The Organization Life Cycle: Integrating Content and Process

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It has long been argued in organizational literature that as firms evolve, they grow through a series of recognizable stages. This process is referred to as the organization life cycle. Scholars have argued that as firms move through life cycle stages, differing problems must be addressed, esulting in the need for different management skills, priorities, and structural configurations. Over the years, numerous theories and models have been developed in an effort to explain he life cycle process (1). Although these models dif.fer as to the specific number of stages, haracteristics studied, and names assigned each stage, there is a considerable amount of commonality among them. The models share two common themes (2): (1) they suggest that organizations grow through a series of distinct stages, each stage characterized by a unique configuration of contextual, strategic and structural characteristics; and (2) configurations appropriate at one stage of development may be ineffective, even detrimental in subsequent life cycle stages.

Theoretical development of the organization life ·cycle to date has centered on the idenification and description of distinct "stages" of organization growth. Little concerted attenion, however, has been paid to the "dynamics" of organization growth: the "how's" and "why's" associated with movement between the proposed growth stages. A comprehensive model must ntegrate both the content (stages) and process (dynamics) of the organization life cycle. This paper represents an early effort to pull together literature regarding organization life cycle content and process into an integrative model of organization growth and decline.

Integrating Content and Process

The discusssion which follows introduces .two models. The first, in tabular form (Table 1), contains a brief summary description of five theorized stages of organization growth: Start" Up, Expansion, Consolidation, Revival, and Decline. The stages of growth are compared across dimensions of organization context, strategy and structure. This model was synthesized through a careful review of ten recent models of organization life cycle stages (3). A detailed comparison of these·ten models can be found in a literature review by Hanks (4). The intent of this model is to present the general tenor of stage of growth models.

The second model, in graphic form (Figure 1), illustrates the processes· of organization growth and decline. The model is comprised of five cycles through which organizations are proposed to traverse as they evolve through stages of the life cycle. It has been developed by the author based on a review of literature associated with organization stages, and organization change. Combined, these two models, the former focusing on the content of growth stages, the latter focusing on process, provide an integrated picture of growth and decline in organizations.

Organization Birth

Beginning in the top left comer of Figure 1, we can chart the genesis of the organization. As illustrated in the model, the predecessor of organization formation is an idea, some niche or area of need in the-marketplace (5). As the entrepreneur begins' to act upon the idea, transforming dreams into a tangible product or service, the organization is formed. Once developed, the product or service is presented to the marketplace. In this model, the term marketplace is used very broadly to encompass both the general and competitive environments in which the organization operates. Market acceptance means that a dema nd for the product is present and customers are willing to purchase the organizati_on's product or service. Assuming growth is desirable to organization founders, the organization must now scale up to meet product demand. This means hiring additional people and increasing production capacity.

. Transforming an idea into a viable product and getting the basic organization up and running are the focal. tasks in the first stage of the organization life c:ycle, *Start-Up.* As illustrated in Table 1, the Start-Up organization is new, or very young, has few employees, and its growth rate is inconsistent. At this stage the entrepreneur must take substantial risk, of ten mortgaging personal assets, to obtain needed start-up capital.

· Mqst 'firms at thi.s stage pursue a niche strategy, presenting a very narrow product line, of ten a single product to a single market. The new venture generally undertakes major and frequent product innovations (6). Major investments are made in product development, plant and equipment, and working capital (7).

Formal organization structure is almost non-existent during the Start,Up stage. A simple organization structure is generally employed, staffed by the founder who supervises the work of a few employees. job assignments are very general. The tone is flexible, informal and personal. Thre are few if any formal systems; planning and control occurs on an ad hoc, of ten, intui,tive basis. Deision making is highly centralized in the organization founder.

Key skills during the Start-Up stage include creativity (8), market vision, intense commitment and the willingness to undertake risks (9), on the part of the founder. The founder must be an adept "hands-on", results-oriented doer. The organization must be "up and running". as quickly as possible if it is to survive.

Growing Pains and the Configuration Crisis Loop

' As the organization increases in size, it increases in complexity, and faces- new problems. Life cyde theorists argue that increased size and complexity place new demands 'on .the organization, often rendering existing organization structures and systems ineffective. Thus; if the organization wishes to continue to serve the marketplace in an efficient manner, organiza, lion structure and systems must be reconfigured to better fit the organization's current size, complexity and focal problems.

How can organization managers tell when it is time for reconfiguration? Flamholtz argued that as organizations outgrow their existing structure and system3, they begin to experience "growing pains" (10); These include:

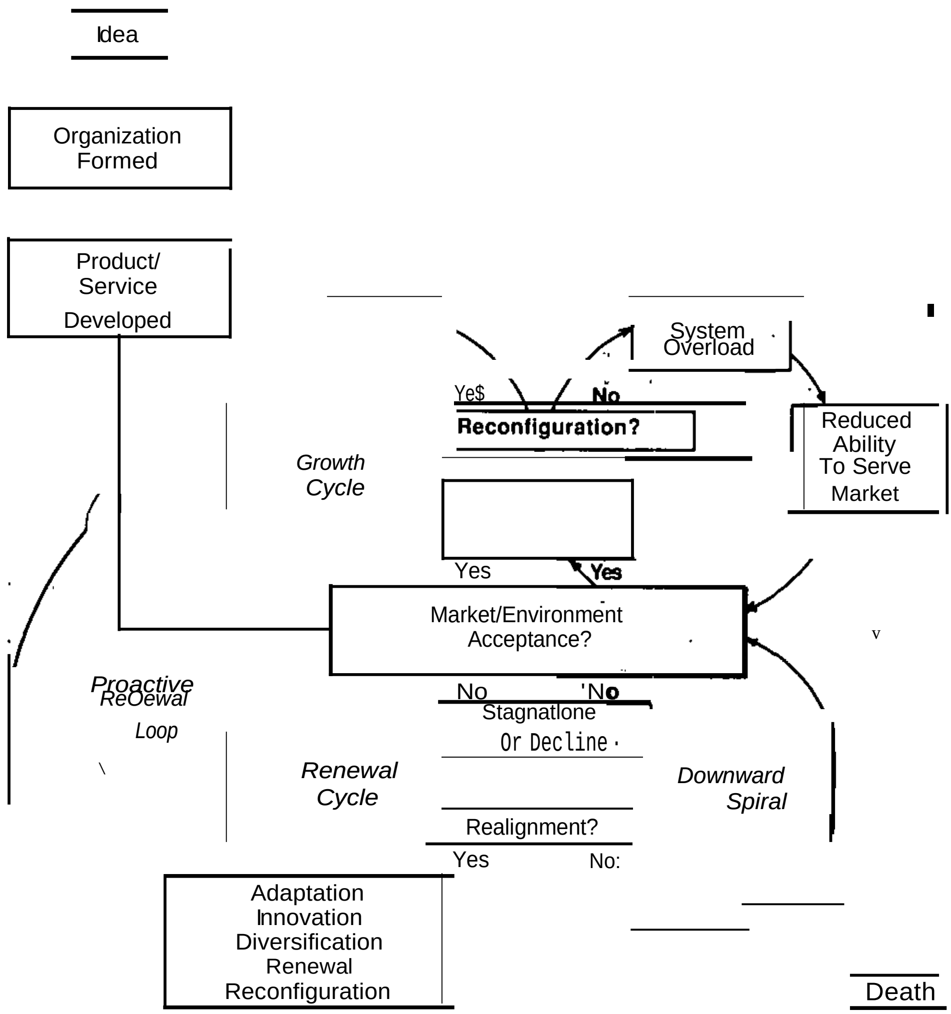
1. People feel that "there are not enough hours in the day:'
2. People spend too much time "putting out fires:'
3. People are not aware of what other people are doing.
4. People lack understanding about where the firm is headed.

Table 1. Summary of Life Cycle Stages

	Start-up Stage	Expansion SU.ge	Cori.olidillion Suge	Revival Stage	Decl
	Young.			Older	Any
	Small.		Large.	Largest	Decl
:	Inconsistent	Rapid positive	Slow growth	Rapid positive	
ks or	Identify niche: Obtain resources; Build pro-totyf"."; Set up task structore	\blume production and d.istribution; Capacity expansion; Of"."rating systems	Make business pro-fitable; Expense control; Management systems	Divenificationl Expansion of pro-duct/market !ICOf"."	Revi miss
et	Niche strategy; Single product & market	Broadened, but	Contained lines, limited line	Segmentation &. multi-ple markets	Cons sif
	Plant & equipment; \.\brking capital	Working capital; Capacity expansion	Pl.ant maintenance & market position	Acquisition of other businesses	
:	Major and frequent pro-duct iruiovations	Incremental product innowtioru	Few product innovations;	Enter new markets via acquisition	Nn inrn;
:					
	Undifferentiated; Simple	Departmentalized.; Functional	Departmentalized; functional	Divisional	Most
	informal. personal. flble; policin	lbrmal systems begin to emerge, but en-forcement i9 lax	lbrmal, bureaucratic; Plannirig and control systems enhm::ed	Formal, bureaucratic; Operating decisions decentralized	Exce
n:	Highly centralized. in founder	Centralized; Umited delegation	Moderately centralized.;	Decentralized	Mod

zes, 1989; Greiner, 1972; Galbraith, 1982; Baird & Meshoulam, 1968; Kazanjian, 1988; Smith, Mitchell & Summer, 1985; Miller & Friesen, 1984b; Ramholtt, ott & Bruce, 198'1.

Figure 1: Model of Organization Growth and Decline



5. There are too few good managers.
6. People feel that "I have to do it myself if I want to get it done correctly:'
7. Most people feel meetings are a waste of time.
8. When plans are made, there is very little follow-up, so things just don't get done.
9. Some people feel insecure about their place in the firm.
10. The firm continues to grow in sales but not in profits.

According to Flamholtz, occurrence of these growing pains is a signal that the existing configuration is no longer adequate. Successf ul reconfiguration enables the organization to efficiently serve the market and continue around the *Growth Cycle.*

What happens when the organization fails to appropriately reconfigure? Organizations which are unable to execute an appropriate reconfiguration leave the Growth Cycle, and follow the *Configuration Crisis Loop* (see Figure 1). Failure to reconfigure creates an overload on existing structure and systems; which in tum inhibits the organization's ability to efficiently serve its market. Initially, the system overload may be minor, having little impact u pon the firm's ability to serve the market. However, as the organization continues to increase in size and complexity, the overload becomes severe and the organization faces a major developmental crisis. Unless resolved, the organization's products will become less desirable in the marketplace, perhaps due to problems with price, quality or poor service, and the organization will begin to experience a period of stagnation or decline.

Stages **and the Growth** Cycle

Assuming management can successfully reconfigure, the organization continues along the Growth Cycle, moving into Stage II, *Expansion.* Rapid growth brings new challenges to the organization. To meet increasing product demand, production capacity must be expanded and additional people.hired. The organizaiion must devlop the ability 'to produce and distribut its products or services in volume to an increasingly diverse set of customers. Existing physical, financial, human and informational resources are stretched to the limit. Ensuring adequate supplies of these resources becomes a major task. Some economies of scale and experience sho_uld be attained during this stage. ·

During the Expansion stage, the product line may be broadened somewhat, but is still quite limited. Product innovations tend to be incremental. To meet growing demand, major investments must be made in working capital and production capacity (11).

Moderately formal systems and structure begin to emerge during the Expansion stage: Functional departments are formed for key areas of engineering, production, marketing, and administration, and the structure changes from simple to functional. Operating systems are developed in areas such as responsibility accounting, basic budgets and control reports, work standards and personnel systems (12). While these systems may be in place, enforcement is of ten inconsistent due to the frantic pace of growth. While decision processes are still quite centralized, they are less so than in the Start-up stage. Functional managers are now involved **in some decisions.**

In examining differences between the Start-Up and Expansion stages, it is apparent that a number of significant transitions must' take place. At this point in time the organization's product is fully developed and is receiving a positive acceptance in·the marketplace. Contextual changes (age, growth rate and size), may occur in the natural course of serving the marketplace. Changes in strategy and structure, however, require significant managerial attention. Success in the Start-Up stage came from creativity, flexibility and informality. To succeed in the Expansion stage, creativity must be tempered, as the organization learns to produce in volume, flexibility must be replaced with basic operating systems and the emergence of a functional structure. While still comparatively informal, some formalization is added.

It is often difficult to convince successful entrepreneurs of the need for reconfiguration. According to Galbraith reconfiguration may seem illogical, given the firm's present success:

> Herein lies the trap. Success during the prototype stage provides energy, commitment, confidence, esprit de corps, and a belief (which is a valid one) that success was in part due to the lack of structure and constraint. For many people, the current organization, or lack thereof becomes an end in itself. The attractiveness of this venture organization is why they joined. Then when the next stage begins and requires structure, these people resent the change to their eventual detriment (13).

Galbraith argued that venture founders must learn to think "stagewise," recognizing the need for reconfiguration as the organization grows in size and complexity.

Now, having made the transition from Start-Up to Expansion, assuming (1) market conditions remain relatively constant, (2) demand for the firm's products continues to grow, and (3) the organization continues to meet that demand, the organization will experience continued growth. More employees are hired to provide the firm's products to an increasingly diverse grou p of customers. Eventually, the firm again reaches a threshold where existing structure and systems are no longer adequate. Again, reconfiguration is essential if the firm is to continue along the growth cycle.

Thus, each circumvention *of the growth cycle can be viewed* as *a stage of development* in *the* organization *life cycle.* Organization life cycle theorists propose that an organization evolves through several stages of development as the firm grows from inception to maturity. Assuming management can make the necessary transitions and continues to effectively serve the marketplace, given our five stage model, the organization can be expected to circumvent the Growth Cycle twci more times: once on the Consolidation stage, and once in the Revival stage. "

A major end-of-stage crisis which often inhibits transition from the Expansion stage to the Consolidation Stage is the "founder or family trap" (14). This occurs when the founder or founder's family is unwilling or unable to delegate responsibility effectively. This inability to "let go," or to constantly override decisions of subordinates, results in a decision making backlog, greatly compromising the ability of functional departments to carry out their roles within the organization. The solution to this crisis is effective delegation. In some cases the founder may be able to discipline himself to do this. However, it is often necessary for the founder to remove himself from day to day operations, accepting a strategic "chairman of the board" type role, or perhaps chief technical officer role.

At Stage III, *Consolidation,* the organization is larger ttin during the Expansion stage, but growth is occurring at a slower rate. Cost control and productivity become key concerns, as the focus turns from growth to profitability. There is some consolidation of the product line, but the product is sold through multiple channels. Product innovations are incremental, often following changes in competing products. Emphasis turns from product innovation to process innovation, designed to improve production efficiency and reduce unit costs. Major investments are directed toward plant maintenance and retention of market share.

During the Consolidation stage, the organization retains its departmentalized, functional structure; however, the structure and systems become more formal and bureaucratic than in the Expansion stage. The management hierarchy consists of several levels and top management is comprised of a team of professional managers (as opposed to the entrepreneurial management in the earlier two stages). Decision making becomes less centralized and a more articipative management style is employed. Formal planning and control systems are stablished and enforced through careful attention to variances. Rules are established and olicies institutionalized. Effective leaders at this stage must be adept at formal planning, rganization and administration.

End-of-stage crises which of ten occur in the later-Consolidation stage include excessive ureaucracy, loss of responsiveness to environmental changes, and market saturation. The olution to these crises generally involves some combination of diversification, decentraliza-ion, and o'rganization renewal.

In Stage Iv, *Revival,* the organization reaches its largest size as it again experiences a period f rapid positive growth, spawned by an expansion or diversification of the product market cope. Expansion of product market scope can be achieved through any of several strategies ncluding market segmentation, acquisition of related or unrelated businesses, or developing ew products or services internally.

As the organization begins serving multiple markets, its environment becomes dramatically more complex and heterogeneous. In response, Stage IV organizations generally adopt a divi-ional form of structure, granting considerable autonomy to product groups or divisions. trategic planning and control systems become increasingly more formal and sophisticated t the corporate level, but operating decisions· at the business level are decentralized to the ndividual divisions. As corporate management no longer controls day to day operations, ultural control becomes more important.

A major challenge faced by firms at this stage is integration. Care must be taken to ensure hat management systems are sufficiently sophisticated to oversee a diverse conglomeration f organizations. Care·must be taken to avoid overcontrolling these organizations, making them neffective. Yet, sufficient control must be maintained to ensure that vital synergies between **usiness units occur.**

The first four tages of the organization life cycle have now been introduced. Each stage s characterized by a unique configuration of variables related to organization context, stra.tegy nd structure, and one circumvention of the Growth Cycle. As the organization grows in size nd complexity, it reacl)es certain threshold points, where the existing configuration is no longer dequate and reconfiguration is necessary for the organization to continue to grow.

Environmental Alignment

Our discussion of the Model of Organization Growth and Decline (Figure 1) has now in-luded two of the five cycles: the Growth Cycle and the Configuration Crisis Loop. Our atten-ion now turns to the three remaining cycles: the Renewal Cycle, the Declining Spiral, and he Proactive Renewal Loop.

·In addition to reconfiguring organization structure and systems, organization managers must caref ully watch for, and ideally, anticipate changes in the marketplace: consumer tastes may change, competitors· may provide competing products which better serve the emerging market, the market may become saturated, technologies may change, economic conditions may impact spending patterns, etc. Though an organization may have an appropriate internal configuration, a firm may still find itself in a declining position due to changes in the marketplace. Adjustments must also be made to retain a viable "fit" between the organization and the marketplace.

Organization Decline, Renewal and Death

What ha ppens .when the organization experiences diminished acceptance in the marketplace? Diminished acceptance means the organization is no longer growing, at least in terms of its level of seJ"Vice in the marketplace (15). The organization moves into a period of stagnation or decline. The stagnation/decline loop can also be entered from the structural crisis loop when the organization reaches the point of inefficiency that market acceptance begins to diminish. ·

Stage V, *Decline,* (see Table 1) occurs as the orgariizatiOn experiences diminished markei acceptance. Firms can enter decline from any of the preceding stages (I-IV). It is characterized by declining size and sales, and consolidation of product lines and markets. The level of product development at this stage is likely to depend on the business strategy of the organization. If the firm is pursuing a harvest strategy, or has reached a state of lethargy, little or no product development will be taking place: On the other hand if the firm is pursuing a turnaround strategy, the pace of product development may be frantic. The focal business task of declining organizations is organization renewal.

·Assuming the organization has reached the consolidation stage prior to declining, the structure is expected· to be mostly functional, quite formal and bureaucratic. Older firms may well be excessively bureaucratic, which contributes to the organization's demise (16). Centralization is expected to be moderate; with the locus of decision making power at the top of the organization.

Declining organizations need strong, directive .leadership. Leaders must awaken the oigahization to a sense of urgency. The organization mission or purpose must be redefined. It is not uncommon for new leadership to be brought in to direct this reconfiguration. Bureaucratic inefficiencies must be removed and the organization redirected toward better meeting the needs of the marketplace.

Once the firm reaches the point of stagnation and decline, it must realign (see Figure 1) itself in light' of marketplace ·demands if growth is to be continued. Realignment can be accomplished through activities such as adaptation, innovation, renewal, diversification, or reconfigu·ration of internal structure and systems. Realignment is successful if it results in increased marketplace acceptance. This places the organization back on the Growth Cycle again. If realignment fails to result in greater market acceptance, the cycle may ·repeat. ·

Stagnant or declining organizations which do not undertake realignment find themselves in a declining spiral which results in continued decline and eventually the death of the organization. The only hope for such organizations is that the marketplac:e may change in such a manner that it becomes more accepting of the organization's products or services, placing the firm back on the growth cycle.

Longitudinal studies at Columbia (17) and McGill Universities (18) have revealed that organizations seldom change when all is going well. Thus it can be expected that most firms will continue with the current configuration of priorities, systems and structure until they experience either an organization crisis·(system overload) and/or find themselves out of alignment with the marketplace, placing the organization involuntarily on the renewal cycle. However, it is also possible that a firm could voluntarily enter the renewal cycle as an extension of the growth cycle (Proactive Renewal Loop). This is accomplished by proactively anticipating needed realignments in its products, as well as internal configuration, thus averting stagnation and decline.

Some Concluding Comments

The reader has now been introduced to two models, one centering on the content of organization life cycle stages, the other depicting process issues. Having briefly described these models, it seems appropriate to conclude with a few comments regarding the models presented and the status of organization life cycle research.

What is a life cycle stage? While there are numerous models of life cycle stages, there has been very little attention paid to defining the construct. Most models do, however, describe ife cycle stages in terms of contextual, strategic or structural characteristics. Miller and Friesen n their "quantum theory" of organizations suggest the study of "configurations;' or patterns of variables which cluster together, reflecting integral interdependencies (19). The in-erdependency among variables related to context, strategy and structure is well established n organization theory (20). Using this approach and drawing from the dimensions identified n Table 1, a life cycle stage can be defined as a *unique configuration of variables related to* organization *context, strategy and structure.* Stages of development can be verified by cluster-ng organizations along these dimensions (21). If we define a growth stage in terms of con-figuration, the transition between stages can be characterized as a reconfiguration along these dimensions (22).

How Many Stages? Life cycle models vary as to the number of stages. In the models reviewed in preparing Table 1, the number of stages ranged from three to ten. Smith, Mitchell and Summer (23) suggest a three-stage model; four-stage models are proposed by Baird and Meshoulam (24), Quinn and Cameron (25) and Kazanjian (26); five stages are theorized by Galbraith (27), Greiner (28), Miller & Friesen (29); and Scott and Bruce (30); Flamholtz (31) proposes a seven-stage model, though the latter three are only briefly discussed; and the most complex model, Adizes (32), proposes a ten-stage model.

While the models suggest a fairly consistent pattern of organization growth, there is wide variance among them as to the specific number of stages. Which is correct? Do all organiza-tions go through the same series of stages? Are there contingencies which affect the number of stages? These questions remain unanswered to date in the literature. By defining growth stages in terms of configuration, specific stages can be isolated through the use of cluster analysis or other statistical classification techniques (33). Use of these techniques in large samples, coupled with longitudinal case analyses will enable organization scholars to better answer these questions. Such efforts could greatly strengthen the predictive utility of the life cycle model.

Do life cycle stages occur in numerical order? Miller and Friesen (34) conducted a longitudinal study of life cycle stages, based on extensive case histories of 36 organizations. One interesting finding of the Miller and Friesen study is that firms do not necessarily move through the stages in a linear fashion. While firms, on the whole, moved generally from birth to decline, they may skip stages or revert back to certain stages. The Growth model presented herein (Figure 1) allows for this irregularity as organizations travel between the five cycle.s of growth and decline.

Do organizations change gradually, one dimension at a time, or all at once? The con-sensus in the literature seems to be that organizations evolve gradually within the growth stages, but make dramatic multidimensional changes between stages. Based on their longitudinal study of computer firms, Tushman, Newman and Romanelli identified two

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types of organization change. The first was a form of incremental change, which they labeled *conveigent;* the second they labeled *discontinuous*, or *frame-breaking* change, which "involves simultaneous shifts in strategy, power, structure, and controls" (35).

What causes organizations to move from one stage to the next? Metamorphosis theory, which centers on the fit between the organization and the environment, seems to provide the best answer to this question. Baird and Meshoulam describe the process this way:

> Metamorphosis models propose that change occurs when the fit between the organization and the environment is so bad that the organization's effectiveness and survival is threatened (36).

As the organization reaches this crisis point, dramatic reconfiguration occurs. Thus the organization retains a given configuration (or stage) until that configuration no longer provides an adequate fit with the environment. At this point the organization undergoes a major transition to a subsequent stage of development.

In summary, a valid model of the organization life cycle must go beyond simply delineating developmental stages to incorporate process issues as well. This paper represents an early effort toward pulling these issues together into a single, integrative model.

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