

Managing Organizational Transitions: Implications for Corporate and Human Resource Management

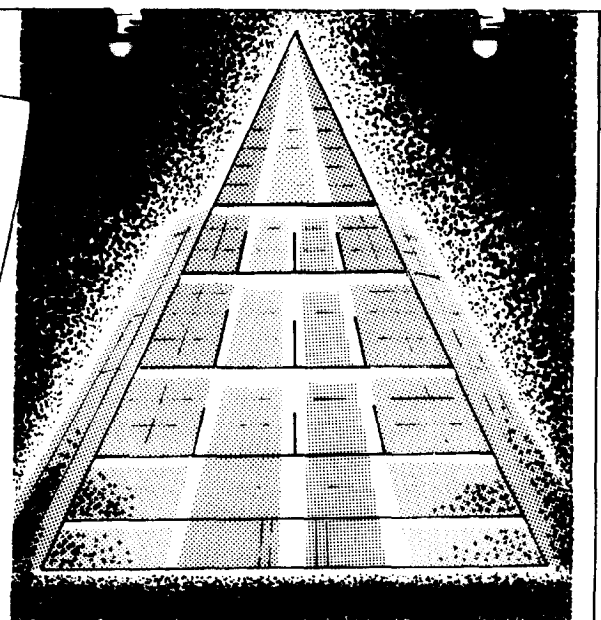
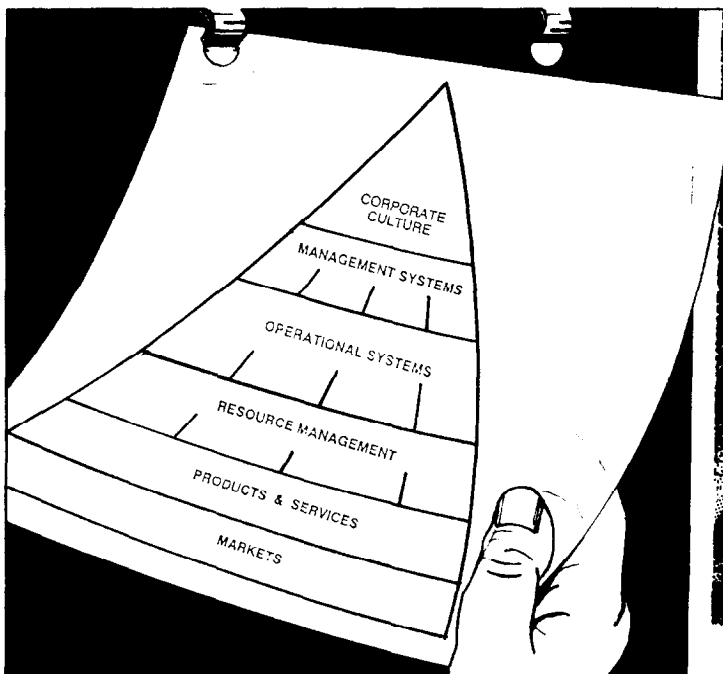
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This article provides a framework for understanding better the management of organizational growth and transitions in the long-term, based on three models. The first two are models of organizational functioning — an organizational effectiveness model and an organizational life-cycle model. Related to these, a third one is added — a model for managing organizational transitions. As well as discussing five key themes in the framework, Eric Flamholtz examines the implications for general management and human resource management.

This article presents a framework that can be used as a lens to understand and plan what must be done to

build a company successfully at different stages of growth. The framework presented here has been developed through a series of action research studies and related conceptual analyses conducted over more than twenty years.

In recent years, it has become increasingly recognized that we need a better understanding of the management of organizational growth and transitions over the long-term. Companies throughout the world have come under increasing pressure. Some organizations have experienced difficulty and even failure after many years of long-term organizational success. These include world class companies such as IBM, General Motors, Xerox, Glaxo, Unilever, Nestlé, and Philips. A number



of large established organizations have either downsized substantially or actually failed. IBM reduced its worldwide work force from 406,000 at its peak in the late 1980s to approximately 260,000 today. International Harvester, once a \$10 billion company with more than a 100,000 employees, downsized during the 1980s to \$1 billion in revenue with approximately 10,000 employees. Today the company has regrown to approximately \$4 billion with 14,000 employees. PanAm, once a Hallmark of the airline industry, no longer exists. Similarly, in spite of the success of many entrepreneurial organizations such as Microsoft, Apple Computers, Compaq Computers, and others new venture organizations, they have not been immune to the effects of change as well. Both Apple Computers and Compaq Computers have gone through periods of restructuring in order to remain competitive, while other organizations such as Osborne Computers, MaxiCare (an HMO company), Ashton-Tate, and Victor Technologies have all experienced decline and in some cases bankruptcies. For example, Osborne Computers reached \$100 million within two years after getting started and was in bankruptcy in year three. MaxiCare grew from approximately \$400 million in revenue to \$1.7 billion in revenue and then experienced bankruptcy. Ashton-Tate no longer exists as a stand alone company. The pressure facing companies exists on a global basis (Hiltrop, 1993).

If the phenomenon of organizational difficulty and decline was simply idiosyncratic and limited to a few organizations, that would not be of much concern. However, based upon a combination of action-research studies and related analysis, it appears that there are predictable reasons for organizational difficulty, which may be subject to managerial influence and control. Accordingly, the purpose of this article is to address several related questions concerning the problems and processes of managing organizational growth and transitions: Why are some organizations successful over the long-run while others experience difficulty and decline? Why do some entrepreneurial organizations, after promising starts, fail while others continue to grow successfully? What can managers do to enhance the probability of continued long-term organizational success while avoiding the pitfalls of growth and change?

To help address these issues, this article presents a framework that can be used as a lens to understand and plan what must be done to build a company successfully at different stages of organizational growth.

The framework presented in this article is an extension and synthesis of two different models of organizational functioning: (1) an organizational effectiveness model (termed 'The Pyramid of Organizational Development'), and (2) an organizational life-cycle model, which designates seven key stages of growth from a new venture through organizational decline (Flamholtz, 1990).

The article begins with an explanation of the organiza-

tional effectiveness model. This model indicates what must be done to build successful companies or strategic business units. It identifies the six key determinants of organizational effectiveness and proposes how they can be viewed as a developmental process, which we have termed 'The Pyramid of Organizational Development'.

Next, we present and discuss an organizational life cycle model. The organizational life cycle model identifies seven classic stages of growth from a new venture through organizational maturity, and up to and including organizational decline. It defines the key transformation points in an organizations's life cycle.

The article also presents two sets of organizational 'transition pains'. These are symptoms that occur when an organization has not made the transition from one stage of development in the life cycle to the next successfully.

We shall also present a model for managing organizational transitions, based upon the organizational effectiveness and life cycle models. Taken together, the models presented in this article provide a framework that can be used by managers to analyze the nature of the transitions which must be undertaken by their organizations. The Pyramid of Organizational Development is a lens that enables management to understand: (1) the nature of the existing business, and (2) the key building blocks or components of what the new business must be. The life cycle model shows the key points at which transitions typically occur. Finally, we shall examine the implications of the framework for both general management and human resource management.

Overview of key themes

Five major ideas are included in the framework:

1. All organizations must satisfactorily perform six key tasks or prerequisites in order to develop a successful entity.
2. The six key tasks are always being performed to some extent in any organization, but they do not always receive (or need to receive) the same degree of emphasis.
3. The achievement of the six key organizational tasks can be viewed as a developmental process, with each task requiring development to a different extent at a different stage of organizational growth.
4. The failure to perform one or more of these developmental tasks satisfactorily will lead to a variety of predictable organizational problems or 'transition pains'.
5. Organizations which have been successful in managing the developmental problems at one stage of growth will still face the challenge of making the transition to the next stage of growth.

We shall begin by describing the key tasks of developing a successful organization and then discuss their role at each stage of organizational growth.

Critical Tasks of Organizational Success

What is required to build a successful organization? What factors explain why some organizations are successful over the long-term while others fail after promising starts?

The purpose of this section is to address these issues. Specifically, we shall present a model that identifies the critical tasks that an organization must perform at each stage of its growth in order to be successful. In this context, an 'organization' may be the total corporate entity, such as General Motors, a subsidiary company within an overall corporation, such as Hughes or Electronic Data Systems (both subsidiaries of General Motors), or a 'division' or other strategic business unit of a company, such as the Space and Communications Group within Hughes.

The process of building an organization may be termed 'strategic organizational development'. More specifically, strategic organizational development may be defined as the process of planning and implementing changes in the six critical tasks (or building blocks) that an organization (a total enterprise or a strategic business unit) must perform to be successful at each stage of growth. It is the process of designing the architecture of an organization, as well as the detailed plans for implementing the architectural concept or vision.

Analysis of the experience of actual organizations (both successful and unsuccessful) and research on organizational effectiveness yield six key dimensions essential for building a successful organization:¹

1. Identification and definition of a viable market niche (Aldrich, 1979; Brittain and Freeman, 1980; Freeman and Hannan, 1983).
2. Development of products or services appropriate to the firm's chosen market niche (Burns and Stalker, 1961; Midgley, 1981).
3. Acquisition and development of resources required to operate the firm (Pfeffer and Salancik, 1978; Brittain and Freeman, 1980; Carroll and Yangchung, 1986).
4. Development of the operational systems for day-to-day functioning (Starbuck, 1965).
5. Development of the management systems necessary for the long-term functioning of the organization (Child and Keiser, 1981; Tushman, *et al.* 1985).
6. Development of the organizational culture management feels is necessary to guide the firm (Peters and Waterman, 1982; Walton, 1986).

The nature of each of the critical tasks of developing a successful organization is described below.

Identification of a Market Segment and Niche

The most fundamental prerequisite of a successful organization is the identification and definition of a

firm's market segment and, if feasible, its market niche. A market segment includes the current and potential buyers of the goods and services a firm intends to produce and sell. A market niche is a place within a market where a firm can develop a comparative (competitive) advantage in providing goods and services.

The first challenge to organizational survival or success is to identify a market need for a good or service, to which the firm will seek to respond. The chances of organizational success are enhanced to the extent that the firm identifies a need that is not being adequately met or in which there is little competition.

This challenge is faced by all new ventures; indeed, it is the primary challenge a new venture must overcome. It is also the critical test of growing concerns and has brought many once great firms to near or total ruin. On the other hand, many firms have achieved great success merely because they were one of the first in a new market. Apple Computers, for example, grew in a few years from a small entrepreneurship in a garage to a multi-billion dollar publicly-held firm, because its founders identified the market for a personal computer.

Many firms survive merely because they have been able to identify a market, but firms that achieve great success are often those that have not only identified a market need, but also captured a market niche. A 'niche' is a place within a market segment where an organization has developed one or more 'sustainable competitive advantages'. For example, Dreyer's Ice Cream (selling a relatively undifferentiated product), grew from sales of \$14.4 million in 1978 to \$55.8 million in 1982, because the company saw and cultivated a market niche between the super premium ice creams such as Haagen-Dåzs and the generic (commodity) ice cream most supermarkets sell. More recently, Intel has grown to a multi-billion dollar company because of its market niche in the computer chip business. Similarly, Microsoft has achieved a dominant niche in computer software because its operating system is so widely adopted. As seen in the examples of Microsoft and Intel, a 'niche' does not have to be small; a company can have a 'niche', a segment where it possesses sustainable competitive advantage, and have the dominant market share.

Some firms have been successful because they identified and clearly defined a market niche; others have floundered because they either failed to define a niche or mistakenly abandoned their historical niche. For example, a medium-size firm that manufactured and sold specialty clothing wished to upgrade its image and products and become a high-fashion boutique. It failed to recognize that historically its niche was the 'medium' market, and its efforts were unsuccessful. Similarly, although the Walt Disney Company has been successful historically with its 'theme parks', Euro Disney has been unsuccessful in France (Mills, *et al.*, 1994).

In brief, the foundation for an organization's ultimate

success is the firm's market. The ability to identify and, if feasible, establish a niche is the most basic prerequisite for organizational success. Thus, the first phase of developing a successful organization must emphasize the definition of the firm's markets and potential niches. This process will, of course, involve strategic market planning to identify potential customers and their needs, and lay the strategy for the firm's competition with others for its share of the intended market.

Development of Products or Services

A second task facing the organization involves 'productization' — the process of analyzing the needs of current and potential customers in order to design the products or services that will satisfy their needs.

Although many firms can perceive a market need correctly, they may not be able to develop a product capable of satisfying that need. For example, Federal Express perceived the need for electronic mail, and was developing a system called 'Zap-Mail'. However, the ubiquitous use of fax machines rendered the concept of 'Zap-Mail' irrelevant. Federal Express was simply unable to develop the product quickly enough to establish it in the market prior to the entrenchment of fax machines.

The productization process includes not only the design of a product (defined here to include services as well), but also the ability to produce it. For a service firm, the ability to produce involves the firm's service delivery system — the mechanism through which services are provided to customers.

The problem of productization has to be faced not only by relatively new or small companies, but also large, well-established firms. Indeed, it can even face whole industries. The US automobile industry, for example, was unsuccessful during the 1970s in productizing to meet the need for reliable, fuel-efficient, economical automobiles. Hence, they permitted powerful competitors (Japanese and German firms) to emerge in a market that they once dominated. The result was that by the late 1980s, the once dominant US automobile companies, such as General Motors, Ford, and Chrysler, were fighting for their survival, while European companies (i.e. Daimler — Benz and Volkswagen) and Japanese companies (Nissan and Toyota) were quite strong.

The development of successful products depends to a great extent on effective strategic market planning, which involves recognizing potential customers, their needs, how they buy, and what they perceive to be value in a product. Thus, the success of the productization task depends on the firm's success in defining its market segment and potential niche. The greater the understanding of the market's needs, the more likely it is that the productization process will be effective in satisfying those needs.

Acquisition and Development of Resources

The third major task facing organizations is the acquisition and development of additional resources required for its current and anticipated growth. A firm may identify a market and products, but not have sufficient resources to compete effectively. For example, small competitors in the soft drink industry need to be low-cost producers. Cutting costs requires high-speed bottling lines, but at \$1 million a line the smaller firms simply cannot afford them.

A firm's success in identifying a market niche and productization will create increased demand for its products or services which, in turn, will stretch the firm's resources very thin. The organization suddenly finds that it requires additional physical resources (space, equipment, and so on), financial resources, and human resources. Human resources, especially management, will become particularly critical. Ironically, at this stage of development, the firm's own success creates a new set of problems.

Development of Operational Systems

To function effectively, a firm must not only produce a product or service, but also administer the basic day-to-day operations reasonably well. These include accounting, billing, collection, advertising, personnel recruiting and training, sales, production, delivery, and related systems. Thus, the fourth task in building a successful organization is the development of the operational systems required to run an organization on a day-to-day basis.

The problems involved in the development of operational systems are varied, and depend upon the size of the organizations involved. Entrepreneurial firms tend to have underdeveloped operational systems, while established companies may have bureaucratic or overly complicated systems.

Large, established companies may have overly complicated operational systems which need 'reengineering'

Typically, entrepreneurial firms confronted by the tasks of developing their market niche and products neglect the development of the operational systems required to run their organizations from day to day, except to the extent necessary to keep functioning. As a firm grows, the strain on such basic operating systems increases. The firm tends to quickly outgrow the administrative systems available to operate it. In one electrical components distribution firm with more than \$200 million in annual revenues, salesmen were continually infuriated when they found that deliveries of products they had sold could not be made because the firm's inventory records were hopelessly incorrect. Similarly, a medium-size residential real estate firm with annual revenues of about \$10 million found that it required

almost a year of effort and embarrassment to correct its accounting records after the firm's bookkeeper retired. A \$100 million consumer products manufacturer had to return materials to vendors because there was simply not enough warehouse space (a fact no one noticed until the deliveries were at the door!). A \$15 million industrial abrasives distributor found itself constantly unable to keep track of customer orders and inventory. The firm's inventory control system, which was fine when annual sales were \$3 to \$5 million, simply became overloaded at the higher sales volume, causing one manager to remark, 'Nothing is ever stored around here where any intelligent person could reasonably expect to find it'.

When firms grow rapidly and neglect the operational systems needed to run their business (for the understandable reason that they have been too busy making money to devote the effort to developing such systems), they experience a variety of 'organizational growing pains'. These growing pains are symptoms that the organization has not transformed itself effectively. They will be identified and examined in the section on 'organizational transition pains'.

In contrast to entrepreneurial companies, larger, more established companies may have developed overly complicated operational systems. The primary symptom is that 'everything just takes too long to get done'. This may require a 'reengineering' of day-to-day operational systems.

Development of Management Systems

The fifth task required to build a successful organization is to develop the management systems to facilitate the long-term growth of the firm. These include systems for planning, organization, management development, and control.

The planning system is the process of planning for the overall development of the organization as well as for scheduling and budgeting operations. It involves strategic planning, operational planning, and contingency planning. A firm may do planning, but lack a planning system. For example, when Compaq started, it developed a plan for its new venture, but lacked an ongoing strategic planning process. This ultimately caused the company great difficulty in the early 1990s.

The organizational structure of the firm is how people are organized, who reports to whom, and how activities are coordinated. All firms have some organizational structure (formal or informal), but not necessarily the correct structure for their needs. Organizational structures must be designed in accordance with the company's basic business strategy.

The management development system refers to the process of planned development of the people needed to run an organization as it grows. The control system refers to the set of processes (budgeting, goal setting) and mechanisms (performance appraisal) used to in-

fluence the behavior of people so that they are motivated to achieve organizational objectives.

In brief, to function effectively all organizations must have a satisfactory set of management systems. Until the firm reaches a certain size (which tends to differ for each firm), it can typically operate without formal management systems; planning can be done in the entrepreneur's head and is frequently done on an *ad hoc* basis. The organizational structure, if it exists, tends to be informal with ill-defined responsibilities that may well overlap. Informal management development is often on-the-job training, with managers essentially on their own. Such organizations tend to use the accounting system as a basis of organizational control rather than a broader concept of management control. Some organizations have developed their management systems more effectively than others. This represents a source of competitive advantage.

Developing the Corporate Culture

Just as all people have personalities, so all organizations have cultures: shared values, beliefs and norms which govern how people are expected to operate the business from day to day. Although all firms have cultures that can be identified by trained observers, they may be implicit rather than explicit.

Values are what the organization believes to be important in product quality, customer service, treatment of people, and so on. Beliefs are the ideas that people in the corporation hold about themselves as individuals and about the firm as an entity. Norms are the unwritten rules that guide day-to-day interactions and behavior, including language, dress and humor.

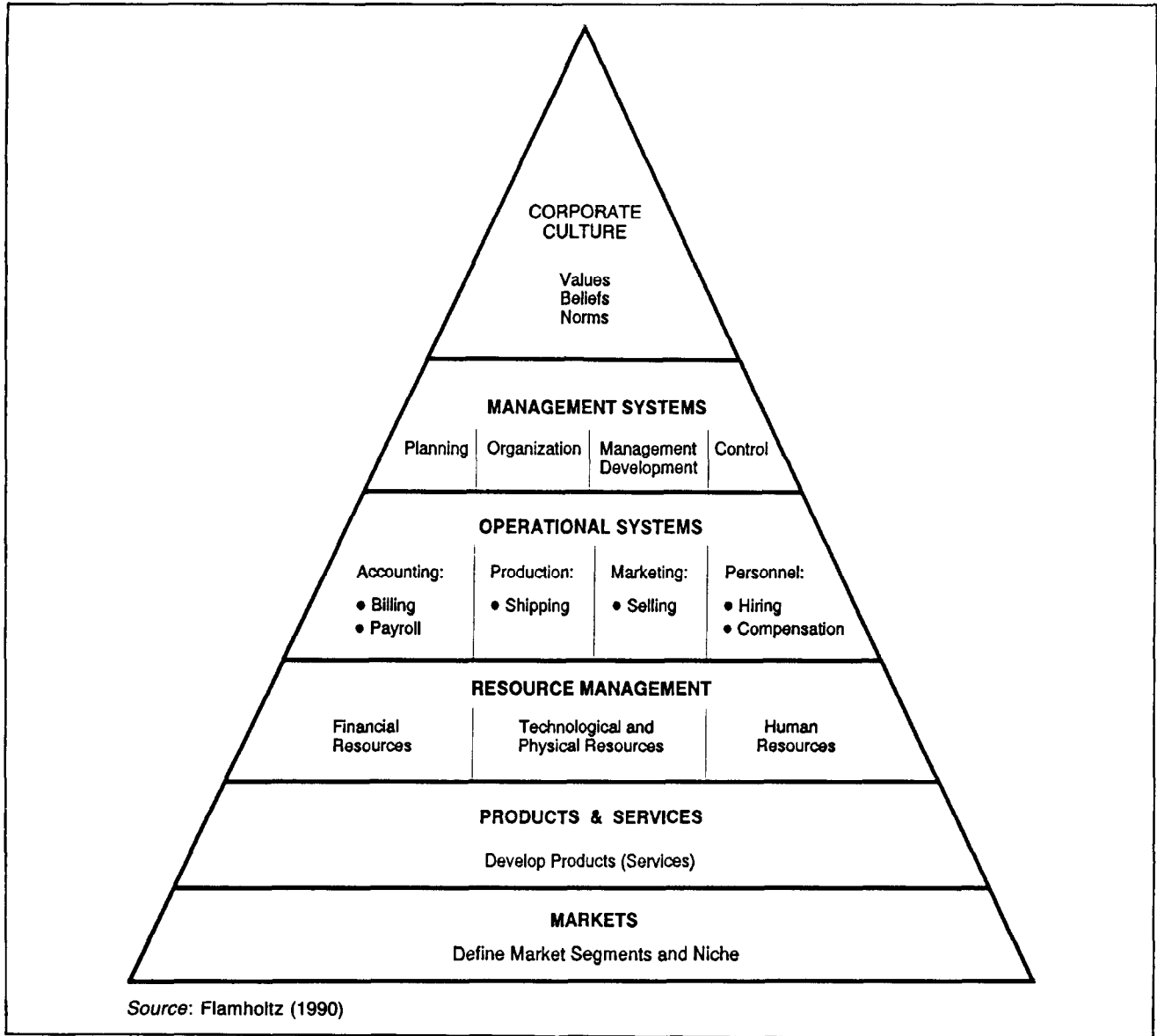
Pyramid of Organizational Development

Taken together, the six key tasks of building a successful organization constitute a pyramid of organizational development; that is, a series of sequential steps or tasks that must be performed in an integrated fashion in order to develop a successful organizational entity. The pyramid is shown schematically in Exhibit 1.

The six key tasks making up the pyramid must all be performed successfully in order for the overall organization to function effectively. The pyramid form should not be viewed as suggesting that the six key tasks are developed independently at different times; rather, all six are essential to the functioning of a firm at any given time, but each develops to a different degree at different stages in an organization's growth process, as described below.

The conceptualization of a series of sequential steps that must be performed to assure normal development is not new. As I have mentioned, it is not unlike the conflicts Erikson (1980) suggests must be resolved at the various stages of human development. There is further support

Exhibit 1 Pyramid of Organizational Development



for a model of this type in organizational theory literature. Woodward (1985), for example, observes a relationship between market niche and product (which define the degree of customization required and thus the production process or 'technology') and the organization's structure and culture. Similarly, Chandler (1962) suggests that organizational structure follows from a firm's long-term strategy. The market niche, product, and resources required reflect the firm's strategy in this context. The hierarchy described in the pyramid of organizational development is thus supported.

Implications of the Pyramid Framework

The Pyramid of Organizational Development framework has a variety of implications for management. First, whether organizations are aware of it or not, they are competing with each other at all levels of the pyramid. Specifically, organizations are not competing only in products and technology, but also in the choice of

markets, the resources available, the operational and management systems developed, as well as in their corporate culture. Indeed, since markets can be easily entered and products can easily be copied or improved upon, organizations are effectively competing at the four top levels of the pyramid.

The four top levels of the pyramid can be viewed as comprising an organizations's infrastructure. There are two aspects of 'organizational infrastructure': (1) operational infrastructure, and (2) management infrastructure. Operational infrastructure consists of the day-to-day resources and systems which are required to run the firm. Management systems and corporate culture comprise the management infrastructure.

As examined below, organizations experience developmental problems when their infrastructure is not consistent with their size, as measured by their stage of growth. Before examining this issue, we shall identify and describe the various stages of growth.

Exhibit 2 Stages of Organizational Growth From a New Venture to Maturity

<i>Growth Stage</i>	<i>Critical Development Areas</i>	<i>Approximate Organizational Size (\$ Millions of Sales)</i>
1 New Venture	Markets and Products	Less than \$1
2 Expansion	Resources and Operational Systems	\$1 to \$10
3 Professionalization	Management Systems	\$10 to \$100
4 Consolidation	Corporate Culture	\$100 to \$250
5 Diversification	Markets and Products	\$250 to \$1,000
6 Integration	Culture, Management and Operational Systems, and Resources	Greater than \$1,000
7 Decline	All Six Tasks	Any Size Organization

Stages of Organizational Growth

Seven stages of growth to organizational maturity can be identified (Flamholtz, 1990):

1. New Venture
2. Expansion
3. Professionalization
4. Consolidation
5. Diversification
6. Integration
7. Decline-Revitalization

At each stage, one or more of the critical tasks of organizational development receives attention until the organization has finally achieved maturity and success. The stages of growth and the related critical development areas, as well as the approximate size (measured in millions of dollars of sales revenues) at which an organization will pass through each stage is shown in Exhibit 2 and described below.²

Empirical research has confirmed the notion that the criteria for organizational effectiveness, as well as the means for achieving it, shift from stage to stage of the organizational life cycle (Quinn and Cameron, 1983; Randle 1990).

Stage 1: The New Venture

Stage 1 of organizational growth is the inception of a new venture. In this stage the critical issues for management are to identify the markets and niches which will be served and to develop the products (or services) appropriate to the selected market segments.

Stage 1 typically extends from the time the organization has virtually no sales until it reaches approximately \$1 million. During Stage 1, the firm must perform all of the critical tasks of organizational success; however, the relative emphasis will be on the first two tasks: defining markets and developing products.

The key variables of organizational development that must be managed at each stage of growth are presented in Exhibit 3. Although Exhibit 3 shows the key variables to which the most attention is turned at each stage, it is important to remember that all six areas must be managed at the same time.³

In brief, the major concern during Stage 1 is survival: Does the firm have a viable market and product?

Stage 2: Expansion

If an organization successfully completes the key developmental tasks of Stage 1, it will reach Stage 2 — the rapid growth or expansion of sales revenue, number of employees, and so forth. For most firms, the rapid growth that characterizes Stage 2 begins when sales reach \$1 million, though it can occur at lower or higher levels.⁴

Expansion presents a new set of developmental challenges. Organizational resources are stretched to the limit as increasing sales require a seemingly endless increase in people, financing, equipment and space. Similarly, the firm's day-to-day operational systems for recruiting, production or service delivery, purchasing, accounting, collections, and payables are overwhelmed by the sheer amount of product or service being 'pushed out the door'.

The major problems at Stage 2 are those of growth rather than survival. Thus, the emphasis must be returned to organizational resources and operational systems, as shown in Exhibit 3. It is during this stage that horror stories begin to accumulate:

- Salespeople sell a product they know is in inventory only to learn that someone else has grabbed it for his or her customers.
- One vendor's invoices are paid two and three times, while another vendor screams that he hasn't been paid in six months.

Exhibit 3 Emphasis on Key Development Tasks at Different Stages of Organizational Growth

Key Development Variable	New Venture 1	Expansion 2	Professionalization 3	Consolidation 4	Diversification 5	Integration 6	Decline 7
Corporate Culture				X		X	X
Management Systems			X			X	X
Operational Systems		X				X	X
Organizational Resources		X				X	X
Product or Service	X				X		X
Market	X				X		X

Note: X = Emphasis

- Product quality drops precipitously for unknown reasons.
- Turnover increases sharply just when the company needs more personnel.
- Missing letters, files, and reports cause confusion, loss of time and embarrassment.
- Senior executives find themselves scheduled to be in different cities for important meetings on the same day at the same time, or arrive in a distant city and learn they are a day early.

Stage 3: Professionalization

During the period of explosive growth that characterizes Stage 2, senior management realizes (or ought to realize) that a qualitative change in the firm is needed. The firm cannot cope with growth merely by adding people, money, equipment, and space. Rather, it must undergo a metamorphosis to a somewhat different type of organization; it must become an entrepreneurially oriented, professionally managed firm.

To this point, the firm has been entrepreneurial. It has operated with a great deal of informality, lacking well-defined goals, responsibilities, plans, and controls, and still prospered. However, once a critical size is reached, informal processes must be formalized. This transition typically is needed by the time an organization has reached \$10 million in sales, although it may occur sooner or somewhat later.

The sheer size of the organization now requires more formal plans, regularly scheduled meetings, defined organizational roles and responsibilities, a performance appraisal system, and management control systems. These changes require a planned program of

organizational development; that is, development of the key systems required to manage the new entity that the firm has become — the fifth key developmental area described before.

A change is also required in the skills and capabilities of the people who manage the firm. To this point, it was possible for managers to be hands-on ‘doers’, but what is increasingly required are people who are adept at management: planning, organization, motivation, leadership and control. Thus, the individual manager is also faced with a personal transition. He or she must increasingly adopt not merely the title, but the behavior and psychology of a manager.

During Stage 3 of an organization’s life cycle, as depicted in Exhibit 3, the emphasis must be on the management systems.

Stage 4: Consolidation

Consolidation presents a different set of problems. Once the transition has been made to a professionally managed firm with workable systems for planning, organization, management development and control, the firm must turn its attention to an intangible, but nevertheless real and significant asset: the corporate culture (Deal and Kennedy, 1982).

During the growth to Stage 4 (which typically occurs at about \$100 million in sales), the firm has brought in new waves of people. The first wave occurred when the firm was relatively small and informal (Stage 1). Initially, then, the firm’s values, beliefs and norms were transmitted by direct day-to-day contact between the founder(s) and personnel. The diffusion of culture was

a by-product of what the firm did. Virtually everybody knew everybody else, what the firm wanted to achieve, and how.

Transmitting the corporate culture is an essential component in the organization's life cycle and expansion

During Stage 2, the rapid expansion of the firm brought a new wave of people who were socialized to a considerable degree by the first wave; that is, the first wave transmitted the culture to the next generation. However, at some organizational size, especially when operations are disbursed geographically, the informal socialization process becomes more attenuated and less effective. The sheer number of new people overwhelms the informal system.

By the time a firm reaches \$100 million in revenues, a third wave of people have joined the organization and the informal socialization system is simply no longer adequate. At this stage, the firm must develop a formal method of transmitting the corporate culture consciously throughout the organization. Therefore, as Exhibit 3 shows, the key developmental variable in Stage 4 is the corporate culture.

Stage 5: Diversification

The key problem in Stage 5 will be to develop new products and services to facilitate additional growth. Typically, a firm will grow to a point as a result of its initial product or service. Beyond that point (which frequently occurs at around \$250 million), the firm may well have to develop new products or services to facilitate future growth. This stage requires the reintroduction of the entrepreneurial spirit that launched the firm and also involves the development of segments of the firm that resemble new ventures (Stage 1). Those segments may require the completion of the cycle from Stage 1 through Stage 4. As Exhibit 3 shows, the emphasis has turned again to the products and services and the market niche. Unfortunately, some organizations are unsuccessful at this stage and can never introduce major new products. For example, Ashton-Tate, which was very successful with its initial product ('D-Base II'), never successfully introduced another product with similar sales potential. The company was ultimately acquired by Borland.

Stage 6: Integration

The firm's growth from the diversification that took place in Stage 5, has made it significantly larger, more complex. In essence, the organization now (at Stage 6) consists of not one, but several different businesses. For example, PepsiCo consists of several different businesses, including its core soft drink business as well as its Frito Lay division and its food service units, such

as Pizza Hut. Accordingly, the key management challenge for the firm will be to integrate the separate units into an operating whole while simultaneously allowing them to realize the benefits of quasi-decentralization.

As Exhibit 3 shows, integration requires the organization to focus on the corporate culture, management systems, operational systems, and organizational resources.

Stage 7: Decline-Revitalization

The final stage of organizational growth is decline-revitalization. Unfortunately, it appears to be inevitable that all organizations will ultimately decline. During the late 1980s and early 1990s, a wide variety of organizations including General Motors, IBM, Chrysler, Glaxo, Philips, Volvo, and Sears (to cite just a few), all found themselves in decline. The key issue at this stage is organizational revitalization. The organization will have to deal with symptoms of aging that will inevitably have accumulated. It will have to find new markets in order to reestablish itself as a viable competitive entity.

The attempt to revitalize the organization while its resources are contracting will strain all of its systems. Thus, as Exhibit 3 indicates, the firm must manage all six key developmental areas in the Pyramid of Organizational Development during the revitalization stage.

Organizational Transition Pains

Most organizations encounter some degree of difficulty in managing the transitions required between stages of growth. When the transition between stages has not been made successfully, the organization experiences a 'developmental gap'. This developmental gap, in turn, produces what may be termed 'organizational transition pains'. The transition pains may be viewed as the symptoms which an organization experiences because of a failure to develop an infrastructure appropriate for its stage of growth. In this context, organizational infrastructure can be operationally defined as resources, operational systems, management systems, and corporate culture (i.e., the top four levels of the Pyramid of Organizational Development).

There are two different types of transition pains which can occur because of a discrepancy between an organization's development (its infrastructure) and its stage of growth. Type 1, which may be termed 'organizational growing pains', emerges during Stages 1 through 6 (but especially at Stages 2-6) because the infrastructure has not been sufficiently developed. Type 2 which may be termed 'organizational aging pains', emerges primarily at Stage 7, when an organization is in decline.

Organizational Growing Pains

Based upon action research and consulting experience,

Exhibit 4 Organizational Growing Pains

1. People feel that there are not enough hours in the day.
2. People are spending too much time 'putting out fires'.
3. Many people are not aware of what others are doing.
4. People lack understanding of where the firm is heading.
5. There are too few good managers.
6. Everybody feels 'I have to do it myself if I want to get it done correctly'.
7. Most people feel our meetings are a waste of time.
8. When plans are made, there is very little follow-up and things just don't get done.
9. Some people feel insecure about their place in the firm.
10. The firm has continued to grow in sales but not in profits.

we have identified ten classic symptoms of organizational growing pains, as shown in Exhibit 4. It must be noted that these growing pains are not merely problems in and of themselves, but symptoms of a deeper systemic problem.

Organizational Aging Pains

Similarly, we have also identified ten classic symptoms of organizational aging pains, as shown in Exhibit 5. Like growing pains, aging pains are not merely problems in themselves, but symptoms of an underlying systemic problem.

Implications for Corporate and Human Resource Management

This article has presented a framework to use as a lens to understand and plan what must be done to build an organization successfully. The framework begins with an organizational effectiveness model, termed the Pyramid of Organizational Development. Then an organizational life cycle model, which defines seven

stages of growth and, in turn, key transition points, is presented. Taken together, these two models identify the key organizational issues in critical development areas which must be addressed at different stages of growth. The paper also addresses and identifies a variety of organizational transition pains which were encountered when organizations experienced difficulty in managing the transitions required between stages of growth. These transition pains occur because an organization experiences a developmental gap between its infrastructure required at a given stage and its size, as measured in terms of its revenues.

The current section addresses some of the implications of the proposed framework for managing organizational growth and transitions. The implications suggested are for corporate and human resource management, as well as for scholars.

Implications for Corporate Management

The Pyramid of Organizational Development framework presents a model of what an organization must do to build an entire business, a strategic business unit, or a new venture successfully. The six key tasks making up a pyramid must all be performed successfully in order for the organization to function effectively. Although all six key tasks are essential to the functioning of an organization or a strategic business unit at any given time, each is developed to a different degree at different stages of organizational growth. Accordingly, a large complex enterprise such as Nestlé, IBM, or Philips, must simultaneously be managing different organizational units, which are facing different development needs at different stages of growth.

This, in turn, suggests that corporate management needs to harmonize the overall development of an entity with the development of each of its component parts. The proposed lens of the Pyramid of Organizational Development should be useful to corporate management in analyzing each of the strategic components of a business enterprise in order to create an integrated business entity.

Exhibit 5 Organizational Aging Pains

1. Strategic planning tends to emphasize form rather than substance.
2. Middle level managers feel frustrated by their inability to play a more active role in the strategic planning process.
3. There is a lack of understanding about the strategic direction of the business, and this affects the daily operating decisions that are made.
4. Difficulties are experienced when implementing strategic plans.
5. There is a lack of coordination and integration among the different organizational units, 'we are all rowing as hard as we can, but in different directions'.
6. There is a resistance to new ideas and innovation.
7. People are unwilling to take risks.
8. The organization is incapable of moving quickly to take advantage of market opportunities.
9. Managers are technical or functional specialists rather than general business managers.
10. The company has grown in sales revenue, but not in profits.

Another implication of the Pyramid of Organizational Development framework is that organizations, whether they know it or not, are competing at all levels of this framework. Stated differently, organizations compete in each of the six key areas, which are determinants of long-term organizational success. Although it is obvious that organizations compete in the selection of markets and the development of products, and it may be understandable that they also compete in terms of the availability, acquisition, and management of resources and the development of their operational systems, it may be less obvious that organizations are competing as well in the development of their management systems and organizational culture. In fact, over the longer run, we would argue that the ultimate competition between organizations is played out at the higher levels of the pyramid. This is because organizations can more easily copy each other at the lower levels of the pyramid. If, for example, an entrepreneurial organization identifies a market for a personal computer, or a portable personal computer, then it is relatively easy for another organization to come along with a next generation product. Similarly, in the maturation of industries there ultimately tends to be a relatively small number (oligopoly) of organizations which ultimately achieve dominance. The worldwide automobile industry is a good example. The next level of competition that organizations at this stage compete on relates to resources and operational systems (such as the Japanese notions of just in time management, which reduces the need for inventory parts). At the final stage, competition in organizations will occur at the management systems level and corporate culture level. This is because the management systems are the key components of an organization responding to change. If the environment were stable, then once an organization develops a 'winning competitive formula' it would not be necessary to modify that formula to a great extent. However, in periods of considerable change, the key to organizational success will involve the corporation's strategic planning system, its organizational structure, its management development system, its control system, and, in turn, its organizational culture. For example, during the 1980s, IBM was slow to react to the development of PCs and their long term implications for the development of networked client service systems. As a result, IBM not only has lost its lead and momentum, but it is undergoing a significant decline and corresponding revitalization effort. The key problem was not in the technology area, IBM had the technology of the PC, but in the management systems and corporate culture level where IBM continued to operate with a 'mainframe' mentality.

Stated differently, organizations will tend to develop true long-term sustainable competitive advantages at the management systems and corporate culture level because these are less easily copied by competitors. All organizations may have a wide variety of short-term sustainable advantages, such as proprietary drugs in companies like Roche, Bristol-Meyers, and Glaxo, long-term advantages will be determined by the more intang-

ible aspects of the corporate culture and management systems at the top of the pyramid.

Implications for Human Resource Management

In managing the process of transition, three groups will ultimately play major roles:

1. senior corporate management,
2. members of the human resource management function,
3. other general managers.

The primary role will inevitably be played by the CEO of an organization, who either articulates a vision for change or blesses the vision and imbues it with his (her) authority.

Another key force in the process of helping organizations make the transition will be played by the human resource function. This means that the human resource function will have to serve as a 'strategic organizational development' advisor to senior management. They will also have to help create a learning organizational culture that is appropriate to facilitate change (Senge, 1990).

All this means that human resource management must redefine its role from the more traditional administrative orientation to a more proactive catalyst for change. At its best, the human resource management function will behave like a 'professional service business within a business' rather than an administrative personnel function. This means that some of the 'products and services' of the human resource function will be geared to the organization's transitional needs. This, in turn, will require not merely a change in the paradigm of the human resource function, but also require different core competencies as well. For example, the traditional notion of organizational development as a humanistically oriented, behaviorally focused process will have to change. In its place, will have to come what we have described here as a 'strategic organizational development process'. This will require the human resource function to adopt a more holistic approach to the process of organizational development, and realize that many of the prior processes which have been geared to promote organizational change that have been essentially exclusive behavior in nature have not worked and can not possibly work because they do not address all of the key aspects of organizational development and success. This, too, suggests a different type of human resource senior executive, one who can simultaneously be a 'player' at the business level of an organization, while running a professional service business within a business, and serving as an advisor to senior management. There will undoubtedly be risks as well as rewards for the human resource function in this regard.

Implications for Scholars

There are a variety of implications of the proposed framework for scholars as well. One involves the need for additional empirical research both to test as well as to extend the theoretical framework. Research by Randle (1990) represents the most extensive empirical test of the proposed framework. However, the nature of the research required will be as much akin to the approaches of anthropology, as they will to traditional testing and measurement of behavioral sciences.

Another avenue for research concerns the generalizability to the European environment of the life cycle presented in this paper. The model that is presented is in terms of US dollars. It may be that a simple currency translation will be appropriate to capture the applicability to the European context. However, it is also possible that European organizations will experience the issues that are predicted at different stages of growth based on a function of differences in size. This needs to be investigated.

Conclusion

This article has presented a framework to use as a lens to understand and plan what must be done to transform an organization successfully. The framework begins with an organizational effectiveness model, termed the Pyramid of Organizational Development. Then an organizational life cycle model, which identifies seven stages of growth and, in turn, key transformation points, is presented. Finally, implications for corporate management, human resource management, and for further research are presented.

Notes

1. This framework has been developed through a series of action research studies and related conceptual analysis as described by Flamholtz (1990). It is a holistic synthesis of variables that have been cited in a variety of independent research studies, similar to the holistic synthesis made by Likert (1967).
2. An organization's revenues are used here to classify a given stage of growth. It must also be noted that the revenue cutoff points are based on manufacturing companies. For service companies, we must adjust (multiply) annual revenues by a factor of 2.5 to 3.0 to determine the equivalent units of a manufacturing company. This adjustment is required because service companies are more complex to manage than manufacturing companies at equivalent sizes. Similarly, financial institutions are treated as service companies.
3. This framework applies to divisions of a large company as well as to an independent organization. Thus it applies, for example, to a \$175 million division of a \$3.5 billion firm.
4. I actually hypothesize that approximately 95 percent of cases will occur between the prescribed stage limits, and there can be both premature and late cases.

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