



The Corporate Life Cycle: Leading Organizations to Perpetual Life

The business life cycle is predictable; by understanding where the business sits on the life cycle, and changing their leadership style to fit, leaders can guide their businesses to success.

By Tim Tokarczyk and Jake Appelman

Sighing with exhaustion from another lengthy managers meeting, Robert slumped into his office chair. When Robert founded RBG Constructors 20 years ago, there was no time for meetings; in fact, he spent the early years just trying to make payroll. Now he looked back at those start-up days as the most exciting and demanding of his life. Everything was new, and opportunity and danger lurked ahead. No one talked about project management software, performance appraisals or consultants. “Training” was something you got driving to the job site ... if you were lucky.

After the rocky early years, the business gained momentum and began turning a consistent, if small, profit. RBG built a strong reputation for delivering high-end hotels faster than anyone else in the business. With its standing in the market, the business flourished and RBG diversified its services into different markets. After several years of 30% to 40% annual revenue growth and rapidly increasing employee headcount, the business barely resembled the one Robert founded all those years ago.

Robert started to question his ability to lead the business. He loved the company, but he was losing his passion. His early team of employees had worked long hours to grow the business. They worked, played and grew up together. The team met challenges without complaint, and everyone bought into the organizational goals.

Robert recognized his business was changing. Problems and issues began to creep in, and communication became more difficult. Robert spent increasing amounts of time trying to convey the organization's vision and purpose to his employees. Lately, it seemed as if everyone was unhappy. Some employees complained vocally about the organization's lack of structure, saying that they did not have clear reporting lines, could not understand the decision-making process

and were having interpersonal disputes with other employees. Other employees complained of too much structure and too many systems, saying that they were feeling suffocated by bureaucracy, not having fun anymore and that they wished for the old days. Robert did not understand exactly what was happening, but he knew that the organization had shifted and that he needed to do something soon.

The situation with Robert and RBG has occurred for thousands of businesses. What Robert did not realize is that, like people, organizations go

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through their own life cycles. As his general contracting firm aged, it fundamentally changed from its earlier days, and so the problems facing Robert were new ones to solve. In the middle of it, Robert didn't understand why he was facing these new issues. He also didn't realize that the business life cycle is predictable. By understanding where the business sits on the life cycle, organizations can predict the types of problems that will arise. By changing their leadership style as they also work to change the organization's culture, leaders can guide their business through the turbulent times and ensure their company's continued success.

Good leadership is required for a business to survive and flourish on a day-to-day basis, but it is even more vital during times of turbulent change. As an organization moves through the corporate life cycle, strategic leadership takes on the utmost importance. Leaders of organizations caught in a transition from one stage to another need to increase their understanding of the current organizational issues and devise a strategy for moving their organization to the next stage, in order to continue their organization's growth. Proper leadership prevents an organization from getting stuck.

THE CORPORATE LIFE CYCLE

Business life cycles first came to prominence when noted speaker and author Dr. Ichak Adizes published his seminal work, *Corporate Lifecycles*. Adizes believed that organizations followed a life cycle from birth to death, and that by understanding

the current business stage, leaders of that organization could combat the inherent problems of each stage and move their organization to the next stage.

Adizes outlined 10 different stages on the corporate life cycle (see Exhibit 1). The first three make up the growing stages. The first stage, Courtship, begins before the organization is created, when the business exists only as an idea in the founder's head. The idea often comes from an entrepreneurial leader who sees an opportunity in the marketplace. The second stage, Infancy, begins with the creation of the organization. During this stage, substantial risk is incurred as the founders raise capital and risk their own personal wealth as the business starts and struggles to survive. After achieving some level of success, the business moves into the third stage, Go-Go. In this stage, the organization builds on its original idea, which has proved to be a good one, sales are up and business is booming.

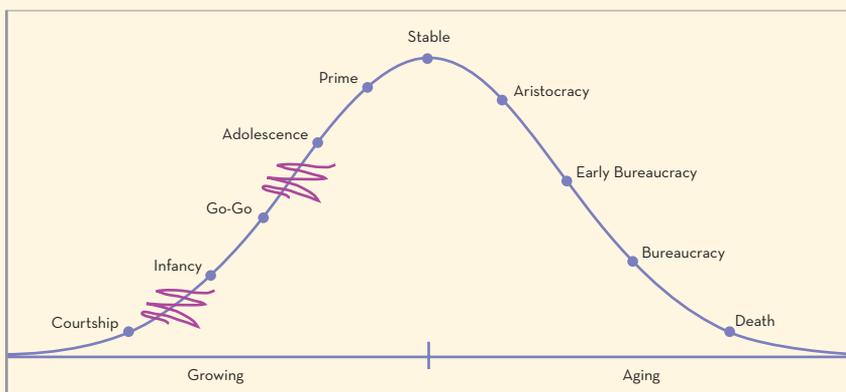
After the company completes the growing stages, the company enters what Adizes called “the second birth and coming of age” stages. Following the Go-Go stage, an organization is “reborn” in the Adolescence stage. In Adolescence, the company experiences a number of growing pains — increased confusion, disorganization, conflict and inconsistency. Robert's company was in this stage.

After successfully managing the problems and internal strife present in the Adolescence stage, a company moves onto the fifth stage, Prime. Adizes believes that Prime is “the optimum point, where the organization achieves a balance of self control and flexibility.”¹ Truly successful organizations will reach the Prime stage and stay in this stage perpetually. Organizations that reach the Prime stage but are unable to adapt and reinvent the organization will begin to age.

Adizes outlined the last five stages of the corporate life cycle as the “aging organization.” As flexibility and entrepreneurship become replaced with bureaucracy, systems and structure, the organization begins to age. The company remains fairly strong in the Stable stage, but quickly loses its capacity to achieve results as it moves into the Aristocracy, Early Bureaucracy and Bureaucracy stages. Without change, the aging process leads an organization to the final stage, Death.

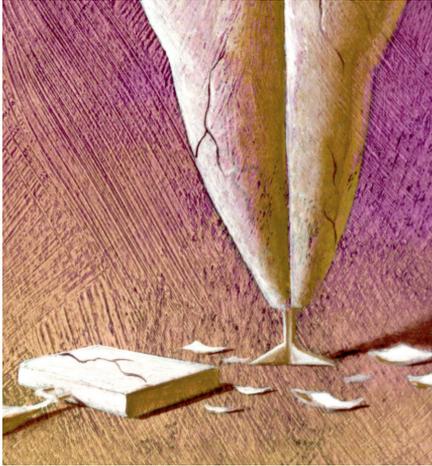
Understanding where your organization exists on the corporate life cycle is a

Exhibit 1
Corporate Life Cycle: 10 Stages



Source: *Corporate Lifecycles* by Ichak Adizes

valuable tool for leaders. With it, leaders can predict future organizational issues, understand the leadership needed to move into the Prime stage and provide strategies for preventing organizational aging and death. Accurately placing an organization in its *exact* location on the life cycle requires a great deal of study and effort. Still,



organizations will benefit greatly from leadership's general understanding of whether the organization is in the growing or aging stages.

For an organization to be truly successful, its leadership team needs to adapt its style to fit the particular business life cycle stage. Sometimes this occurs accidentally. However, organizations will find more long-term benefit if the leadership team is intentional and purposeful about its leadership styles. By understanding their place on the corporate life cycle, leaders can adapt their own styles to

be most effective. They can also develop other leaders throughout the organization who are more suited to take the business to the next stage. This is not an easy task for leaders, especially in an action- and future-oriented industry like construction. This requires a great deal of vision and discipline by the organization's leaders — to slow down enough to really examine the life cycle of their business. Construction leaders who take the time for this strategic thinking will see big rewards.

GROWING AND AGING ORGANIZATIONS

What characteristics make an organization young, and what makes an organization old? Adizes believed this was embodied by a struggle between flexibility and controllability. Adizes said, "When organizations are young, they are very flexible; they are not very controllable. As organizations age, the relationship changes. Controllability increases and flexibility decreases."² Younger organizations are characterized by their entrepreneurial spirit. Change is viewed favorably; the unknown is sought out and explored. Risks are taken, and a certain level of ambiguity is not only expected, but accepted. This strong sense of entrepreneurship allows employees to quickly buy into the organization's vision, increases motivation among the workforce and allows the business to achieve a high level of flexibility.

Aging organizations are the opposite. They are characterized by systems and processes, and a defined hierarchy where authority is increasingly centralized. These organizations have a sense of order and control. Employees know what to expect, and certain decisions and actions within the organization become predictable. This creates a sense of stability throughout the organization.

Benefits and problems are associated with both young, entrepreneurial organizations and old or aging ones. Young organizations are incredibly flexible, but they are also unpredictable. Their leaders take great risks, with potentially disastrous results. Old organizations are stable and controllable, but they become inflexible and bureaucratic. Successful organizations combine elements of both.

These organizations are both flexible and controllable and entrepreneurial, but structured. This occurs in the Prime stage. Here, organizations maintain their aggressive entrepreneurial spirit, but their actions are also controllable and predictable. The organization is in balance.

UNDERSTANDING YOUR ORGANIZATION'S PLACE ON THE CORPORATE LIFE CYCLE

Where do you believe your organization sits on the corporate life cycle? Is your business still growing, characterized by a sense of entrepreneurialism and creativity? Or, is your organization aging, characterized by a strict sense of bureaucracy and a defined hierarchy? Perhaps your organization is similar to Robert's business — caught in Adolescence as it struggles between being flexible and controllable. No real timeline exists for when a business will move through the life cycle. Some companies will move through quickly, and with others, it could take decades to move through only a few stages. Leaders need to understand where they are on the corporate life cycle so they can accurately prepare for that stage's conflicts. By overcoming these issues, the organization can move along the corporate life cycle toward its Prime.

Through an internal focus, leaders can use the corporate life cycle as a tool to help them shift their leadership to concentrate on their biggest, current challenges. Youthful, entrepreneurial organizations will require a different leadership style than one that has already passed its prime. The first task of an organization's leaders is to place their organization somewhere along the corporate life cycle. The next step is to address the major concerns of that stage.

YOUTHFUL ORGANIZATIONS

Organizations that are still in the growing stages are relatively youthful — the entrepreneurial spirit is high. Businesses in these stages will benefit from their company's flexibility and influx of creativity. Meetings typically take place in informal settings, on the way to the airport or over a meal. Leaders should do what they can to continue to embrace that spirit. However, too much entrepreneurialism can have negative consequences. Unchecked entrepreneurialism can result in inattention to crucial details, increasingly dangerous risk taking, unrealistic expectations of co-workers and poor decision making.

Leaders of youthful organizations need to think strategically to develop a balance between entrepreneurialism and stability. For example, the most entrepreneurial employee should be paired with someone who is organized, efficient, thorough, conservative and detail-oriented. This will help ensure that key details are not missed and that dangerous risk taking will not become the norm. Through this pairing, the entrepreneurial employees will be grounded by the conservative

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ones, and the entrepreneurs' creativity and innovation will work to inspire the organized employees. This symbiotic relationship will serve as a microcosm for what the entire organization will need in order to reach its Prime. Leaders can also train their employees to increase their self-awareness. This will help provide some semblance of stability in an otherwise independent, entrepreneurial culture. Leaders should also encourage decisions to be made multilaterally and appropriate checkpoints to be put in place. Many companies fail because the founders never institutionalize their influence or spread responsibility. Concentrating all the strategic decisions on one person will only work if that person is unbelievably talented (the mythical Renaissance man or woman) and can sustain the pressures of the role long-term. More often than not, this is only a short-term solution since the organization will fail after that individual leaves or retires. These tactics will help rein in the most entrepreneurial employees, while still giving them the opportunity to act with a certain level of autonomy.

Leaders of youthful organizations face a very challenging task. They must continue to support and nurture their entrepreneurial culture, while also balancing it with a certain level of systems and structure. Leaders who are successful in doing this will move their organization along the corporate life cycle and begin to approach the Adolescence Stage.

COMING-OF-AGE ORGANIZATIONS

In the earlier example, Robert found himself in the struggle between entrepreneurialism and controllability. This is the key characteristic of organizations that are coming-of-age. These organizations will face the pain of trying to put in appropriate systems and structure such as an organizational chart and communication channels. Meetings will typically become more formal, with set agendas. Some employees will embrace these changes as long overdue, while others

will lament the loss of freedom and flexibility. Organizations in this stage are often challenged with leadership succession, redefinition of the organization itself and controlling their growth. These organizations often experience internal conflict.

To strategically weather these storms, leaders must understand that the systems and structure are necessary to continued success. Companies in this stage have long since grown out of the nimble, flexible organization they were in the past. To maintain order and prevent gross confusion, establish clear lines of communication and somewhat central authority. Create hiring and compensation systems and processes that are specifically tailored to your organization and highlight the

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traits you wish to see throughout the company. Control the desire for more and more growth, and learn to work smarter, not harder.

Leaders who find themselves in these stages typically begin to feel some tension between the highly entrepreneurial, founding leader, and the rest of the leadership team. In many cases, the entrepreneurial founder is still directly involved in the business, typically in an operational role. The entrepreneurial leader will be much more valuable if he or she steps away from an operational role and turns the reins over to skilled managers who can build systems and structure throughout the organization. This may be one of the most difficult challenges a leader faces. However, entrepreneurial leaders unwilling to delegate or take on a different role can easily exacerbate an already difficult situation. In these stages of the life cycle, organizations need established and predictable systems if they wish to grow and move towards their Prime. If the current entrepreneurial leader is unable or unwilling to provide such structure, the organization will begin to flounder.



Leaders of coming-of-age organizations face a difficult balancing act. Certain systems and processes must be put in place, but leaders must be careful not to completely lose the organization's entrepreneurial spirit. The systems must be designed to complement and shift the entrepreneurial spirit, not to completely suffocate it. Creativity and innovation need to be encouraged to exist within the confines of the organization's hierarchy. Leaders who can successfully achieve this balancing act will lead their organizations into their Prime.

PRIME ORGANIZATIONS

Organizations operating at their prime are characterized by achieving a healthy balance between entrepreneurialism and controllability. Predictability exists throughout the organization, but employees still work toward achieving the company's vision. Here, sales and profitability increase greatly, internal conflict subsides and the organization operates at a high level of productivity and effectiveness.

Leaders of organizations in their prime should be proud of their achievement — of guiding their organization through the early, turbulent times. However, the greatest challenge of the Prime stage is complacency. Organizations begin to take their success for granted. It is in this stage — when entrepreneurialism is most balanced with systems and structure — that the ability to be flexible and adaptable is easiest to lose. Leaders need to maintain this balance. Flexibility and adaptability must be preserved, although the tendency will be to become more rigid. Here, leaders should do what they can do encourage entrepreneurialism; develop their people; and encourage learning, skill growth and personal development. To do this, leaders can hire more entrepreneurial employees by bringing in people outside of the industry or hiring those with a creative or innovative background,

focus their efforts on leader development and reward employees who show creative or innovative solutions to problems.

Leaders of organizations in their prime will do well to remember what they did to arrive at this point. The freedom to be flexible, adaptable and innovative must continue to be stressed, while also maintaining a certain level of systems and structures to guide the organization. If this balance is upset — in most cases this

results in too much structure and bureaucracy — then the organization will begin to age.



AGING ORGANIZATIONS

Many leaders find themselves in aging organizations. The company's hierarchy has been well established and clear lines of communication have been created. With this structure, the organization's entrepreneurial spirit has faded. Yet, not all aging organizations must travel the downward spiral

towards eventual Death. With an infusion of innovation and entrepreneurialism, an organization can recapture its Prime state and reverse the trend of the corporate life cycle. The most successful firms will perpetually return to their Prime and refrain from aging.

Leaders of aging organizations will need to develop a culture of entrepreneurialism throughout their organization. The first step is to hire people with nontraditional backgrounds. Most new construction hires have degrees in either construction management or engineering, which limits the pool of applicants. Candidates with nontraditional backgrounds will bring new ideas. A quick way to infuse the entrepreneurial spirit back into your organization is to hire people who are not indoctrinated in the same thought processes as the majority of your workforce. Leaders also need to break down a perfection-focused culture. Making mistakes is often an opportunity for great learning. Employees will be more likely to display entrepreneurialism if they know a mistake will result in constructive feedback, not dismissal or even harsh criticism. Obviously, in some areas, mistakes are not acceptable (i.e., safety), but an environment in which mistakes are never tolerated will never foster creativity and entrepreneurship.

To further foster a culture of entrepreneurialism, leaders may reward entrepreneurialism in their employees since people will do what they perceive that they are rewarded for doing. Leaders may also put one or two of their most entrepreneurial employees in key leadership positions.

A key task for leaders of aging organizations will be to move away from their well-established bureaucracy. Employees need to be given a certain level of freedom to experiment and grow. This can be accomplished by employees' continual growth in their leadership roles and in their personal development. Coaching and mentoring programs will help aging organizations provide guidance and learning opportunities for younger employees, as well as to tap into new ways of thinking for the more experienced employees serving as coaches to the younger ones.

LEADING THROUGH THE CORPORATE LIFE CYCLE

Like Robert and RBG Constructors in the earlier example, many leaders find themselves bewildered by sudden changes in the business. They cannot precisely explain when or how the transformation took place; they only recognize that the face of their company has changed. In such situations, it is hard to know what type of leadership is required. Leaders typically stay true to the style that helped them get to that point. Unfortunately, that is often the wrong course of action. As businesses age and move along the corporate life cycle, different leadership styles are required. Leadership that starts entrepreneurial and flexible may need to shift to being more administrative, with processes and procedures. At other times, an influx of creative, entrepreneurial blood may be required to ensure the business' long-term success. To leaders of organizations in such situations, these times can seem unexplainable and unpredictable. Robert was similarly bewildered. With an understanding of corporate life cycles, however, he was able to explain the changes he witnessed and create a roadmap to bring his organization into its Prime. While he could never return the business to its earlier days, by confronting the issues of the current stage of his business' life cycle, he could create an organization that is stable while remaining entrepreneurial.

Understanding what to expect as his organization aged allowed Robert to regain some of his lost passion for the business and to become inspired again at the prospect of creating an enduring organization.

Leaders who practice foresight and discipline in working to understand their corporate life cycle will discover their situation is more explainable and predictable than they imagined. These leaders will be able to adapt their leadership style to ensure their continued effectiveness and pinpoint the exact remedy for their problems. These leaders will align their leadership teams and work with them to improve employee selection, training, coaching and mentoring so that they can lead the organization through the life cycle, from one stage to the next until they reach their Prime, or to recapture their Prime. Understanding the corporate life cycle will provide leaders with the tool they need to ensure the continued long-term success of their business. ■

As businesses age and move along the corporate life cycle, different leadership styles are required.

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¹ Adizes, Ichak. *Corporate Lifecycles*. (Englewood Cliffs, NJ: Prentice Hall, 1988).

² Adizes, Ichak. *Corporate Lifecycles*. (Englewood Cliffs, NJ: Prentice Hall, 1988).