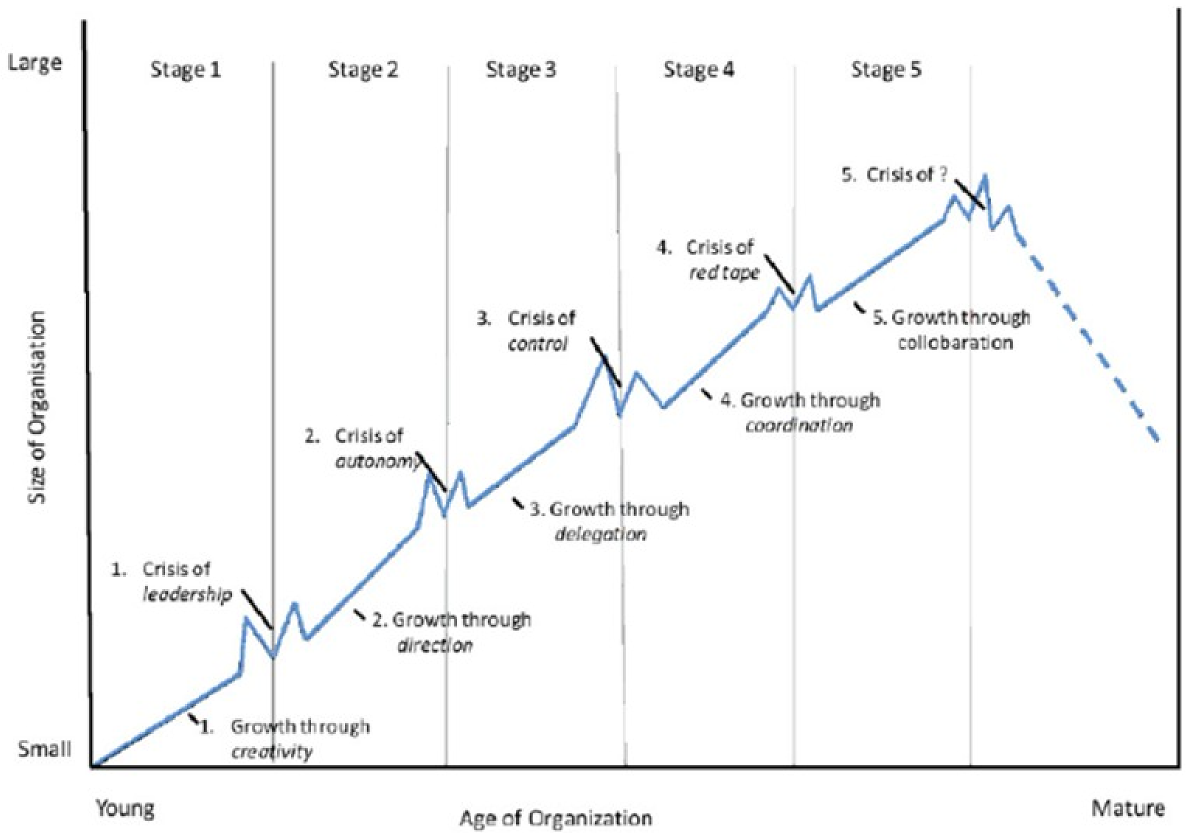
Organization Life Cycle


Large
Small
Size of Organisation
Stage 1
Stage 2
Stage 3
Stage 4
Stage 5
1. Crisis of leadership
2. Crisis of autonomy
3. Crisis of control
4. Crisis of red tape
5. Crisis of ?
1. Growth through creativity
2. Growth through direction
3. Growth through delegation
4. Growth through coordination
5. Growth through collobaration
Young
Age of Organization
Mature

Organisation growth

- **Greiner´s growth model** :
- Growth through creativity
  - Leadership crisis
- Growth through direction
  - Autonomy crisis
- Growth through delegation
  - Control crisis
- Growth through coordination
  - Red-tape crisis
- Growth through collaboration (cooperation)
  - Crisis ?

ORGANIZATIONAL PRACTICES IN THE FIVE PHASES OF GROWTH

CATEGORY	PHASE 1	PHASE 2	PHASE 3	PHASE 4	PHASE 5
Management Focus	Make and sell	Efficiency of operations	Expansion of market	Consolidation of organization	Problem solving and innovation
Organizational Structure	Informal	Centralized and functional	Decentralized and geographical	Line staff and product groups	Matrix of teams
Top-Management Style	Individualistic and entrepreneurial	Directive	Delegative	Watchdog	Participative
Control System	Market results	Standards and cost centers	Reports and profit centers	Plans and invest-ment centers	Mutual goal setting
Management Reward Emphasis	Ownership	Salary and merit increases	Individual bonus	Profit sharing and stock options	Team bonus

Creativity – crisis of leadership

- The founders of the company are usually technically or entrepreneurially oriented, and they generally disdain management activities; their physical and mental energies are absorbed entirely by making and selling a new product.
- Communication among employees is frequent and informal.
- Long hours of work are rewarded by modest salaries and the promise of ownership benefits.
- Decisions and motivation are highly sensitive to marketplace feedback; management acts as customers react.

Direction – crisis of autonomy

- A functional organizational structure is introduced to separate manufacturing from marketing activities, and job assignments become increasingly specialized.
- Accounting systems for inventory and purchasing are introduced.
- Incentives, budgets, and work standards are adopted.
- Communication becomes more formal and impersonal as a hierarchy of titles and positions grows.
- The new manager and his or her key supervisors assume most of the responsibility for instituting direction; lower-level supervisors are treated more as functional specialists than as autonomous decision-making managers.

Delegation – crisis of control

- Much greater responsibility is given to the managers of plants and market territories.
- Profit centers and bonuses are used to motivate employees.
- Top-level executives at headquarters limit themselves to managing by exception based on periodic reports from the field.
- Management often concentrates on acquiring outside enterprises that can be lined up with other decentralized units.
- Communication from the top is infrequent and usually occurs by correspondence, telephone, or brief visits to field locations.

Coordination – red tape crisis 1/2

- Decentralized units are merged into product groups.
- Formal planning procedures are established and intensively reviewed.
- Numerous staff members are hired and located at headquarters to initiate companywide programs of control and review for line managers.
- Capital expenditures are carefully weighed and parceled out across the organization.

Coordination – red tape crisis 2/2

- Each product group is treated as an investment center where return on invested capital is an important criterion used in allocating funds.
- Certain technical functions, such as data processing, are centralized at headquarters, while daily operating decisions remain decentralized.
- Stock options and companywide profit sharing are used to encourage employees to identify with the organization as a whole.

Collaboration - ? Crisis 1/2

- The focus is on solving problems quickly through team action.
- Teams are combined across functions to handle specific tasks.
- Staff experts at headquarters are reduced in number, reassigned, and combined into interdisciplinary teams that consult with, not direct, field units.
- A matrix-type structure is frequently used to assemble the right teams for the appropriate problems.

Collaboration - ? Crisis 2 /2

- Formal control systems are simplified and combined into single multipurpose systems.
- Conferences of key managers are held frequently to focus on major problems.
- Educational programs are used to train managers in behavioral skills for achieving better teamwork and conflict resolution.
- Real-time information systems are integrated into daily decision-making processes.
- Economic rewards are geared more to team performance than to individual achievement.
- Experimenting with new practices is encouraged throughout the organization.

Life cycle of the enterprise

The existence of an enterprise is limited in time by its origin - the beginning of the business and the termination of its business activity.

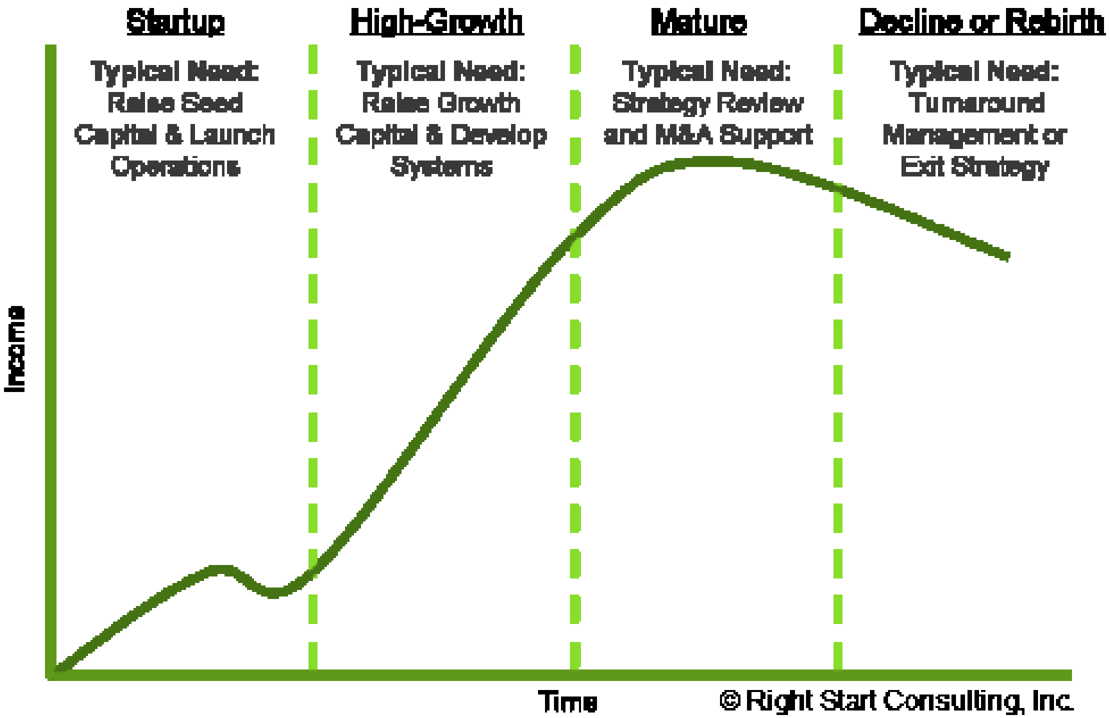
An enterprise passes four phases of the life cycle

1. Establishment, start up, launch
2. Growth,
3. Maturity
4. Decline .

VW – How big is VW (Honda)?

- https://www.youtube.com/watch?v=ws1o-024es
- https://www.youtube.com/watch?v=DNnV3Jb3pkA

Life cycle of enterprise



Establishment, start up

- Birth of the business,
- Profit is negative
- Business is very vulnerable at this time.
- Small businesses, such as a sole trader or partnership, have unlimited liability: when the business owner is personally responsible for all the debts of his or her business.
- Detailed planning during this stage can greatly increase the chances of success.
- The main challenge at the establishment stage is to get the business on a solid foundation by generating enough sales to create a positive cash flow.

Growth

- business is continually gaining regular customers.
- Sales are increasing and cash flow is almost always positive.
- SME (10 and 15 employees)
- need for long term planning.
- Advertisement is important
- need to make investments in relevant equipment or employees to ensure a good reputation.
- Owners must be careful not to expand faster than their business can adapt to the changes.

- Growth and expansion can occur either through a merger or acquisition (takeover).
- A merger occurs when the owners of two separate businesses agree to combine their resources and form a new organisation

- An acquisition (takeover) occurs when one business takes control of another business by purchasing a controlling interest in it.
- Vertical integration occurs when a business expands at different but related levels in the production and marketing of a product.

- Horizontal integration occurs when a business acquires or merges with another firm that makes and sells similar products.
- Diversifi cation (or conglomerate integration) occurs when a business acquires or merges with a business in a completely unrelated industry

Maturity

- Sales are increasing in lower rate.
- business is thriving with a good customer base and regular cash flow
- more formal and detailed approach towards planning
- it is important to make quick decisions with a good chance of success
- the rate of change has slowed; more detailed long term plans can be made

- It may be wise to re-evaluate the businesses mission and vision statements to match when the business is now. There is a good chance they will have changed since establishment; assuming the owner has been flexible to ensure success.
- The goal is to maintain profits at pre-existing levels.
- Marketing and financial management are center to ensure your position .

Post-Maturity

The final stage consists of three possible outcomes:

- **Renewal**: New areas of growth cause increased sales and profits
- **Steady State**: A continuing state of maturity.
- **Decline**: Profits begin to fall as a result of poor management; often a direct result of a drop in sales or excess expenses.

Renewal

Often a direct result of new markets being tapped to create new areas of growth, expanding the reach of products and services the business provides.

Steady State

To maintain a steady state, focus should be on what existing customers are currently demanding. This requires market research for accurate results. A steady state stops expenditure on research and development required for renewal. Be warned, a steady state cannot be maintained forever and will fall into decline if not forced into renewal.

Decline

Decline is difficult to reverse for the following reasons:

- Financial institutions are reluctant to lend money to high risk businesses
- Suppliers will restrict credit facilities and may insist on cash payments
- Products may have become obsolete
- Well qualified employees may begin to leave to seek out better opportunities, without a strong workforce, the rate of decline increases.

Cessation

- Voluntary cessation - of own accord
- Involuntary cessation – forced by others
- The two main causes of business decline (and possible failure) are lack of management expertise or undercapitalisation

Voluntary cessation

- A business may cease operations and voluntarily wind up its affairs. Any assets owned by the business are sold. The business stops operating because the owner may wish to retire, wants a change of lifestyle or, in the case of a sole trader, has died
- However, most businesses cease to trade due to business failure. With debts increasing and a negative cash fl ow, a business owner will soon realise if their business is underperforming. To prevent this accumulation of debt, the owner will need to cease operating the business of their own accord; that is, undergo **voluntary cessation**.

Involuntary cessation

- Many businesses, however, fi nish involuntarily. The owner is forced to cease trading by the creditors of the business; that is, undergo involuntary cessation. Creditors are those people or businesses who are owed money.
- Even though a business appears to be in fi nancial diffi culty, many owners
- continue operating in the hope that ‘things will get better’. In many cases they do not. As the business continues its decline, creditors become worried about the money they are owed and force the business owner into winding up the business.

- Sole traders and partnerships may voluntarily or involuntarily go into bankruptcy:
- a declaration that a business, or person, is unable to pay his or her debts.
- A company has two options when facing financial difficulties:
  - (a) voluntary administration occurs when an independent administrator is appointed to operate the business in the hope of trading out of the present financial problems.
  - (b) voluntary or involuntary liquidation is the process of an appointed liquidator converting the business’s assets into cash

- Liquidation normally occurs because the company is insolvent
- It is estimated that an average 30 to 40 people are personally affected by one company insolvency.

- L.E. Greiner (1998) *Harvard Business Review*.
- Business studies in action (chapter4)