation curtailed. No experimentation, risk-aversion, and scepticism about noncore activities.
4	Resistance to change. Conservatism and turf protection lead to rejection of new alternatives.
5	Turnover. The most competent leaders tend to leave first, causing leadership anemia.
6	Low morale. Few needs are met, and infighting is predominant.
7	Loss of slack. Uncommitted resources are used to cover operating expenses.
8	Fragmented pluralism. Special interest groups organize and become more vocal.
9	Loss of credibility. Leaders lose the confidence of their subordinates.
10	Nonprioritized cuts. Attempts to ameliorate conflict lead to attempts to equalize cutbacks.
11	Conflict. Competition and infighting for control predominate when resources are scarce.

Table 40.1: Dysfunctional Consequences of Organizational Decline

Source: Robbins, S. P. (1990). Organization Theory: Structures, Designs, and Applications. Pearson Education India.

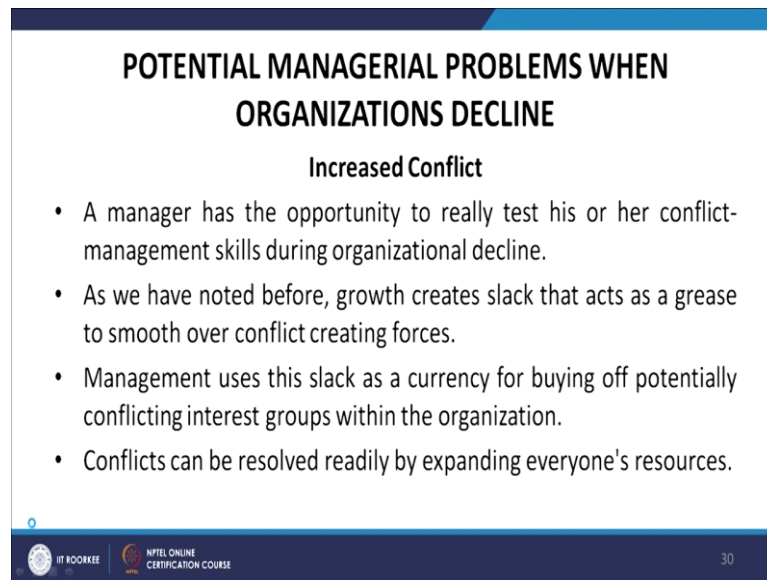
So, this is table 40.1. And it shows dysfunctional consequences of organizational decline. And the first one is centralization, that is decision making is passed upwards, participation decreases and control is emphasized.

The 2nd is, no long-term planning, that is, crisis and short-term needs, drive out strategy planning. The 3rd is, innovation curtailed, no experimentation, risk aversion and skepticism about non core activities. The, 4th is, resistance to change, conservatism and turf protection leads to rejection of new alternatives.

The 5th one is, the most competent leaders tend to leave first causing leadership anemia. The 6th is, low morale, few needs are met and infighting is predominant. The 7th one is, loss of slack, uncommitted resources are used to cover operating expenses. The 8 is fragmented pluralism, special interest groups organize and become more vocal. The 9th is, loss of credibility, that is, leaders lose the confidence of their subordinates.

The 10th one is, non-prioritized cuts, attempts to ameliorate conflict, lead to attempts to equalize cutbacks. And the 11th is, conflict competition and infighting for control predominates when resources are scarce.

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POTENTIAL MANAGERIAL PROBLEMS WHEN ORGANIZATIONS DECLINE

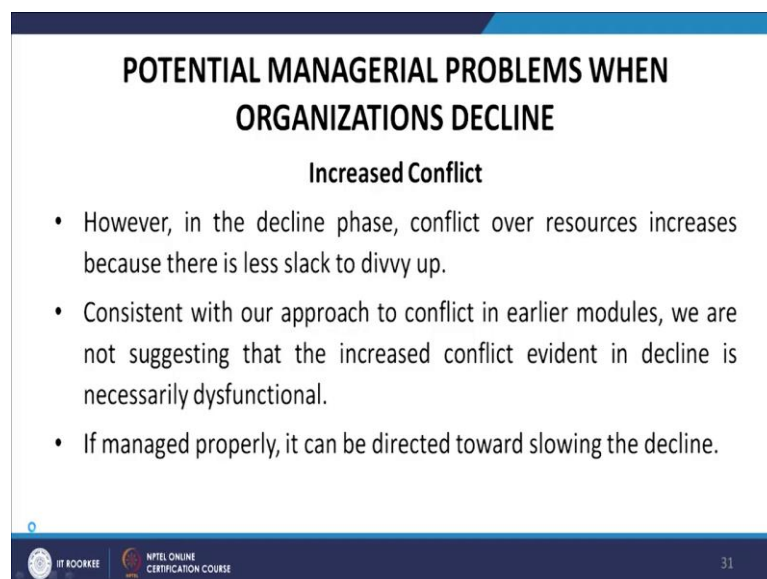
Increased Conflict

- A manager has the opportunity to really test his or her conflict-management skills during organizational decline.
- As we have noted before, growth creates slack that acts as a grease to smooth over conflict creating forces.
- Management uses this slack as a currency for buying off potentially conflicting interest groups within the organization.
- Conflicts can be resolved readily by expanding everyone's resources.

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And, now let us look at the increased conflict. A manager has the opportunity to really test his or her conflict management skills, during organization's decline. As we have noted before, growth creates slacks that acts as a grease to smooth over conflict creating forces. Management uses the slack as a currency for buying of potentially conflicting interest groups, within the organization. Conflicts can be resolved readily by expanding everyone's resources.

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POTENTIAL MANAGERIAL PROBLEMS WHEN ORGANIZATIONS DECLINE

Increased Conflict

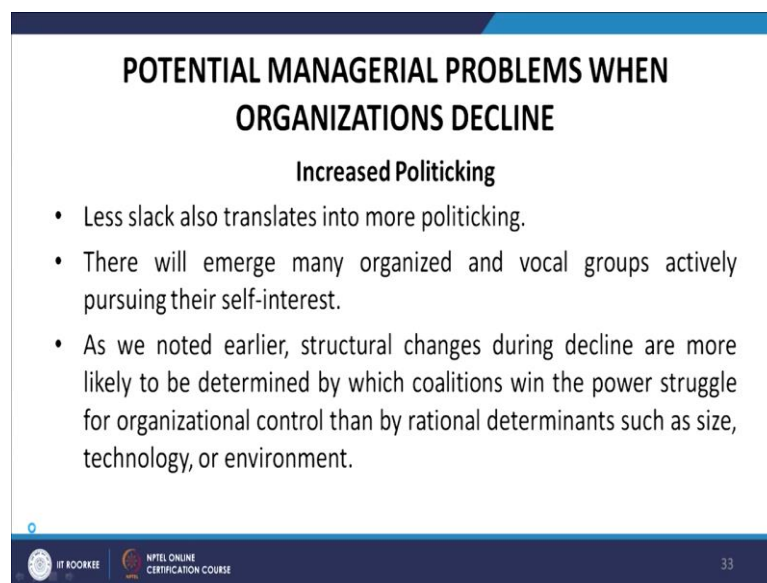
- However, in the decline phase, conflict over resources increases because there is less slack to divvy up.
- Consistent with our approach to conflict in earlier modules, we are not suggesting that the increased conflict evident in decline is necessarily dysfunctional.
- If managed properly, it can be directed toward slowing the decline.

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However, in the decline phase, conflict over resources increases, because there is less slack to divvy up. Consistent with our approach to conflict, in earlier modules, we are not suggesting that the increased conflict evident in decline is necessarily dysfunctional. If managed properly it can be directed towards slowing that decline.

Out of conflict, can come changes that can revitalize the organization, selection of a new domain, the creation of new products or services, the cost cutting measures that can make the shrunken organization more efficient and viable.

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POTENTIAL MANAGERIAL PROBLEMS WHEN ORGANIZATIONS DECLINE

Increased Politicking

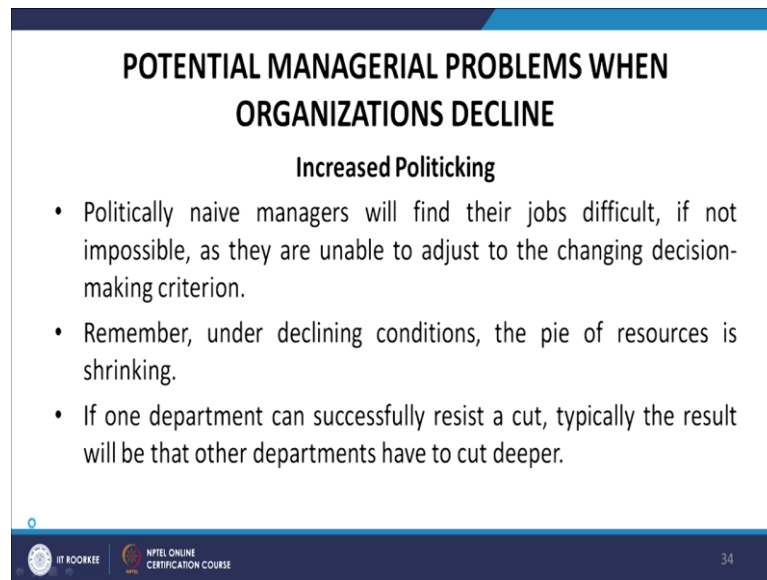
- Less slack also translates into more politicking.
- There will emerge many organized and vocal groups actively pursuing their self-interest.
- As we noted earlier, structural changes during decline are more likely to be determined by which coalitions win the power struggle for organizational control than by rational determinants such as size, technology, or environment.

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The second factor is increased politicking; less slack also translates into more politicking. There will emerge many organized and vocal groups actively pursuing their self interests. As we noted earlier, structural changes during decline are more likely to be determined by which coalitions win the power struggle for organizational control than by rational determinants such as size, technology or environment.

Politically naïve managers will find their jobs difficult if not impossible, as they are unable to adjust to the changing decision-making criteria. Remember under declining conditions the pie of resources is shrinking.

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POTENTIAL MANAGERIAL PROBLEMS WHEN ORGANIZATIONS DECLINE

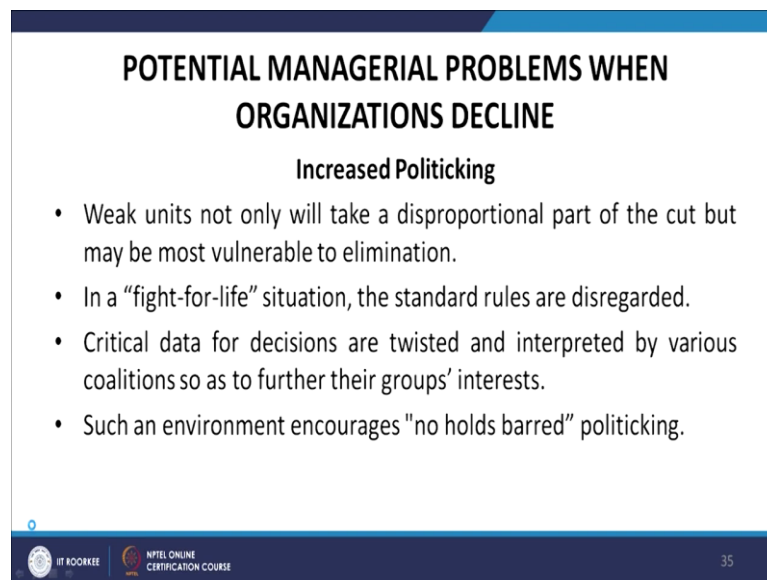
Increased Politicking

- Politically naive managers will find their jobs difficult, if not impossible, as they are unable to adjust to the changing decision-making criterion.
- Remember, under declining conditions, the pie of resources is shrinking.
- If one department can successfully resist a cut, typically the result will be that other departments have to cut deeper.

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If one department can successfully resist a cut, typically the result will be that other departments have to cut deeper.

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POTENTIAL MANAGERIAL PROBLEMS WHEN ORGANIZATIONS DECLINE

Increased Politicking

- Weak units not only will take a disproportional part of the cut but may be most vulnerable to elimination.
- In a “fight-for-life” situation, the standard rules are disregarded.
- Critical data for decisions are twisted and interpreted by various coalitions so as to further their groups’ interests.
- Such an environment encourages “no holds barred” politicking.

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Weak units not only will take a disproportional part of their cut, but maybe most vulnerable to elimination. In a “fight for life” situation, the standard rules are disregarded. Critical data for decisions are twisted and interpreted by various correlations, so as to further their groups’ interests. Such an environment encourages “no holds barred” politicking. Another factor is increased resistance to change.

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POTENTIAL MANAGERIAL PROBLEMS WHEN ORGANIZATIONS DECLINE

Increased Resistance to Change

- The organization responds more slowly to environmental change in decline than in growth.
- In its effort to protect itself, the dominant coalition fights hard to maintain the status quo and its control.
- Vested interests thwart change efforts.
- The unfreezing stage in the change process becomes extremely difficult.

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The organization responds more slowly to environmental changes in the decline than in growth. In an effort to protect itself, the dominant coalition fights hard to maintain the status quo and its control. Vested interests thwart change efforts. The unfreezing stage in the change process becomes extremely difficult.

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POTENTIAL MANAGERIAL PROBLEMS WHEN ORGANIZATIONS DECLINE

Increased Resistance to Change

- Resistance to change seems to be related to the previously discussed "stages of decline."
- Early in the decline, individuals follow a pattern of "weathering the storm."
- This is characterized by intensified efforts to follow the old, established procedures and may result in slowing the decline.
- But if it is truly of the prolonged variety, at best it can only delay the inevitable.

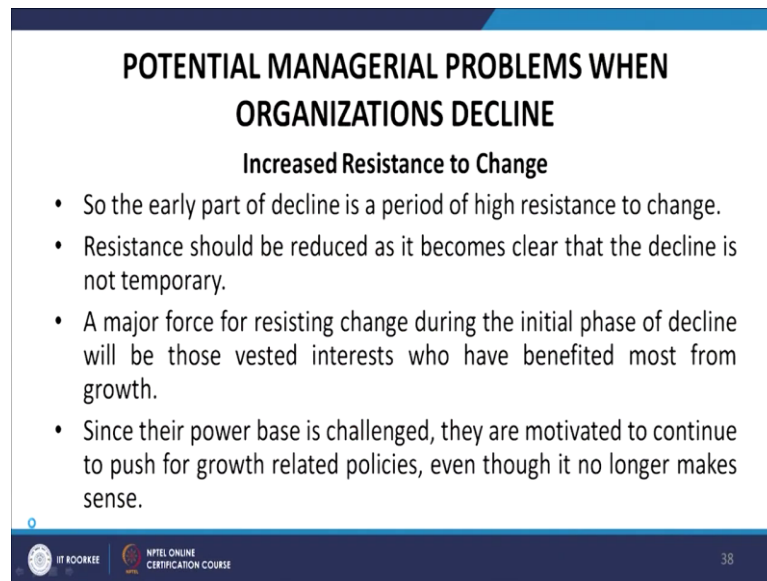
IT ROORKEE NPTEL ONLINE CERTIFICATION COURSE 37

Resistance to change seems to be related to the previously discussed "stages of decline." Early in the decline, individuals follow a pattern of "weathering the storm". This is characterized by intensified efforts to follow the old, established procedures and may

result in slowing the decline. But, if it is truly of the prolonged variety, at best it can only delay the inevitable.

So, the early part of decline is a period of high resistance to change. Resistance should be reduced as it becomes clear that the decline is not temporary. A major force for resisting change during the initial phase of decline will be those vested interests, who have benefited most from growth.

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POTENTIAL MANAGERIAL PROBLEMS WHEN ORGANIZATIONS DECLINE

Increased Resistance to Change

- So the early part of decline is a period of high resistance to change.
- Resistance should be reduced as it becomes clear that the decline is not temporary.
- A major force for resisting change during the initial phase of decline will be those vested interests who have benefited most from growth.
- Since their power base is challenged, they are motivated to continue to push for growth related policies, even though it no longer makes sense.

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Since their power base is challenged, they are motivated to continue to push for growth related policies, even though it no longer makes sense.

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POTENTIAL MANAGERIAL PROBLEMS WHEN ORGANIZATIONS DECLINE

Increased Resistance to Change

- Pro-growth advocates attempt to push for growth because it supports their interest well beyond the point where the diseconomies of growth overshadow its benefits.
- If the organizations are to change their policies, it will be necessary to dislodge the growth advocates from their power positions and replace them with a new cadre of leaders with a different set of vested interests.

IT ROORKEE NPTEL ONLINE CERTIFICATION COURSE 39

Pro-growth advocates attempt to push for growth, because it supports their interest well, beyond the point where the diseconomies of growth, overshadow its benefits. If the organizations are to change their policies, it will be necessary to dislodge the growth advocates from their power positions and replace them with a new cadre of leaders with a different set of vested interests.

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POTENTIAL MANAGERIAL PROBLEMS WHEN ORGANIZATIONS DECLINE

Loss of Top-Management Credibility

- In decline, members of the organization will look to some individual or group on which to place the blame for the retrenchment.
- Whether or not top management is directly responsible for the decline, they tend to become the scapegoat.
- This, in turn, leads to a loss of top-management credibility.

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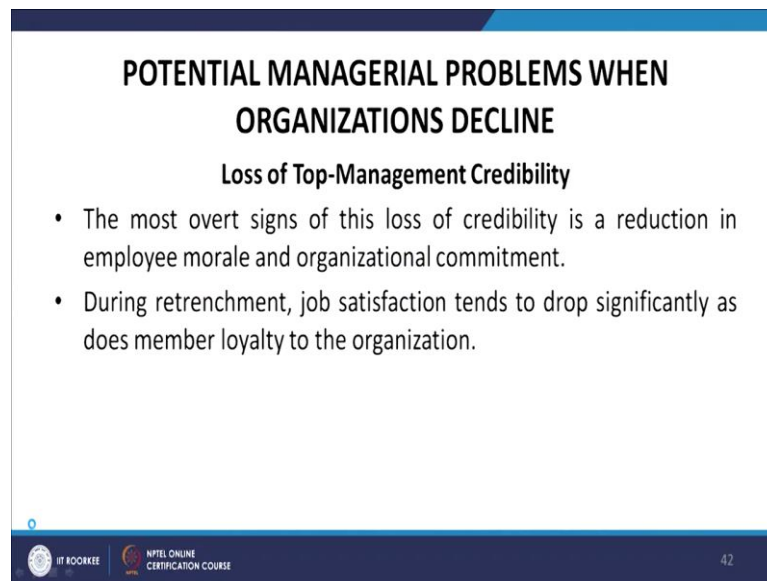
Another factor is the loss of top management credibility. In decline, members of the organization will look to some individual or groups on which to place the blame for the

retrenchment. Whether or not top management is directly responsible for the decline, they tend to become the scapegoat.

This in turn leads to a loss of top management credibility. Members compare their organizations with others that are growing or compare their plight with the situation of friends and relatives employed by healthy organizations. And, then they look for some place to vent their frustrations.

If their organization's senior management were competent, they seem to assume, retrenchment would not be necessary or at least it would be of short duration. The most showed sign of this loss of credibility is a reduction in employee morale and organizational commitment.

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POTENTIAL MANAGERIAL PROBLEMS WHEN ORGANIZATIONS DECLINE

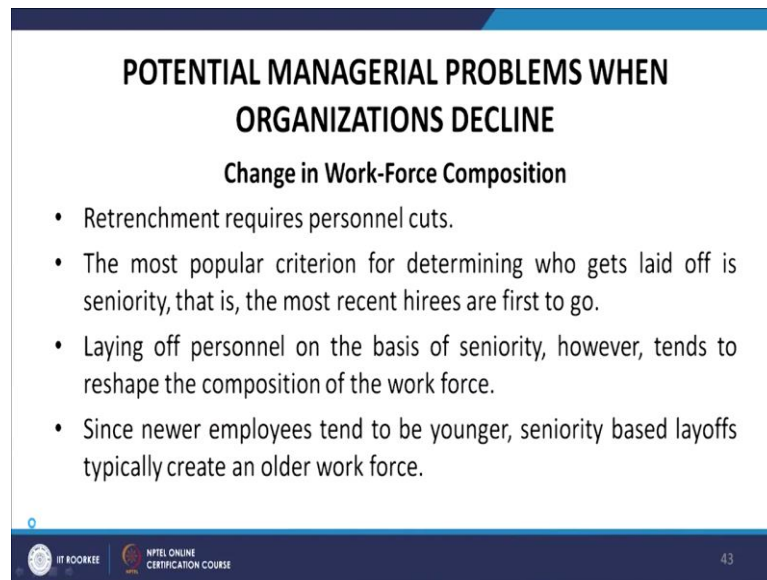
Loss of Top-Management Credibility

- The most overt signs of this loss of credibility is a reduction in employee morale and organizational commitment.
- During retrenchment, job satisfaction tends to drop significantly as does member loyalty to the organization.

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During retrenchment, job satisfaction tends to drop significantly as does member loyalty to the organizations. Let us look at the factor of change in workforce composition, retrenchment requires personnel cuts. The most popular criteria for determining who gets laid off is seniority, that is, the most recent hires are first to go. Laying off personnel on the basis of seniority; however, tends to reshape the composition of the work force. Since newer employees tend to be younger, seniority based layoff typically creates an older workforce.

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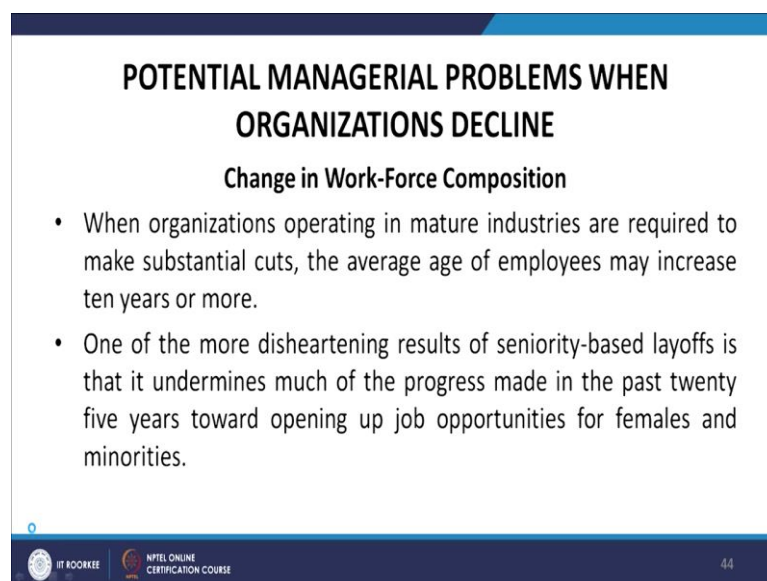
POTENTIAL MANAGERIAL PROBLEMS WHEN ORGANIZATIONS DECLINE

Change in Work-Force Composition

- Retrenchment requires personnel cuts.
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- Laying off personnel on the basis of seniority, however, tends to reshape the composition of the work force.
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POTENTIAL MANAGERIAL PROBLEMS WHEN ORGANIZATIONS DECLINE

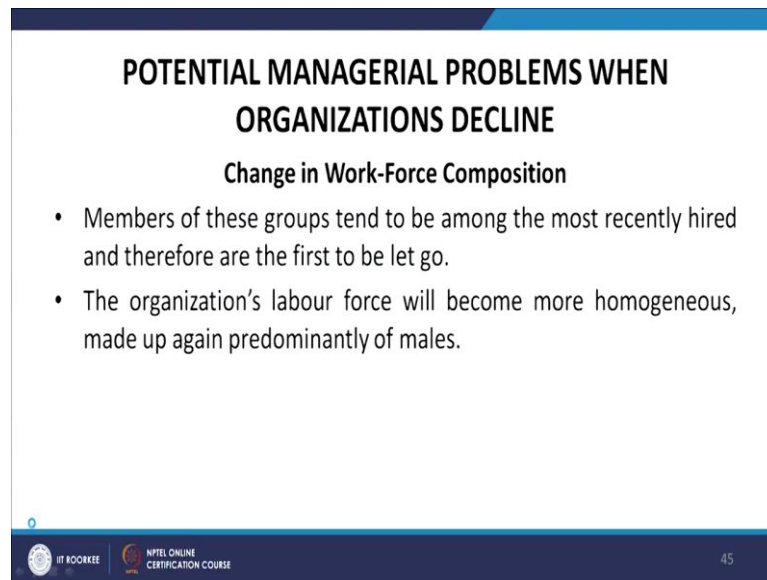
Change in Work-Force Composition

- When organizations operating in mature industries are required to make substantial cuts, the average age of employees may increase ten years or more.
- One of the more disheartening results of seniority-based layoffs is that it undermines much of the progress made in the past twenty five years toward opening up job opportunities for females and minorities.

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When, organizations operating in the mature industries are required to make substantial cuts, the average age of employ may increase ten years or more. One of the most disheartening results of seniority based lays off is that it undermines much of the progress made in the past twenty-five years, towards opening up job opportunities for females and minorities.

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POTENTIAL MANAGERIAL PROBLEMS WHEN ORGANIZATIONS DECLINE

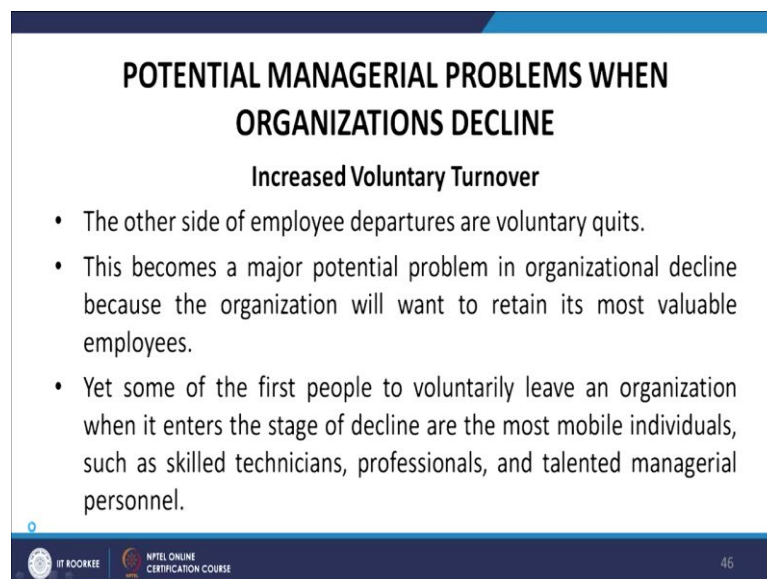
Change in Work-Force Composition

- Members of these groups tend to be among the most recently hired and therefore are the first to be let go.
- The organization's labour force will become more homogeneous, made up again predominantly of males.

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Members of these groups tend to be among the most recently hired and therefore, are the first to be let go. The organization's labor force will become more homogeneous, made up again predominantly of males.

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POTENTIAL MANAGERIAL PROBLEMS WHEN ORGANIZATIONS DECLINE

Increased Voluntary Turnover

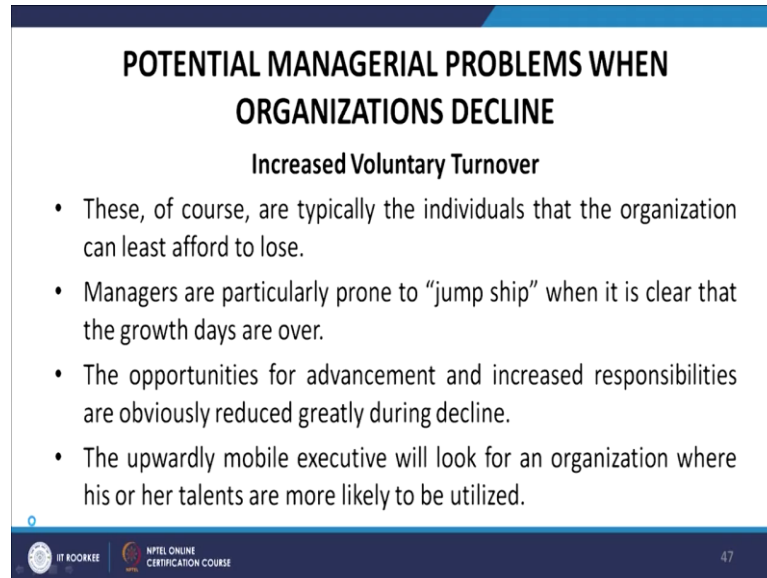
- The other side of employee departures are voluntary quits.
- This becomes a major potential problem in organizational decline because the organization will want to retain its most valuable employees.
- Yet some of the first people to voluntarily leave an organization when it enters the stage of decline are the most mobile individuals, such as skilled technicians, professionals, and talented managerial personnel.

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Increased voluntary turnover; the other side of employee departure are voluntary quits. This becomes a major potential problem in organizational decline, because the organization will want to retain its most valuable employees.

Yet some of the first people to voluntarily leave an organization, when it enters the stage of decline are the most mobile individuals, such as skilled technicians, professionals and talented managerial personnel.

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POTENTIAL MANAGERIAL PROBLEMS WHEN ORGANIZATIONS DECLINE

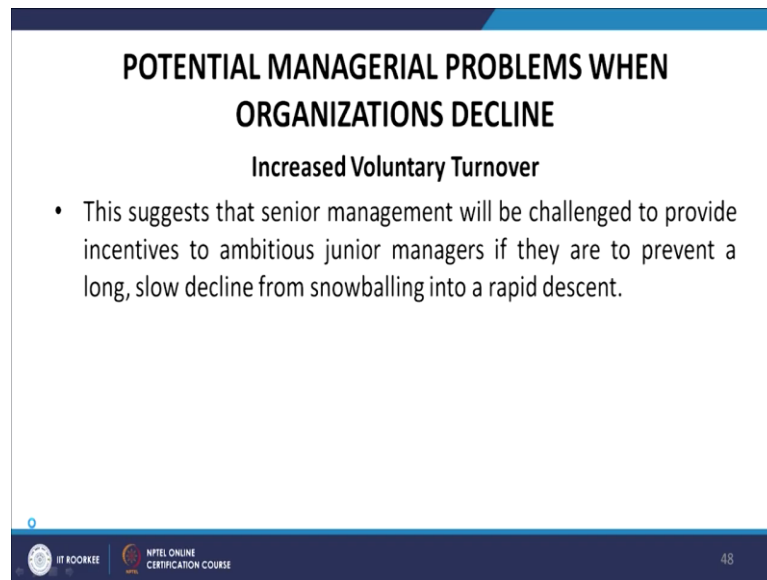
Increased Voluntary Turnover

- These, of course, are typically the individuals that the organization can least afford to lose.
- Managers are particularly prone to “jump ship” when it is clear that the growth days are over.
- The opportunities for advancement and increased responsibilities are obviously reduced greatly during decline.
- The upwardly mobile executive will look for an organization where his or her talents are more likely to be utilized.

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These of course, are typically the individuals that the organization can least afford to lose. Managers are specifically prone to “jump ship”, when it is clear that the growth days are over. The opportunities for advancement and increased responsibilities are obviously reduced greatly during decline. The upwardly mobile executive will look for an organization, where his or her talents are more likely to be utilized.

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POTENTIAL MANAGERIAL PROBLEMS WHEN ORGANIZATIONS DECLINE

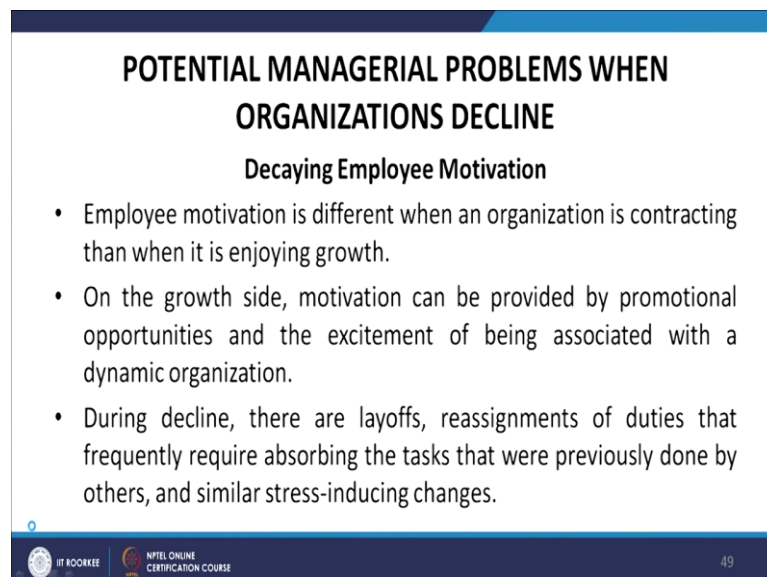
Increased Voluntary Turnover

- This suggests that senior management will be challenged to provide incentives to ambitious junior managers if they are to prevent a long, slow decline from snowballing into a rapid descent.

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This suggests that senior management will be challenged to provide incentives to ambitious junior managers if they are to prevent a long, slow decline from snowballing into a rapid descent. Then comes decaying employee motivation. Employee motivation is different when an organization is contracting than when it is enjoying growth.

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POTENTIAL MANAGERIAL PROBLEMS WHEN ORGANIZATIONS DECLINE

Decaying Employee Motivation

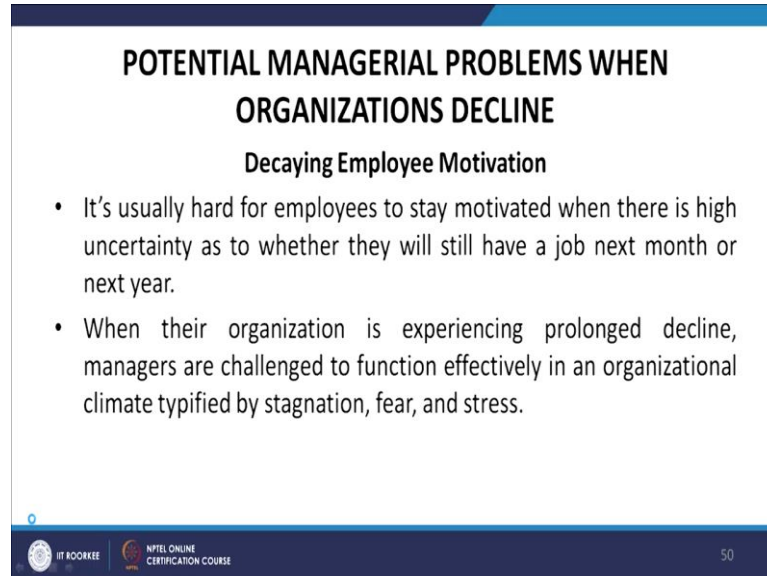
- Employee motivation is different when an organization is contracting than when it is enjoying growth.
- On the growth side, motivation can be provided by promotional opportunities and the excitement of being associated with a dynamic organization.
- During decline, there are layoffs, reassignments of duties that frequently require absorbing the tasks that were previously done by others, and similar stress-inducing changes.

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On the growth side, motivation can be provided by promotional opportunities and the excitement of being associated with a dynamic organization. During decline, there are

layoffs, reassignments of duties that frequently require absorbing the tasks, that were previously done by others and similar stress-inducing changes.

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POTENTIAL MANAGERIAL PROBLEMS WHEN ORGANIZATIONS DECLINE

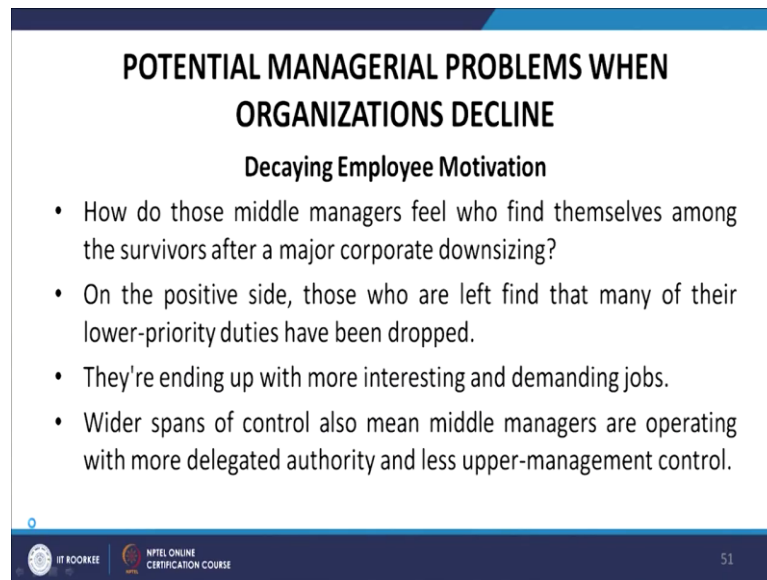
Decaying Employee Motivation

- It's usually hard for employees to stay motivated when there is high uncertainty as to whether they will still have a job next month or next year.
- When their organization is experiencing prolonged decline, managers are challenged to function effectively in an organizational climate typified by stagnation, fear, and stress.

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It is usually hard for employees to stay motivated, when there is high uncertainty as to whether, they will still have a job next month or next year. When their organization is experiencing prolonged decline, managers are challenged to function effectively in an organizational climate typified by stagnation, fear and stress. How do those middle managers feel, who find themselves among the survivors after a major corporate downsizing?

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POTENTIAL MANAGERIAL PROBLEMS WHEN ORGANIZATIONS DECLINE

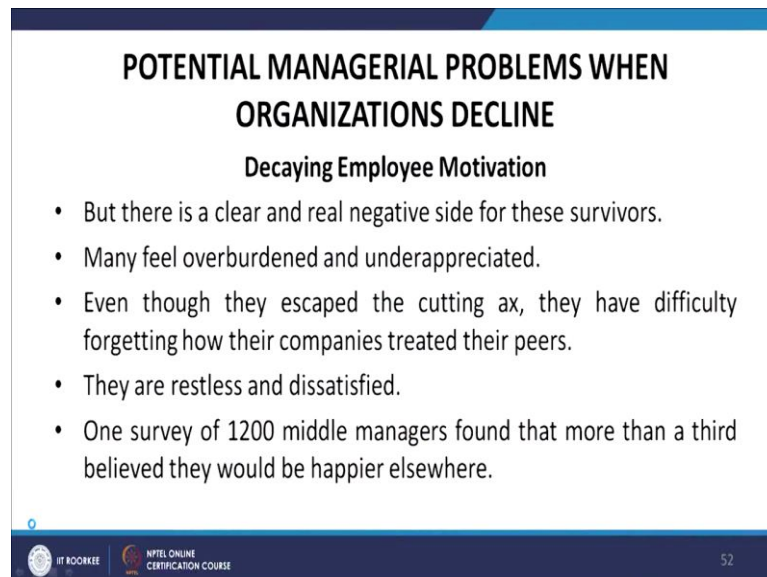
Decaying Employee Motivation

- How do those middle managers feel who find themselves among the survivors after a major corporate downsizing?
- On the positive side, those who are left find that many of their lower-priority duties have been dropped.
- They're ending up with more interesting and demanding jobs.
- Wider spans of control also mean middle managers are operating with more delegated authority and less upper-management control.

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On the positive side, those who are left find that many of their lower-priority duties have been dropped. They are ending up with more interesting and demanding jobs. Wider spans of control also mean middle managers are operating with more delegated authority and less upper-management controls.

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POTENTIAL MANAGERIAL PROBLEMS WHEN ORGANIZATIONS DECLINE

Decaying Employee Motivation

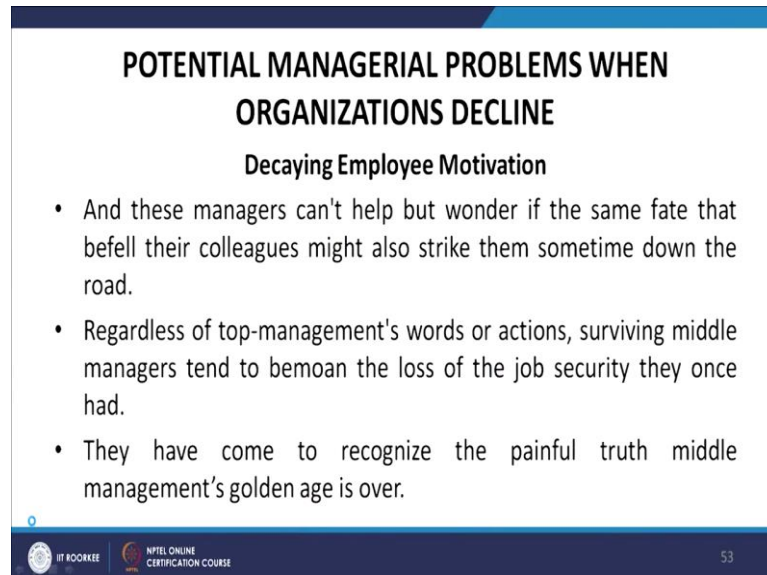
- But there is a clear and real negative side for these survivors.
- Many feel overburdened and underappreciated.
- Even though they escaped the cutting ax, they have difficulty forgetting how their companies treated their peers.
- They are restless and dissatisfied.
- One survey of 1200 middle managers found that more than a third believed they would be happier elsewhere.

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But there is a clear and real negative side for the survivors. Many feel overburdened and underappreciated. Even though they escaped the cutting axe, they have difficulty forgetting how their company has treated their peers. They are restless and dissatisfied.

One survey of 1200 middle managers found that more than a third believed that they would be happier elsewhere.

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POTENTIAL MANAGERIAL PROBLEMS WHEN ORGANIZATIONS DECLINE

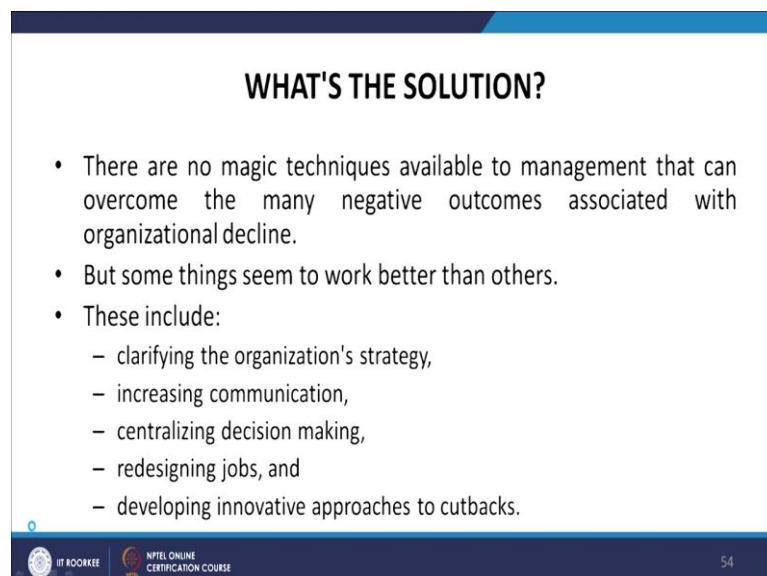
Decaying Employee Motivation

- And these managers can't help but wonder if the same fate that befell their colleagues might also strike them sometime down the road.
- Regardless of top-management's words or actions, surviving middle managers tend to bemoan the loss of the job security they once had.
- They have come to recognize the painful truth middle management's golden age is over.

IT ROORKEE NPTEL ONLINE CERTIFICATION COURSE 53

And these managers cannot help, but wonder if the same fate that befell their colleagues might also strike them sometime down the road. Regardless of top management's words or actions, surviving middle managers tend to bemoan the loss of the job security they once had. They have come to recognize the painful truth middle management's golden age is over.

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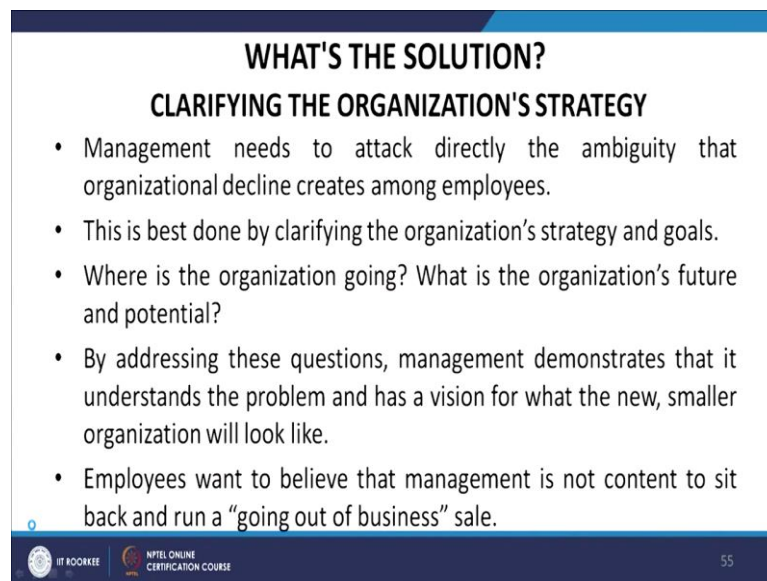
WHAT'S THE SOLUTION?

- There are no magic techniques available to management that can overcome the many negative outcomes associated with organizational decline.
- But some things seem to work better than others.
- These include:
 - clarifying the organization's strategy,
 - increasing communication,
 - centralizing decision making,
 - redesigning jobs, and
 - developing innovative approaches to cutbacks.

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So, what is the solution then? There are no magic techniques available to management that can overcome the many negative outcomes associated with organizational decline. But something seems to work better than others. And these include clarifying the organizations strategy, increasing communication, centralizing decision making, redesigning jobs and developing innovative approaches to cutbacks. Now, let us look at how to clarify the organizations strategy.

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WHAT'S THE SOLUTION?

CLARIFYING THE ORGANIZATION'S STRATEGY

- Management needs to attack directly the ambiguity that organizational decline creates among employees.
- This is best done by clarifying the organization's strategy and goals.
- Where is the organization going? What is the organization's future and potential?
- By addressing these questions, management demonstrates that it understands the problem and has a vision for what the new, smaller organization will look like.
- Employees want to believe that management is not content to sit back and run a "going out of business" sale.

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Management needs to attack directly the ambiguity that organizational decline creates among employees. This is best done by clarifying the organization's strategy and goals, where is the organization going? what is the organization's future and potential?

By addressing these questions, management demonstrates that it understands the problem, and has a vision for what the new, smaller organization will look like. Employees want to believe that management is not content to sit back and run a "going out of business" sale.

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WHAT'S THE SOLUTION?
INCREASING COMMUNICATION

- Organizational decline demands that management do a lot of communicating with employees.
- The primary focus of this communication should be downward; specifically, explaining the rationale for changes that will have to be made.
- But there should also be upward communication to give employees an opportunity to vent their fears and frustrations, and have important questions answered.
- Remember, management's credibility is not likely to be high.

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Increasing communication; organizational decline demands that management do a lot of communicating with employees. The primary focus of this communication should be downward; specifically, explaining the rationale for changes that will have to be made.

But there should also be upward communication to give employees an opportunity to vent their fears and frustrations and have important questions answered. Remember, management's credibility is not likely to be high.

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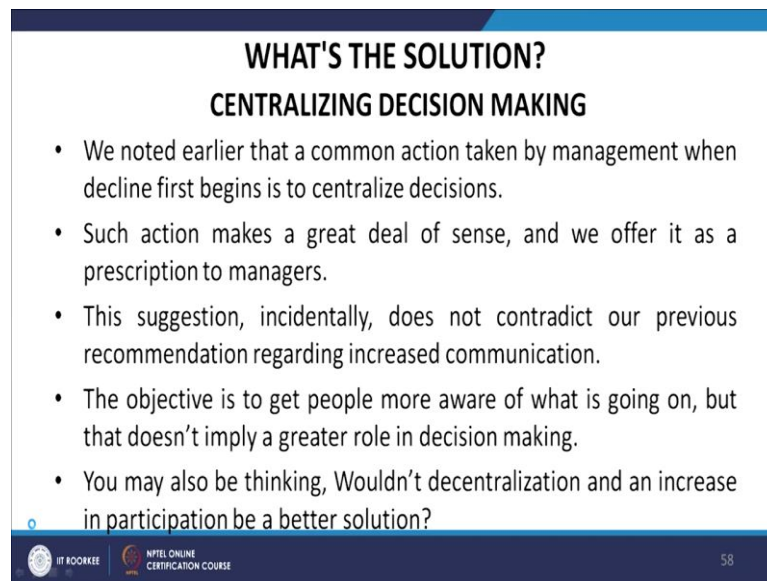
WHAT'S THE SOLUTION?
INCREASING COMMUNICATION

- Additionally, rumours will be rampant.
- This puts a premium on management's making every effort to explain clearly the reasons for, and implications of, all significant changes.
- That is not going to eliminate employee fears, but it will increase the likelihood that management will be perceived as honest and trustworthy.
- Under the conditions, that may be about the best one can hope for.

57

Additionally, rumors will be rampant. This puts a premium on management's making every effort to explain clearly the reasons for, and implications of, all significant changes. This is not going to eliminate employee fears, but it will increase the likelihood that management will be perceived as honest and trustworthy. Under the conditions, that may be about the best one can hope for.

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WHAT'S THE SOLUTION?
CENTRALIZING DECISION MAKING

- We noted earlier that a common action taken by management when decline first begins is to centralize decisions.
- Such action makes a great deal of sense, and we offer it as a prescription to managers.
- This suggestion, incidentally, does not contradict our previous recommendation regarding increased communication.
- The objective is to get people more aware of what is going on, but that doesn't imply a greater role in decision making.
- You may also be thinking, Wouldn't decentralization and an increase in participation be a better solution?

IT ROORKEE NPTEL ONLINE CERTIFICATION COURSE 58

Centralizing decision making - we noted earlier that a common action taken by management, when decline first begins is to centralize decisions. Such actions make a great deal of sense and we offer it as a prescription to managers. This suggestion incidentally does not contradict our previous recommendation, regarding increased communication.

The objective is to get people more aware of what is going on, but that does not imply a greater role in decision making. You may also be thinking, would not decentralization and an increase in participation be a better solution?

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WHAT'S THE SOLUTION?
CENTRALIZING DECISION MAKING

- After all, participation is often proposed as a potent vehicle for facilitating change.
- We argue against participation during decline, especially on tough resource allocation and cutback decisions, because of the evidence that people can't be rational contributors to their own demise.
- The self-interest of participants is just too great to provide benefits that exceed the costs.
- Participation and decentralization should be reintroduced only when it is clear to everyone that the decline has stabilized.

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After all, participation is often proposed as a potent vehicle for facilitating change. We argued against participation during decline, especially on tough resource allocation and cut back decisions, because, of the evidence that people cannot be rational contributors to their own demise.

The self interest of participants is just too great to provide benefits that exceeds the costs. Participation and decentralization should be reintroduced, only when it is clear to everyone that the decline has stabilized.

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WHAT'S THE SOLUTION?
REDESIGNING JOBS

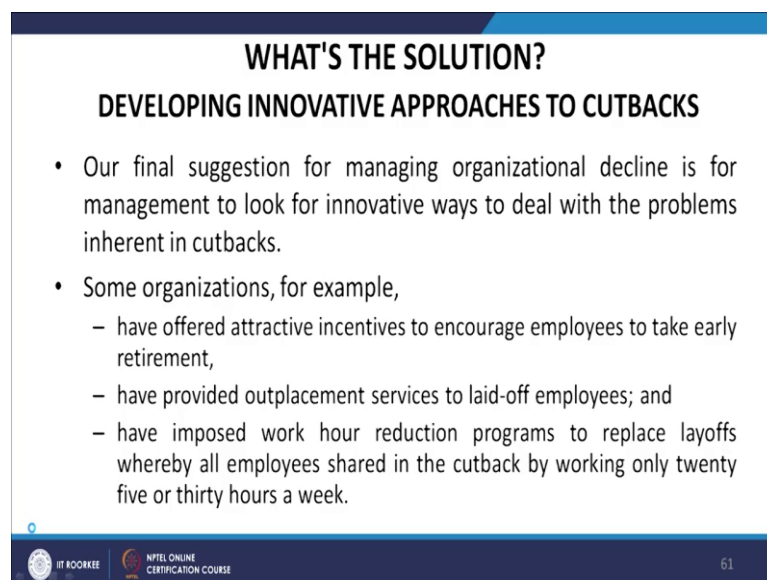
- When cuts are made in personnel, it creates the opportunity for management to consolidate and redesign jobs.
- If the decline appears to be arrested and fears of further layoffs subside, the redesign of jobs to make them more challenging and motivating can turn a problem - eliminating functions and reassigning workloads - into an opportunity.
- For example, by increasing the variety of work activities and allowing people to do complete jobs, employees can find their new assignments offering a greater diversity of activities and with more whole and identifiable work.

60

Redesigning jobs - When cuts are made in personnel, it creates the opportunity for management to consolidate and redesign jobs. If the decline appears to be arrested and fears of further layoffs subside, the redesign of job to make them more challenging and motivating can turn a problem eliminating functions, and reassigning workloads into an opportunity.

For example, by increasing the variety of work activities and allowing people to do complete jobs, employees can find their new assignments offering a greater diversity of activities, and with more whole and identifiable work.

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WHAT'S THE SOLUTION?

DEVELOPING INNOVATIVE APPROACHES TO CUTBACKS

- Our final suggestion for managing organizational decline is for management to look for innovative ways to deal with the problems inherent in cutbacks.
- Some organizations, for example,
 - have offered attractive incentives to encourage employees to take early retirement,
 - have provided outplacement services to laid-off employees; and
 - have imposed work hour reduction programs to replace layoffs whereby all employees shared in the cutback by working only twenty five or thirty hours a week.

IT ROOKIE NPTEL ONLINE CERTIFICATION COURSE 61

Now, let us look at, developing innovative approaches to cutbacks. Our final suggestion for managing organizational decline is for management to look for innovative ways to deal with the problems inherent in cutbacks. Some organizations, for example, have offered attractive incentives to encourage employees to take early retirement.

Some have provided outplacement services to laid-off employees and have imposed work hour reduction programs to replace layoffs whereby all employees shared in the cut back by working only twenty five or thirty hours a week.

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CONCLUSION

- In this module, we observed that managing organizational decline is not merely reversing what was done during growth.
- Then we discussed how decline affects the administrative component.
- We discussed about the steps management is likely to follow in response to decline.
- Later we identified the potential problems managers face when organizations decline.
- Finally, we listed specific techniques management can use to reduce personnel.

IIT ROORKEE NPTEL ONLINE CERTIFICATION COURSE 62

So, to conclude, in this module, we observed that managing organizational decline is not merely reversing what was done during growth. Then, we discussed how decline affects the administrative component.

Then, we discussed about the steps, management is likely to follow in response to decline. Later, we identified the potential problems managers face when organizations decline. Finally, we listed the specific techniques management can use to reduce personnel.

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

Thank you.