

Managing Corporate Lifecycles

EVERYTHING has a
Lifecycle!

Managing Corporate Lifecycles, Ichak Adzes, Prentice-Hall, 1999.

The Corporate Lifecycle: Leading Organizations to Perpetual Life, Tim Tokarczyk and Jake Appelman, FMI Quarterly, 2008

What is a lifecycle?

Dr. Ichak Adizes belief.....

“That organizations followed a *lifecycle* from birth to death, and that by understanding the current business stages, leaders of the organization could combat the inherent problems of each stage and move their organization to the next stage.”

How do you successfully manage the lifecycle?

The Key is **LEADERSHIP!**

*As an organization transitions through the stages of the corporate lifecycle, **LEADERS** 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 organizations growth.*

LEADERSHIP prevents an organization from getting stuck!

Question:

IS the way to prevent a system from falling apart to prevent change?

Problems are manifestations of disintegration caused by change.

The role of leadership is not to prevent the system from falling apart...rather it is to lead change that causes the system to fall apart and then to reintegrate it into a new whole.

Lifecycles Explain How Organizations Grow Through Time

Divided into Growing & Aging

■ **Growing:**

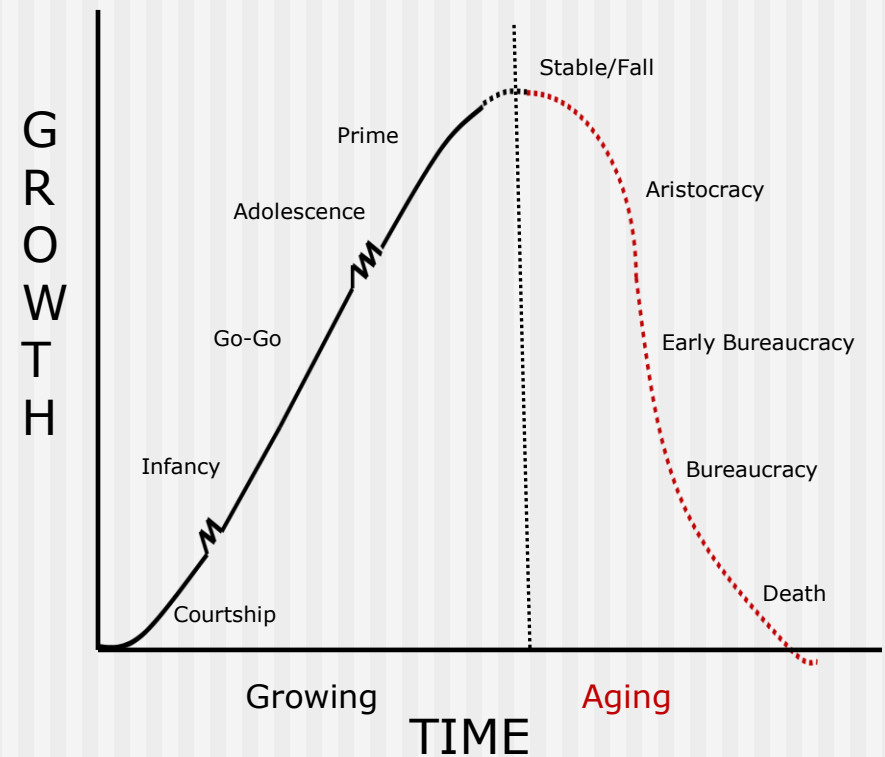
- Youthful Organization (1st 3 Stages)
 - Courtship
 - Infancy
 - Go-Go
- Coming-of-age Organization
 - Adolescence

■ **The “Optimum Point”**

- Prime

■ **Aging:** (Last 5 Stages)

- Stable/Fall
- Aristocracy
- Early Bureaucracy
- Bureaucracy
- Death



Understanding the lifecycle

- No real timeline exists for when an organization will move through the lifecycle.
- Some organizations move through quickly, and others may take decades to move through only a few stages.
- What is normal at one stage of the lifecycle can be abnormal in another stage.

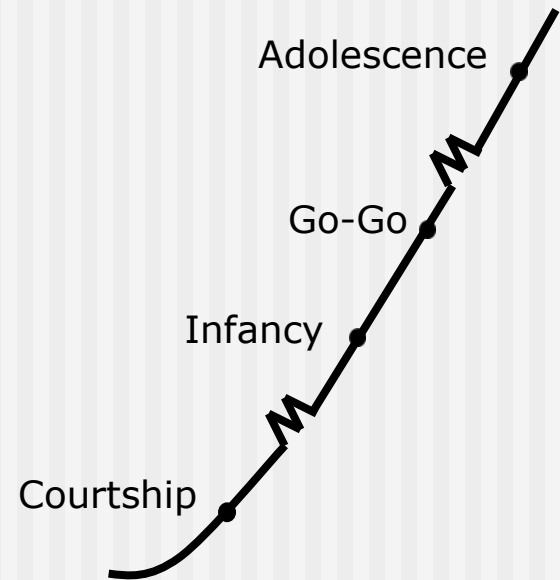
Growing Stages

Characteristics

- Entrepreneurial spirit
- Very flexible, and not very controllable
- Change viewed favorably
- The unknown is sought out and explored
- Risks are taken
- Ambiguity is not only expected, but accepted

Problems

- Unpredictable
- Big risks have potentially disastrous results



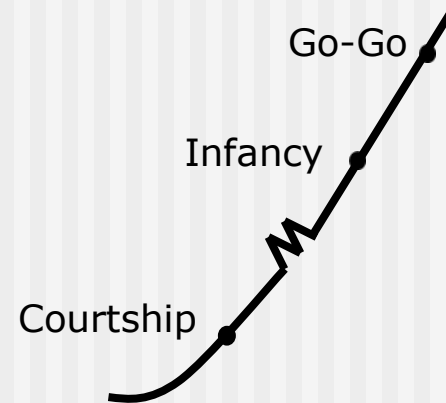
Youthful Organizations

Characteristics

- High entrepreneurial spirit
- Flexible
- Flooded with creativity
- Informal meetings

Problems

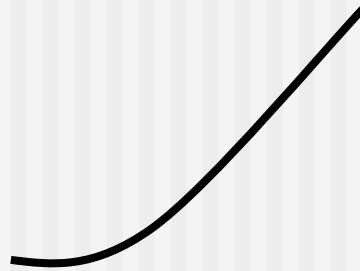
- Too much entrepreneurialism can result in:
 - Inattention to details
 - Dangerous risk taking
 - Unreal expectations
 - Poor decision making
 - Lack structure
 - Fail to spread responsibility



Ways to Overcome

- Balance entrepreneurialism with stability
- Multilateral decision making
- Establish appropriate checkpoints

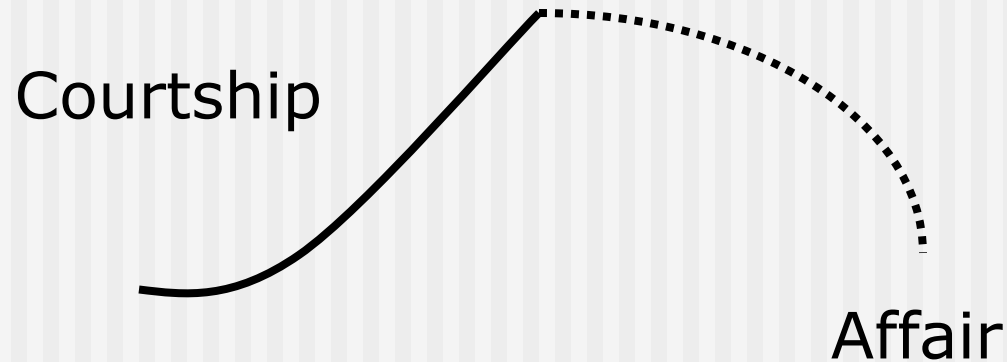
First Stage: Courtship



- Begins before the organization is created
- The emphasis in this stage is building commitment—it is only an **idea**.

*He who has a **why** to live can bear almost any **how**.
(Nietzsche)*

Is It Real True Love, or Is It Just an Affair?



Problems of Courtship

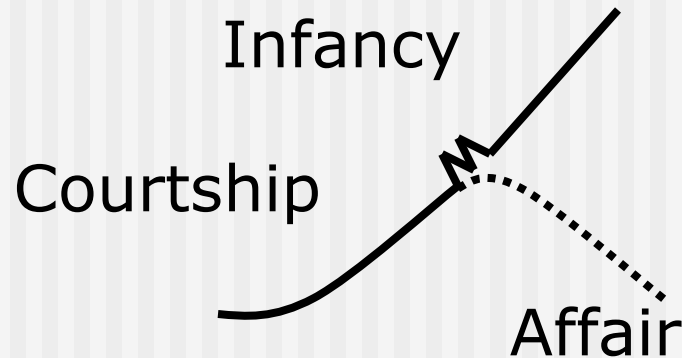
Normal

- Excitement, reality tested
- Details thought through
- Realistically committed founder
- Product orientation-commitment to add value
- Commitment commensurate to risk
- Founder in control

Abnormal

- No reality testing of the commitment
- No details thought through
- Unrealistically frantic founder
- Exclusive ROI-profit orientation
- Commitment not commensurate to risk
- Founder's control is vulnerable

Second Stage: Infancy

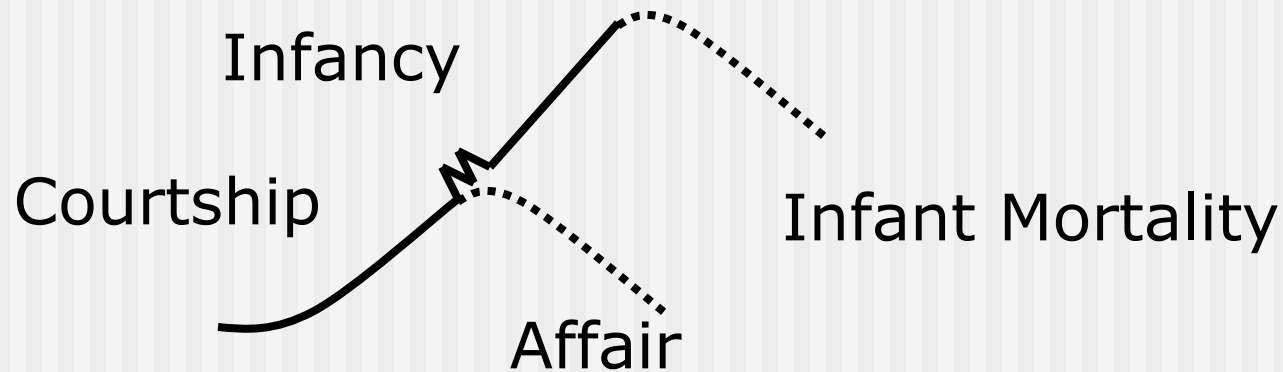


The organization is created

- The emphasis at this stage is on CASH! The product is important but selling is crucial.
- Substantial risks are incurred as the business starts and struggles to survive.

Starting a company means putting your personal life on hold.

Does the organization end with infant mortality?



Infant mortality occurs when founders are alienated from or lose control of their creations, or if the company irreparably loses liquidity.

Problems of Infancy

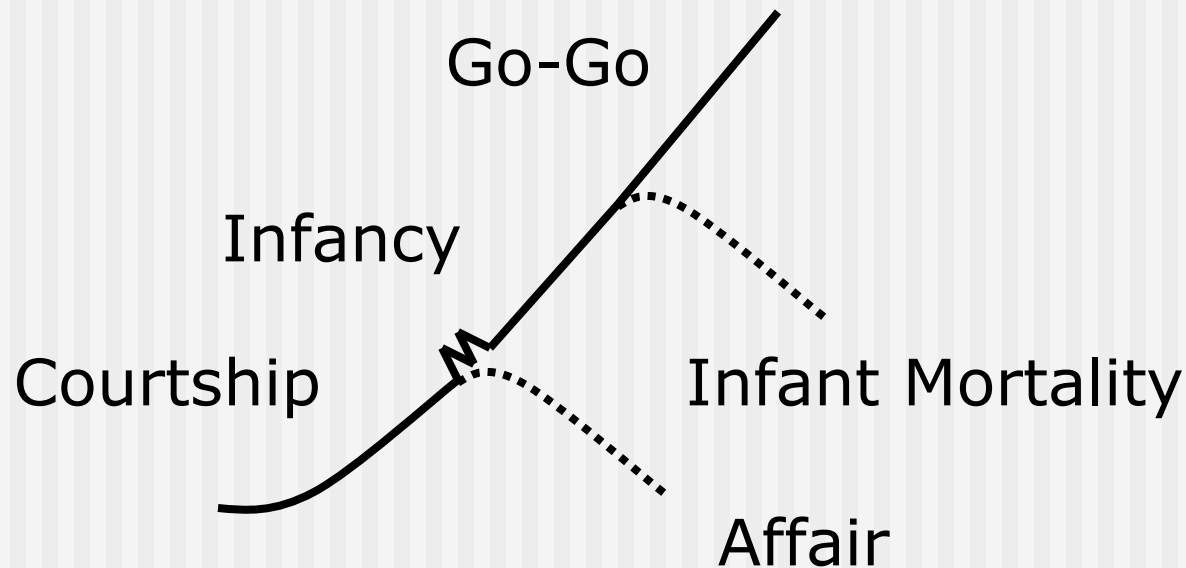
Normal

- Product orientation
- Questioning investors
- Commitment not threatened by risk
- Negative cash flow
- Sustained commitment
- Lack of managerial depth
- Few systems

Abnormal

- Premature sales orientation
- Doubting investors
- Commitment destroyed by risk
- Unanticipated neg cash flow
- Loss of commitment
- Premature delegation
- Premature rules, systems, procedures

Third Stage: Go-Go

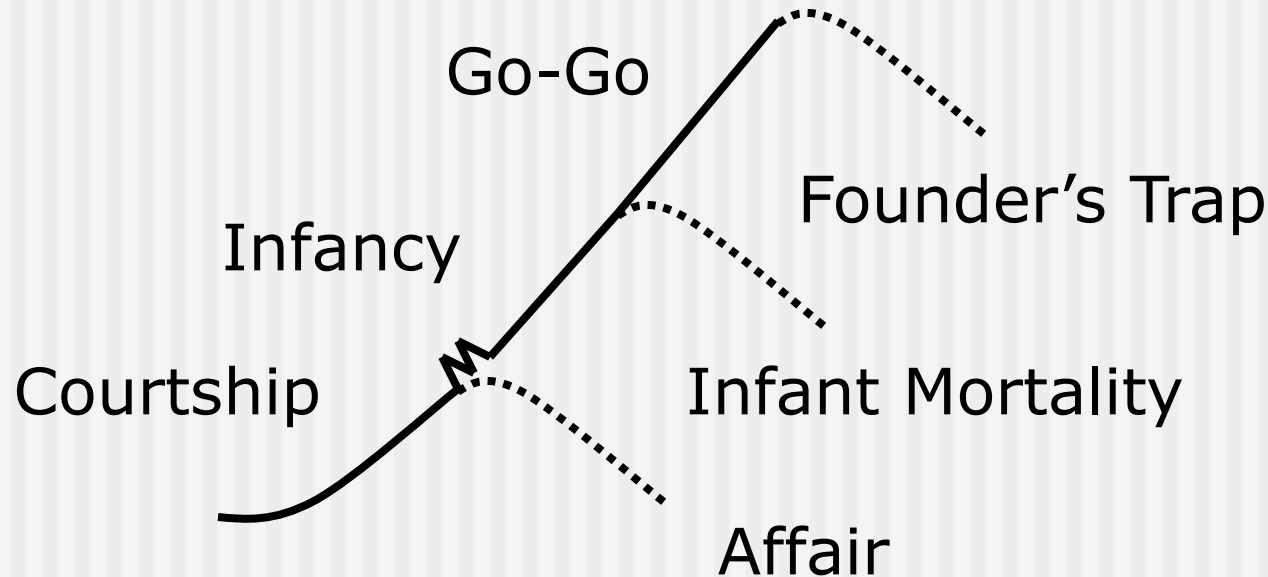


The idea is working, the company has good cash flow, and sales are up. EVERYTHING can look like an opportunity. If infancy is management by crisis, Go-Go is crisis by management.

Go-Go leaders plan on miracles. They do not just rely on them.

A normal problem of Go-Gos is that everything is a priority.

Will the organization fall into the “founder’s trap”?



Companies outgrow the founders' capabilities to implant their personal leadership styles and philosophies. Instead of delegating, they decentralize and a Go-Go organization cannot decentralize well. (Seagull syndrome)

One of capitalism's most important innovations was to separate ownership from professional management.

Problems of Go-Go

Normal

- Self confidence
- Eagerness
- High energy
- Sales orientation
- Seeking what else to do
- Sales beyond the capacity to deliver
- Insufficient cost controls
- Insufficiently disciplined staff meetings

Abnormal

- Arrogance
- Lack of focus
- Energy too thinly spread
- Sales and premature profit orientation
- No boundaries on what to do
- Selling despite inability to deliver quality
- No cost controls
- No staff meetings

Coming-of-age Organization

Characteristics

- Grown out of the nimble, flexible organization it was in the past
- Struggle between entrepreneurialism vs. controllability
- Establish communication channels & organizational chart

Problems

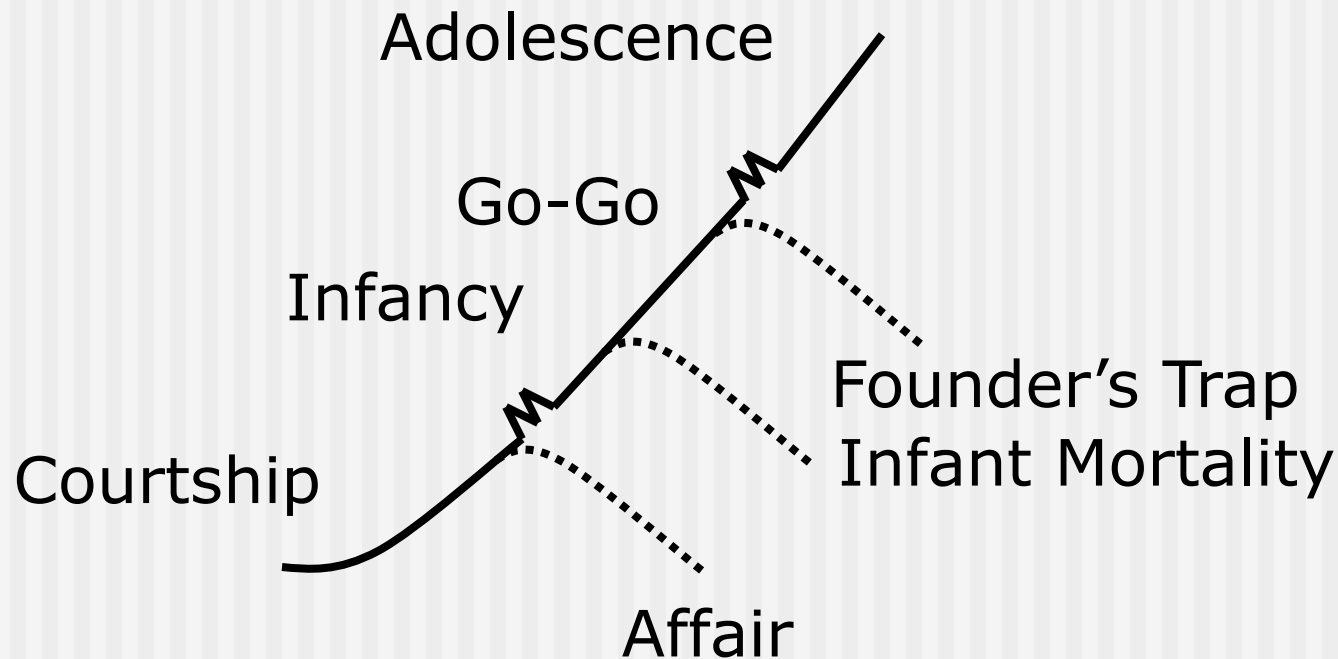
- Confusion
- Leadership succession
- Controlling growth
- Internal conflict

Ways to Overcome

- Create systems & structure to complement and shift the organization's entrepreneurial spirit, not suffocate it.
- Maintain order by establishing clear lines of communication and central authority
- Delegate responsibilities
- Place boundaries to creativity & innovation



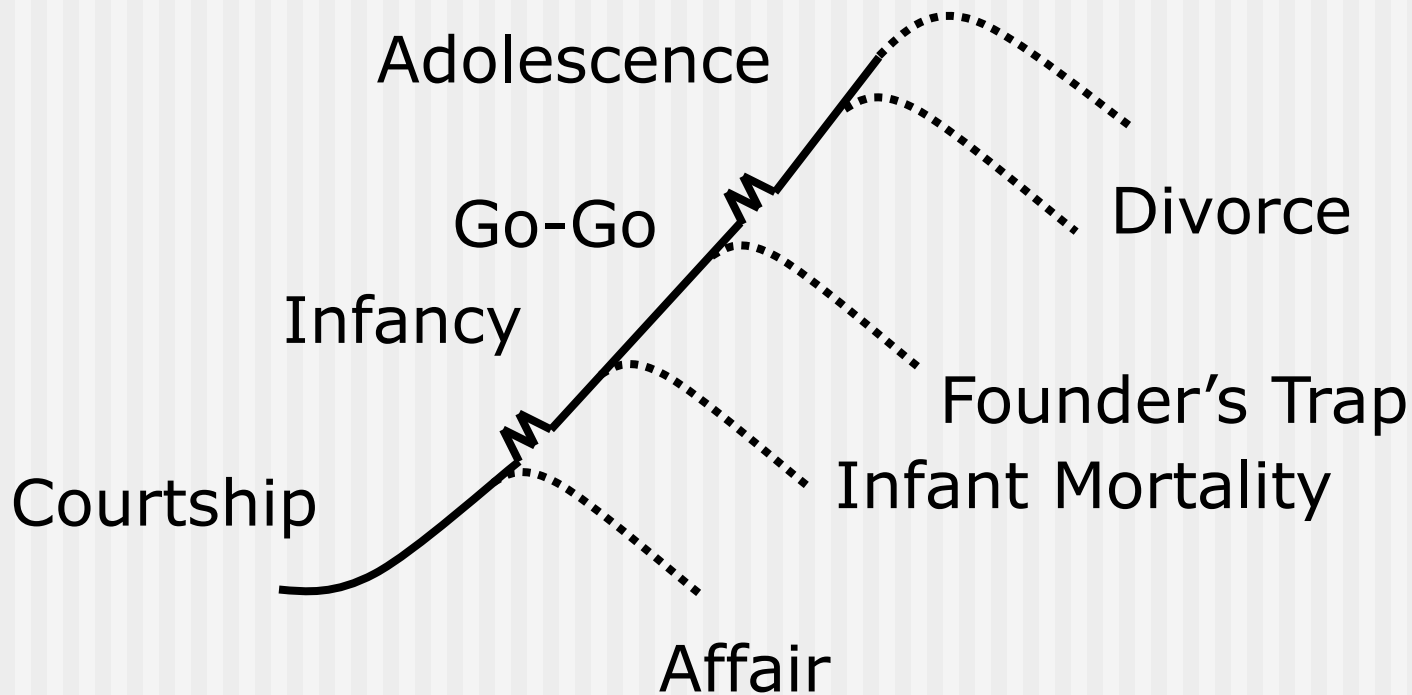
Fourth Stage: Adolescence



Challenges of delegation of authority, change of leadership from entrepreneurship to professional management, and goal displacement.

Good management is not a marathon race. It is a relay race. They must switch from a more-is-better goal to a better-is-more goal: from working harder to working smarter.

Normal vs. Pathological: The Divorce



Adolescent companies do not need leaders like their founders; the new leaders need to complement the founders' style.

Problems of Adolescence

Normal

- Conflicts between partners or decision makers
- Temporary loss of vision
- Founder's acceptance of organizational sovereignty
- Incentive systems rewarding wrong behavior
- Yo-yo delegation of authority
- Policies made but not adhered to

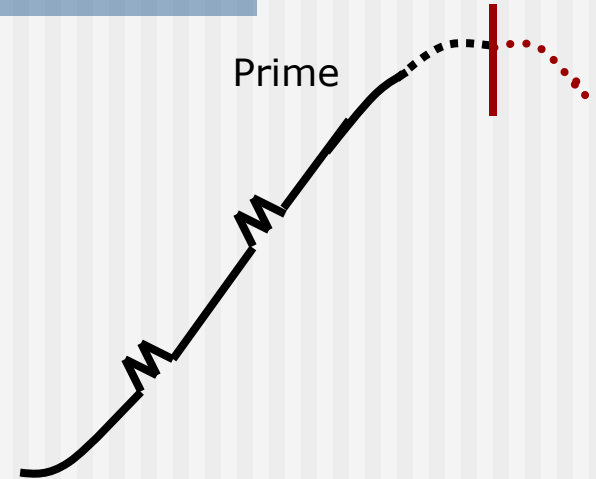
Abnormal

- Return to Go-Go and the founder's trap
- Inconsistent goals
- Founder's removal
- Bonuses for individual achievement while the organization is losing money
- Organizational paralysis during endless power shifts
- Rapid decline in mutual trust and respect

The "Optimum Point": Prime

Characteristics

- Healthy balance of entrepreneurialism vs. controllability
- Vision and values-they "walk their talk"
 - *Open your arms to change, but do not let go of your values. Simply having vision and values does not make for a Prime organization.*
- Conscious focus and priorities
- Predictable excellence
 - *If you are in Prime condition, change works to your advantage, and you outpace the weak competition.*
- Functional systems and organizational structure
- Sales & profits increase greatly
- Internal conflict subsides
- Operating at a high level of productivity and effectiveness



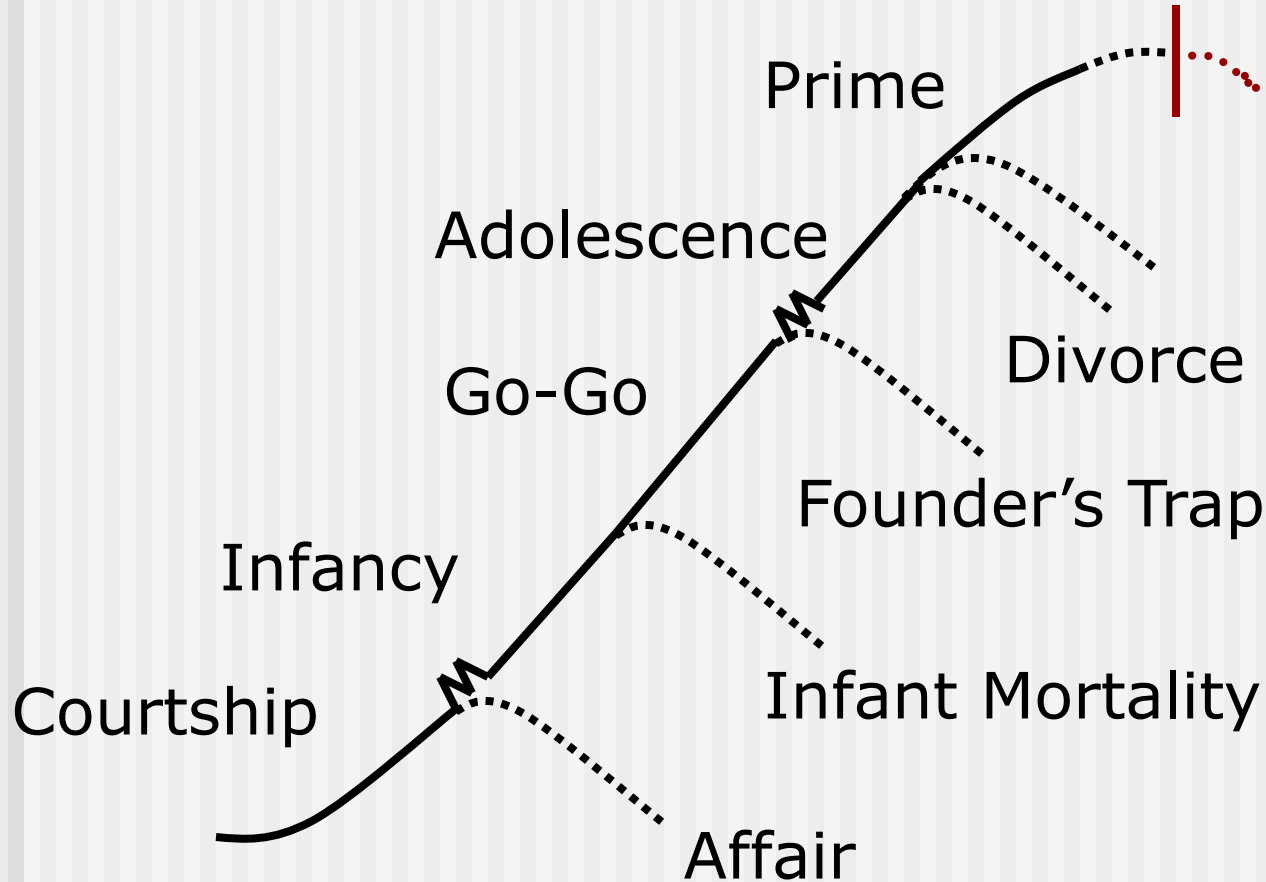
Problems

- Complacency
- Easy to lose flexibility & adaptability
- Balance can be upset with too much structure & bureaucracy, causing organization to begin aging

Ways to Overcome

- Leaders must maintain balance
- Reward innovation & creativity

Fifth Stage: Prime



Optimal condition of the lifecycle..the achievement of a balance between self-control and flexibility.

Problems of Prime

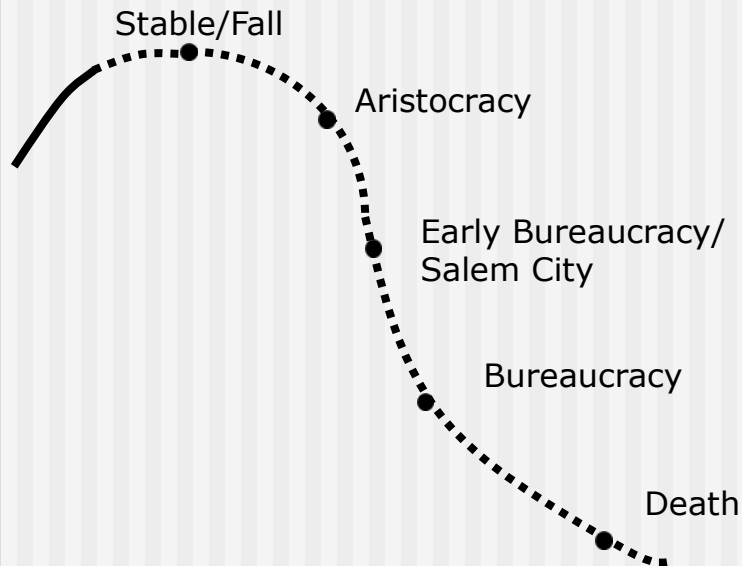
Normal

- NONE! There are NO **normal** problems of aging

Abnormal

- Signs of disintegration
- Signs of decreased entrepreneurial activity
- Satisfaction with the results and the process
- Reliance on what has worked in the past

Aging Organizations



Ways to Overcome

- Infusion of innovation & entrepreneurialism to recapture prime
- Hire new employees with nontraditional backgrounds
- Foster creativity through constructive feedback

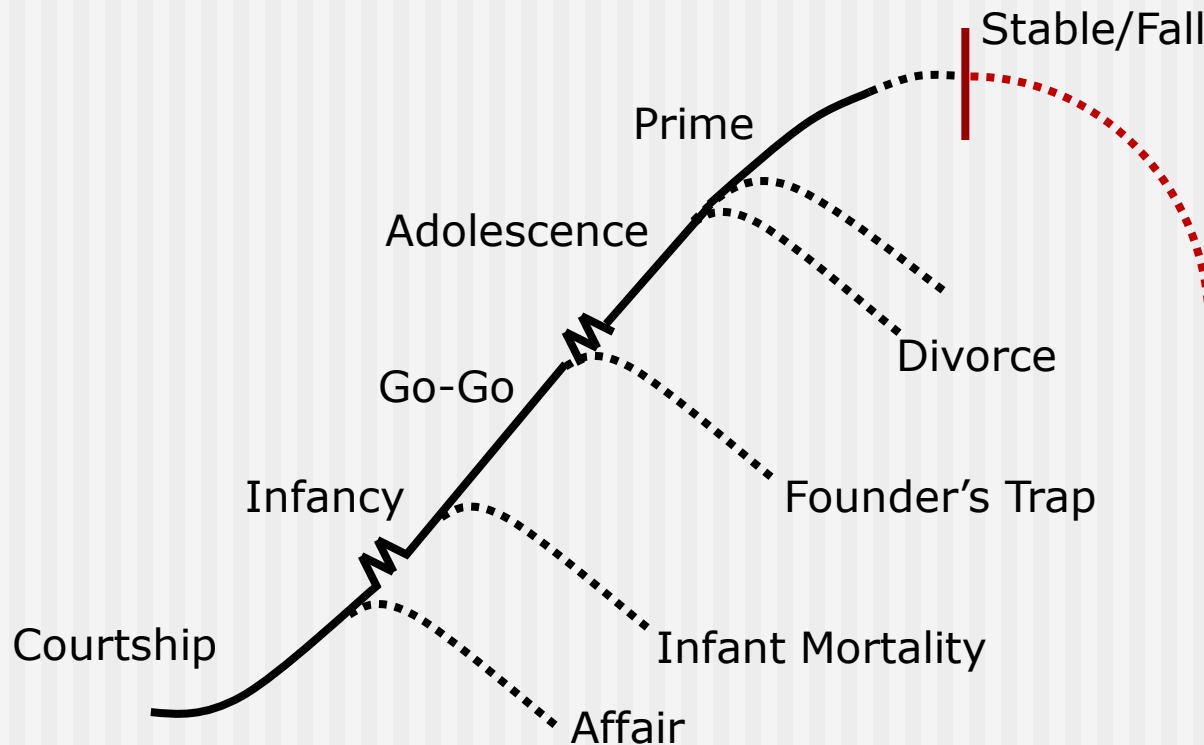
Characteristics

- Systems & processes
- Defined hierarchy where authority is increasingly centralized
- Sense of order, control, and stability
- Decisions and actions become predictable
- Risk aversion

Problems

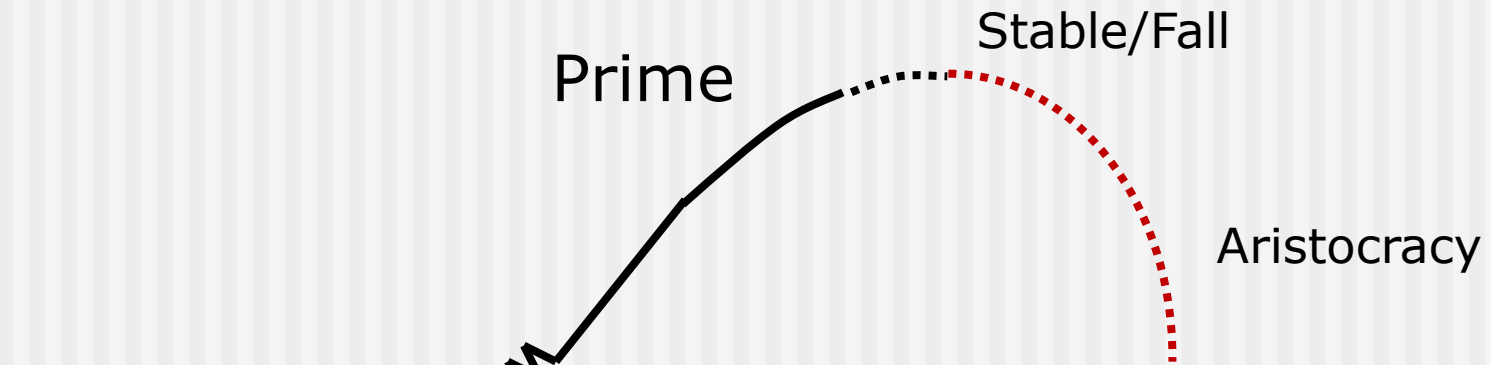
- Inflexible & bureaucratic
- Loss of entrepreneurial spirit
- Perfection-focused culture

Sixth Stage: Stable/Fall



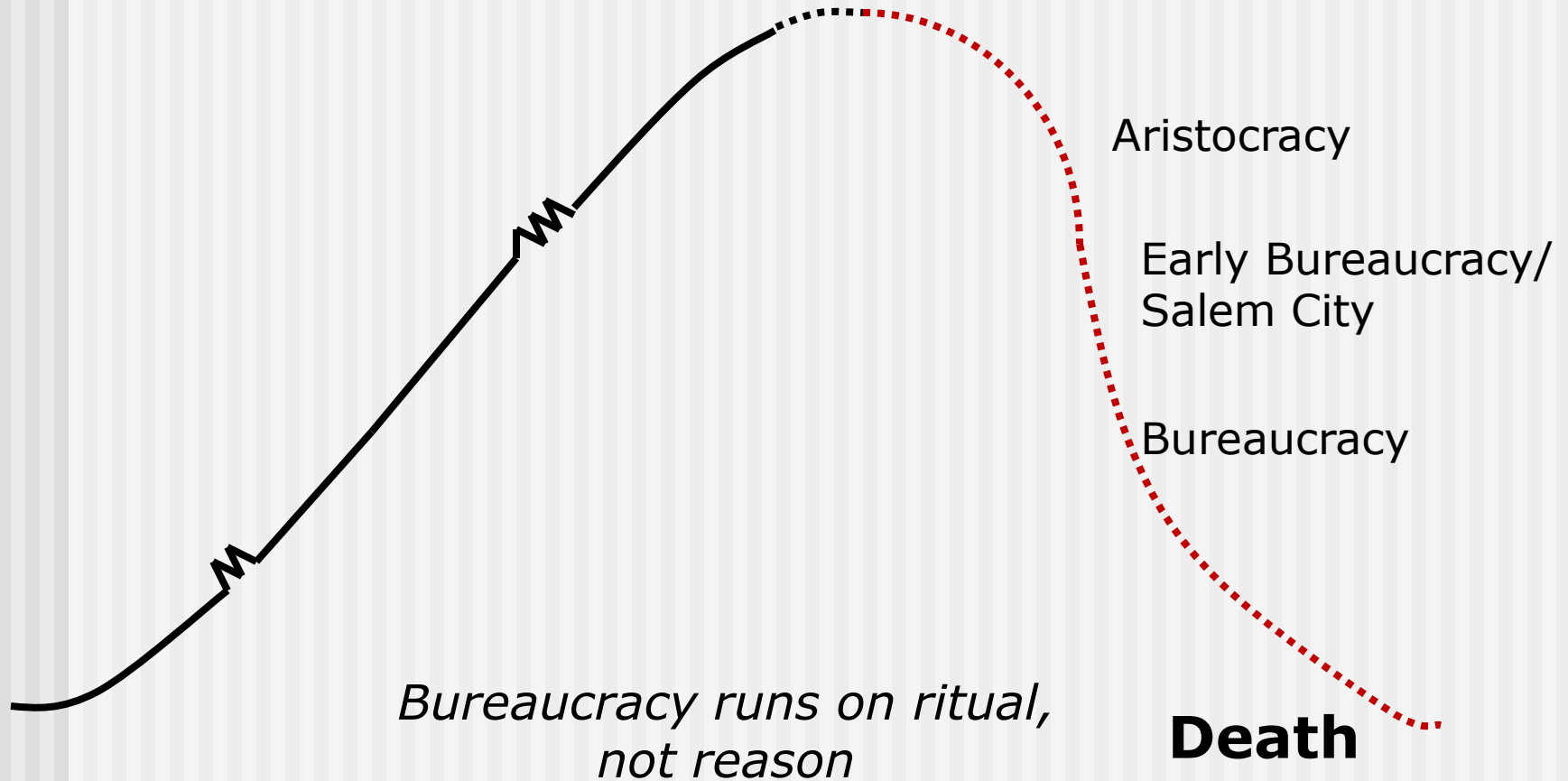
- In this stage the organization remains fairly strong, but quickly loses its capacity to achieve results

Seventh Stage: Aristocracy



Go-Gos take charge of their lives. Aristocracies want the environment to become favorable.

The Final Decay: Salem City, Bureaucracy, and Death



Comparing Growing to Aging

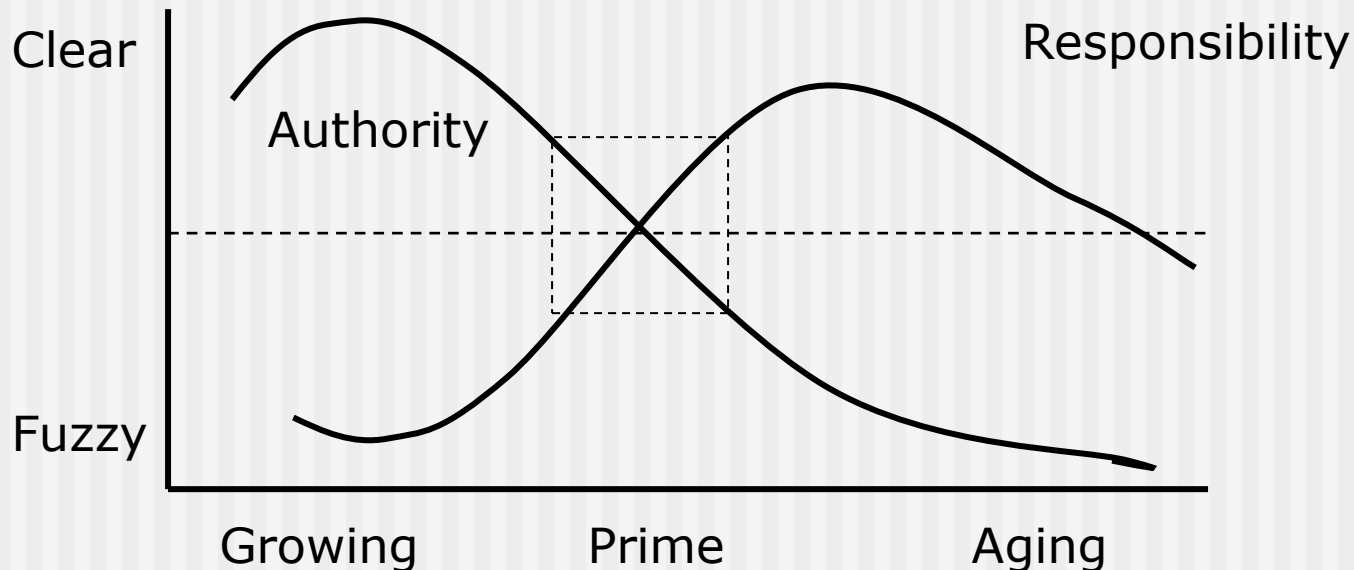
1. From Risk Taking to Risk Avoidance
(When things stop growing, they begin to die)
2. From Expectations Exceed Results to Results Exceed Expectations
(as the company becomes averse to risk, and results exceed expectations, it starts to accumulate cash)
3. From Cash Poor to Cash Rich
4. From Emphasis on Function to Emphasis on Form

Comparing Growing to Aging

5. From Why and What to How, Who, and Why Now? (*Organizations in Prime take time to find what they want, rather than being driven by expediency. They are opportunity-driving, not opportunity-driven.*)
6. From Contribution to Personality
7. From Asking Forgiveness to Asking Permission (*Growing companies have believers. Aging companies have skeptics.*)
8. Are Problems Opportunities or are Opportunities Problems?

Comparing Growing to Aging

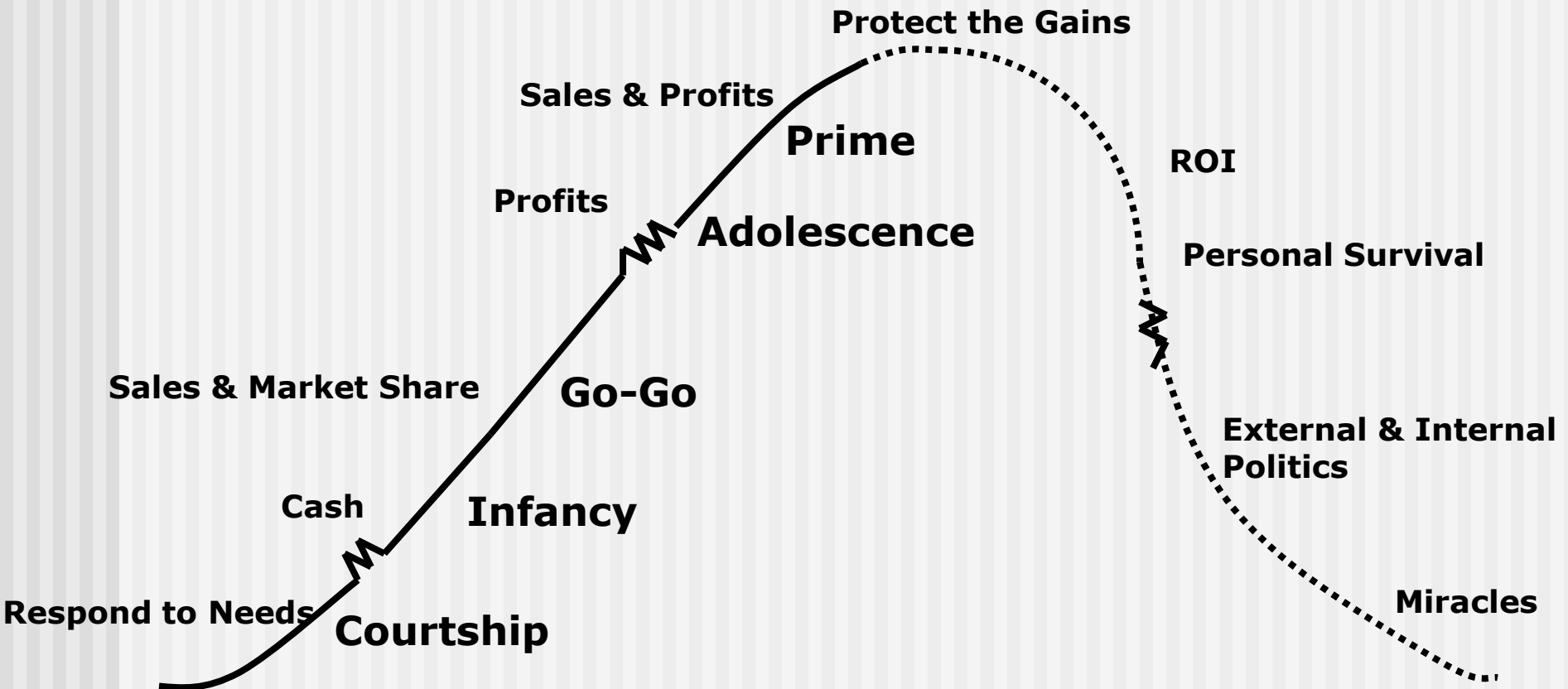
9. From Marketing and Sales to Finance and Legal
10. From Line to Staff
11. Responsibility vs. Authority



Comparing Growing to Aging

12. Does Management Drive the Organization or does the Organization drive Management?
13. Momentum or Inertia (drives vs. rides)
14. What to Do? Change Leadership or Change the System? (*The leaders of growing organizations animate the character of their organizations with their behavior. In aging organizations, culture determines the style of leadership.*)
15. Internal and External Consultants vs. Insultants
16. From Sales to Profit Organization
17. From Customers and Creating Value to Capital and Political Gamesmanship

Comparing Growing to Aging Goals Over the Lifecycle



Interests Over the Lifecycle

