EVOLUTION AND REVOLUTION AS ORGANIZATIONS GROW*

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Key executives of a retail store chain hold on to an organizational structure long after it has served its purpose because the structure is the source of their power. The company eventually goes into bankruptcy.

A large bank disciplines a "rebellious" manager who is blamed for current control problems, when the underlying causes are centralized procedures that are holding back expansion into new markets. Many young managers subsequently leave the bank, competition moves in, and profits decline.

The problems at these companies are rooted more in past decisions than in present events or market dynamics. Yet management, in its haste to grow, often overlooks such critical developmental questions as, Where has our organization been? Where is it now? and What do the answers to these questions mean for where it is going? Instead, management fixes its gaze outward on the environment and toward the future, as if more precise market projections will provide the organization with a new identity.

In stressing the force of history on an organization, I have drawn from the legacies of European psychologists who argue that the behavior of individuals is determined primarily by past events and experiences, rather than by what lies ahead. Extending that thesis to problems of organizational development, we can identify a series of developmental phases through which companies tend to pass as they grow. Each phase begins with a period of evolution, with steady growth and stability, and ends with a revolutionary period of substantial organizational turmoil and change—for

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instance, when centralized practices eventually lead to demands for decentralization. The resolution of each revolutionary period determines whether or not a company will move forward into its next stage of evolutionary growth.

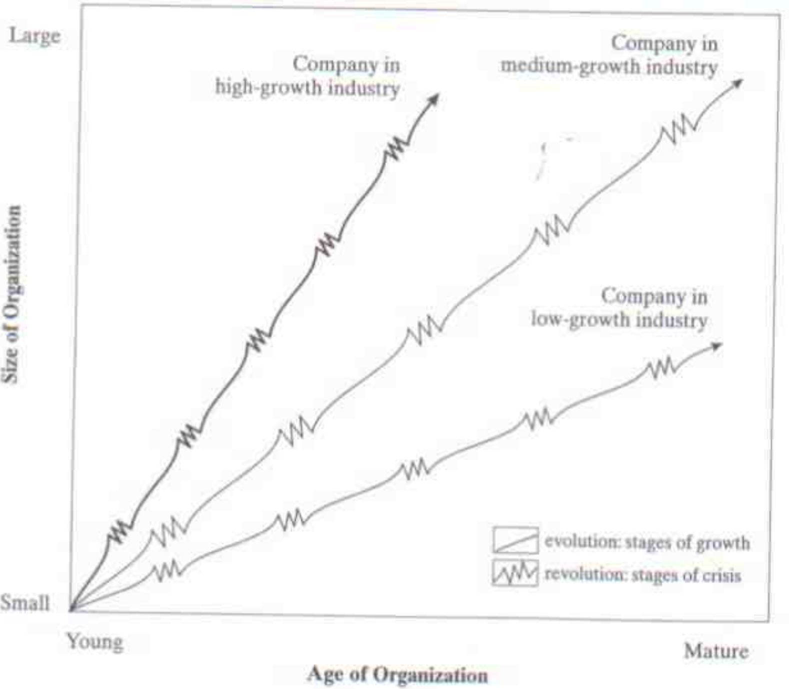
A MODEL OF HOW ORGANIZATIONS DEVELOP

To date, research on organizational development has been largely empirical, and scholars have not attempted to create a model of the overall process. When we analyze the research, however, five key dimensions emerge: an organization's age and size, its stages of evolution and revolution, and the growth rate of its industry. The graph "How Companies Grow" shows how these elements interact to shape an organization's development.

Age of the Organization

The most obvious and essential dimension for any model of development is the life span of an organization (represented on the graph as the horizontal axis). History shows that the same organizational practices are not maintained throughout a long life span. This demonstrates a most basic point: management problems and principles are rooted in time. The concept of decentralization, for example, can describe corporate practices at one period but can lose its descriptive power at another.

FIGURE 1 How Companies Grow



The passage of time also contributes to the institutionalization of managerial attitudes. As these attitudes become rigid and eventually outdated, the behavior of employees becomes not only more predictable but also more difficult to change.

Size of the Organization

This dimension is depicted on the chart as the vertical axis. A company's problems and solutions tend to change markedly as the number of its employees and its sales volume increase. Problems of coordination and communication magnify, new functions emerge, levels in the management hierarchy multiply, and jobs become more interrelated. Thus, time is not the only determinant of structure; in fact, organizations that do not become larger can retain many of the same management issues and practices over long periods.

Stages of Evolution

As organizations age and grow, another phenomenon emerges: prolonged growth that we can term the *evolutionary period*. Most growing organizations do not expand for two years and then contract for one; rather, those that survive a crisis usually enjoy four to eight years of continuous growth without a major economic setback or severe internal disruption. The term *evolution* seems appropriate for describing these quiet periods because only modest adjustments appear to be necessary for maintaining growth under the same overall pattern of management.

Stages of Revolution

Smooth evolution is not inevitable or indefinitely sustainable; it cannot be assumed that organizational growth is linear. *Fortune*'s "500" list, for example, has had considerable turnover during the last 50 years. In fact, evidence from numerous case histories reveals periods of substantial turbulence interspersed between smoother periods of evolution.

We can term the turbulent times *periods of revolution* because they typically exhibit a serious upheaval of management practices. Traditional management practices that were appropriate for a smaller size and earlier time no longer work and are brought under scrutiny by frustrated top-level managers and disillusioned lower-level managers. During such periods of crisis, a number of companies fall short. Those that are unable to abandon past practices and effect major organizational changes are likely either to fold or to level off in their growth rates.

The critical task for management in each revolutionary period is to find a new set of organizational practices that will become the basis for managing the next period of evolutionary growth. Interestingly enough, those new practices eventually sow the seeds of their own decay and lead to another period of revolution. Managers therefore experience the irony of seeing a major solution in one period become a major problem in a later period.

Growth Rate of the Industry

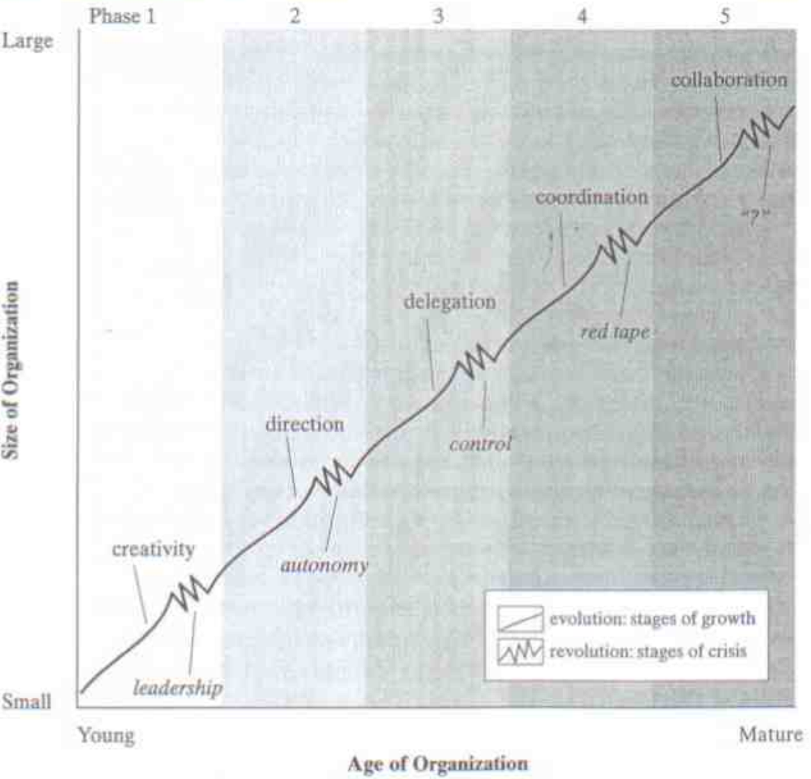
The speed at which an organization experiences phases of evolution and revolution is closely related to the market environment of its industry. For example, a company in a rapidly expanding market will have to add employees quickly; hence, the need for new organizational structures to accommodate large staff increases is accelerated. Whereas evolutionary periods tend to be relatively short in fast-growing industries, much longer evolutionary periods occur in mature or slow-growing industries.

Evolution can also be prolonged, and revolutions delayed, when profits come easily. For instance, companies that make grievous errors in a prosperous industry can still look good on their profit-and-loss statements; thus, they can buy time before a crisis forces changes in management practices. The aerospace industry in its highly profitable infancy is an example. Yet revolutionary periods still occur, as one did in aerospace when profit opportunities began to dry up. By contrast, when the market environment is poor, revolutions seem to be much more severe and difficult to resolve.

PHASES OF GROWTH

With the foregoing framework in mind, we can now examine in depth the five specific phases of evolution and revolution. As shown in the graph "The Five Phases of Growth," each evolutionary period is characterized by the dominant management style used to achieve growth; each revolutionary period is characterized by the dominant management problem that must be solved before growth can continue. The pattern presented in the chart seems to be typical for companies in industries with moderate growth over a long period; companies in faster-growing industries tend to experience all five phases more rapidly, whereas those in slower-growing industries encounter only two or three phases over many years.

FIGURE 2 The Five Phases of Growth



It is important to note that each phase is at once a result of the previous phase and a cause for the next phase. For example, the evolutionary management style in Phase 3 is delegation, which grows out of and becomes the solution to demands for greater autonomy in the preceding Phase 2 revolution. The style of delegation used in Phase 3, however, eventually provokes a revolutionary crisis that is characterized by attempts to regain control over the diversity created through increased delegation.

For each phase, managers are limited in what they can do if growth is to occur. For example, a company experiencing an autonomy crisis in Phase 2 cannot return to directive management for a solution; it must adopt a new style—delegation—in order to move forward.

Phase 1: Creativity

In the birth stage of an organization, the emphasis is on creating both a product and a market. The following are the characteristics of the period of creative evolution:

- 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.

All the foregoing individualistic and creative activities are essential for a company to get off the ground. But as the company grows, those very activities become the problem. Larger production runs require knowledge about the efficiencies of manufacturing. Increased numbers of employees cannot be managed exclusively through informal communication, and new employees are not motivated by an intense dedication to the product or organization. Additional capital must be secured, and new accounting procedures are needed for financial control. The company's founders find themselves burdened with unwanted management responsibilities. They long for the "good old days" and try to act as they did in the past. Conflicts among harried leaders emerge and grow more intense.

At this point, a *crisis of leadership* occurs, which is the onset of the first revolution. Who will lead the company out of confusion and solve the managerial problems confronting it? Obviously, a strong manager is needed—one who has the necessary knowledge and skills to introduce new business techniques. But finding that manager is easier said than done. The founders often resist stepping aside, even though they are probably temperamentally unsuited to the job. So here is the first critical choice in an organization's development: to locate and install a strong business manager who is acceptable to the founders and who can pull the organization together.

Phase 2: Direction

Those companies that survive the first phase by installing a capable business manager usually embark on a period of sustained growth under able, directive leadership. Here are the characteristics of this evolutionary period:

- 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.

Although the new directive techniques channel employees' energy more efficiently into growth, they eventually become inappropriate for controlling a more diverse and complex organization. Lower-level employees find themselves restricted by a cumbersome and centralized hierarchy. They have come to possess more direct knowledge about markets and machinery than do their leaders at the top; consequently, they feel torn between following procedures and taking initiative on their own.

Thus, the second revolution emerges from a *crisis of autonomy*. The solution adopted by most companies is to move toward more delegation. Yet it is difficult for top-level managers who previously were successful at being directive to give up responsibility to lower-level managers. Moreover, the lower-level managers are not accustomed to making decisions for themselves. As a result, numerous companies flounder during this revolutionary period by adhering to centralized methods, while lower-level employees become disenchanted and leave the organization.

Phase 3: Delegation

The next era of growth evolves from the successful application of a decentralized organizational structure. It exhibits these characteristics:

- 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.

The delegation phase allows companies to expand by means of the heightened motivation of managers at lower levels. Managers in decentralized organizations, who have greater authority and incentives, are able to penetrate larger markets, respond faster to customers, and develop new products.

A serious problem eventually emerges, however, as top-level executives sense that they are losing control over a highly diversified field operation. Autonomous field managers prefer to run their own shows without coordinating plans, money,