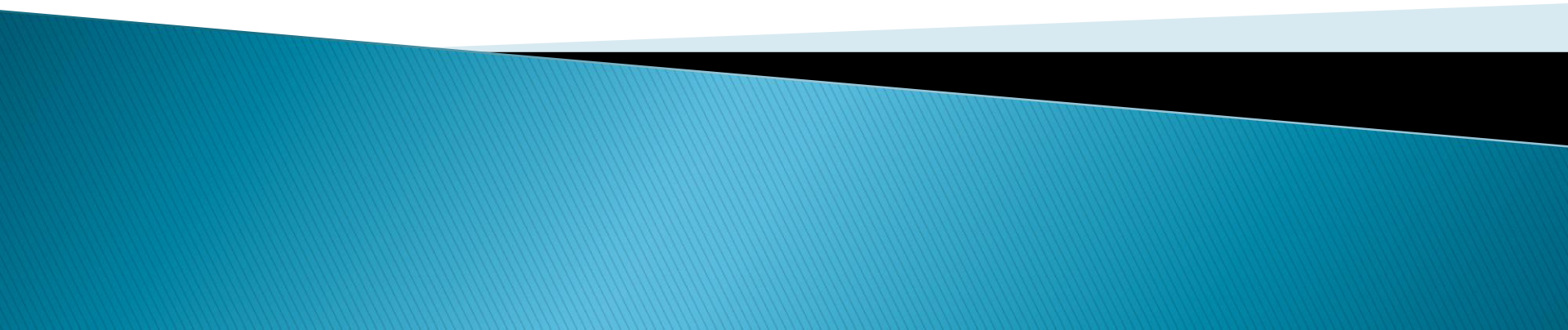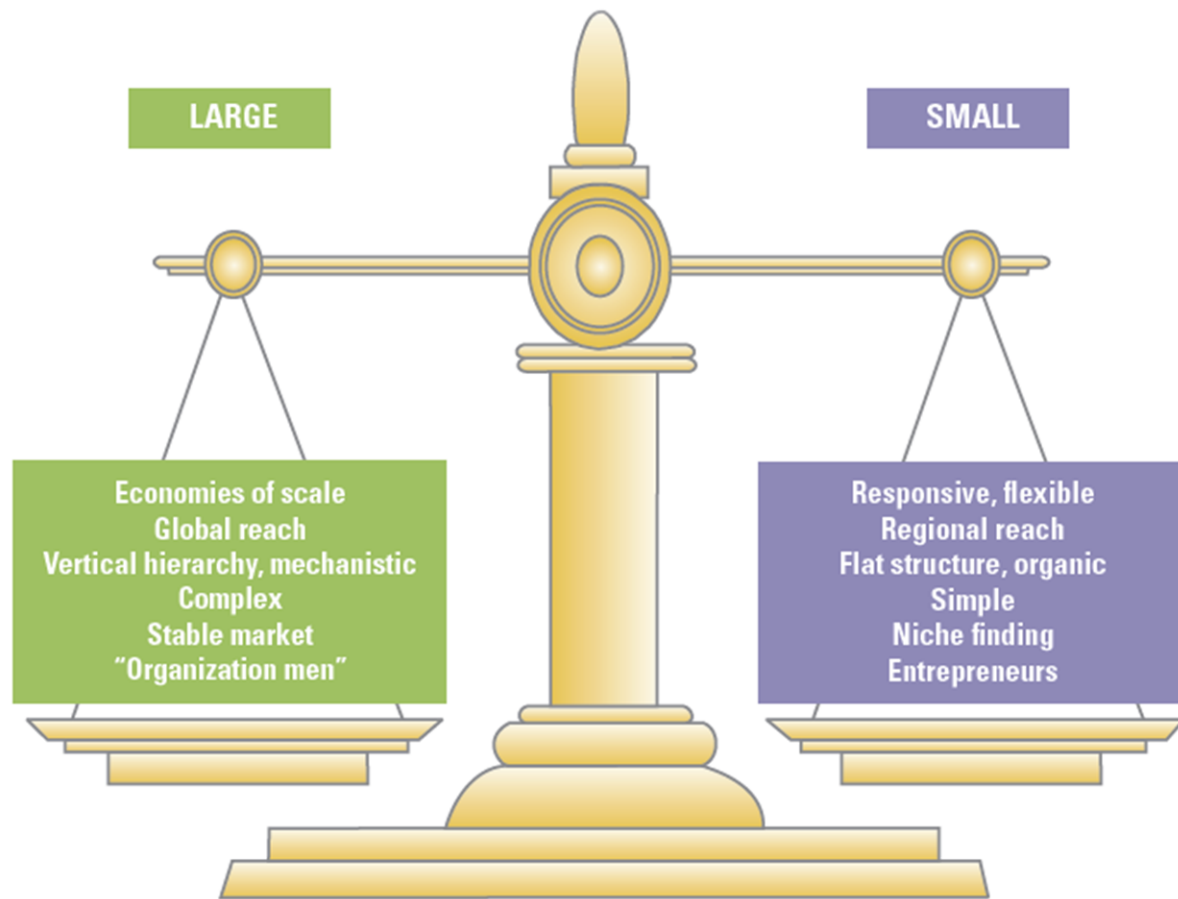# Organization Size and Life Cycle

Differences Between Large and Small Organizations

Source: Based on John A. Byrne, "Is your Company Too Big?" *BusinessWeek* (March 27, 1989), 84–94.

Organization Size: Is Bigger Better?

Pressures for Growth
- ◦ Companies in all industries strive for growth to acquire the size and resources needed to compete globally
- ◦ Size enables companies to take risks

Dilemmas of Large Size
- ◦ Large organizations are able to get back to business more quickly following a disaster
- ◦ Large companies are standardized, mechanistic, and complex
- ◦ Small companies are flexible and can be responsive
- ◦ Many companies aim to have a big company/small-company hybrid

Five Famous Mergers and Acquisitions Gone Wrong

Acquisition	Year of Deal	Results
Bank of America/ Countrywide ($4.1 billion)	2008	In the fourth quarter of 2011, Bank of America reported a nearly $5 billion loss in its mortgage unit, primarily from loans it absorbed from Countrywide
Time Warner/AOL ($111 billion)	2001	Time Warner stock dropped 80 percent, destroying $148 billion of shareholder value. The "marriage" was dissolved in 2009
Yahoo/Broadcast.com ($5.7 billion)	1999	Yahoo's stock price has fallen from above $100 to less than $17
Daimler/Chrysler ($37 billion)	1998	After a decade of heavy losses Daimler sold Chrysler for around $7 billion.
Quaker/Snapple ($1.7 billion)	1994	The Snapple brand couldn't hold its own in large grocery stores. After 27 months, Quaker sold it for a mere $300 million.

Sources: Based on Mary DiMaggio, "The Top 10 Best (and Worst) Corporate Mergers of All Time . . . Or, the Good, the Bad, and the Ugly," Rasmussen.edu (September 15, 2009), http://www.rasmussen.edu/degrees/business/blog/best-and-worst-corporate-mergers/ (accessed August 31, 2011); and Chris Roush, "10 Worst Deals of All Time," LifeGoesStrong.com (January 24, 2011), http://work.lifegoesstrong.com/news-corp-buys-dow-jones-co (accessed August 31, 2011).

Organizational Life Cycle
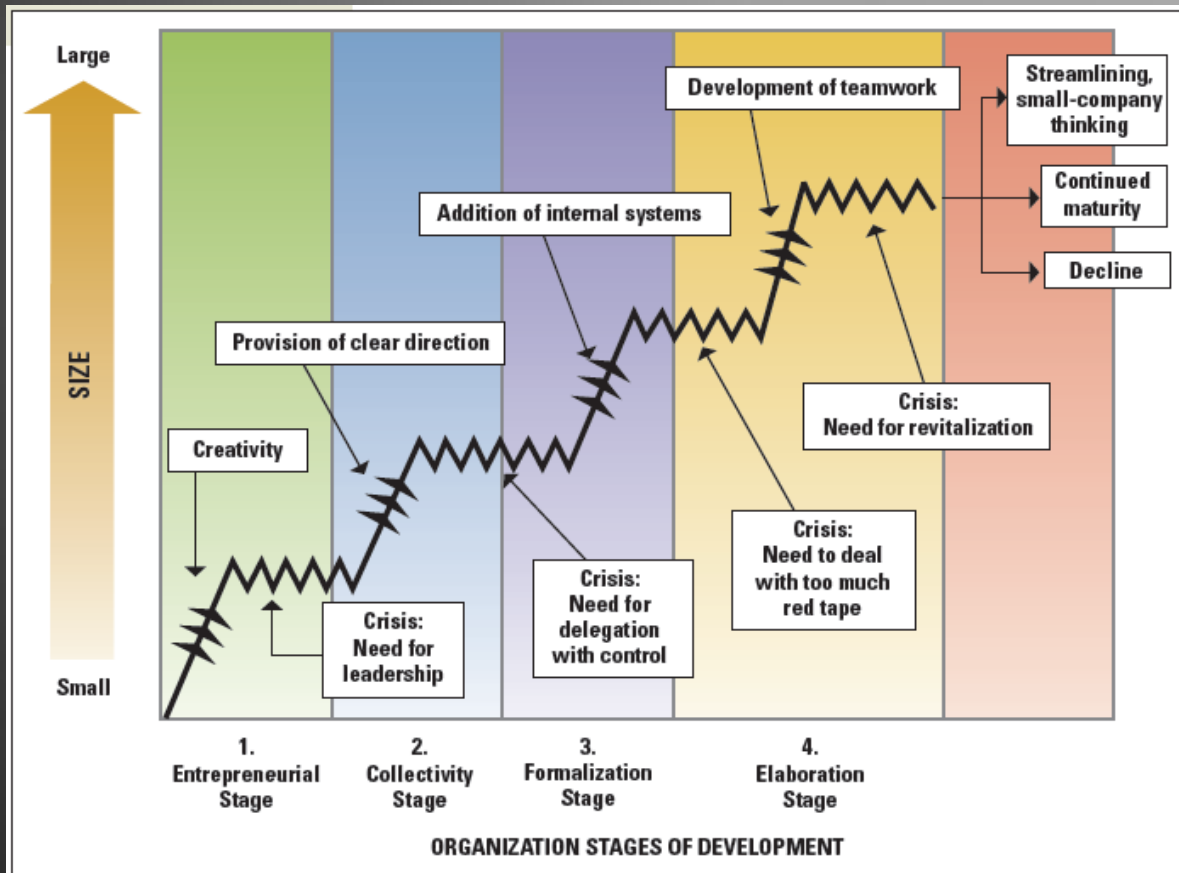
Source: Adapted from Robert E. Quinn and Kim Cameron, "Organizational Life Cycles and Shifting Criteria of Effectiveness: Some Preliminary Evidence," *Management Science* 29 (1983), 33–51; and Larry E. Greiner, "Evolution and Revolution as Organizations Grow," *Harvard Business Review* 50 (July–August 1972), 37–46.

# Organization Characteristics During Four Stages of Life Cycle

Characteristic	1. Entrepreneurial Nonbureaucratic	2. Collectivity Prebureaucratic	3. Formalization Bureaucratic	4. Elaboration Very Bureaucratic
Structure	Informal, one-person show	Mostly informal, some procedures	Formal procedures, division of labor, new specialties added	Teamwork within bureaucracy, small-company thinking
Products or services	Single product or service	Major product or service, with variations	Line of products or services	Multiple product or service lines
Reward and control systems	Personal, paternalistic	Personal, contribution to success	Impersonal, formalized systems	Extensive, tailored to product and department
Innovation	By owner-manager	By employees and managers	By separate innovation group	By institutionalized R&D department
Goal	Survival	Growth	Internal stability, market expansion	Reputation, complete organization
Top management style	Individualistic, entrepreneurial	Charismatic, direction-giving	Delegation with control	Team approach, attack bureaucracy

Source: Adapted from Larry E. Greiner, "Evolution and Revolution as Organizations Grow," *Harvard Business Review* 50 (July–August 1972), 37–46; G. L. Lippitt and W. H. Schmidt, "Crises in a Developing Organization," *Harvard Business Review* 45 (November–December 1967), 102–112; B. R. Scott, "The Industrial State: Old Myths and New Realities," *Harvard Business Review* 51 (March–April 1973), 133–148; and Robert E. Quinn and Kim Cameron, "Organizational Life Cycles and Shifting Criteria of Effectiveness," *Management Science* 29 (1983), 33–51.
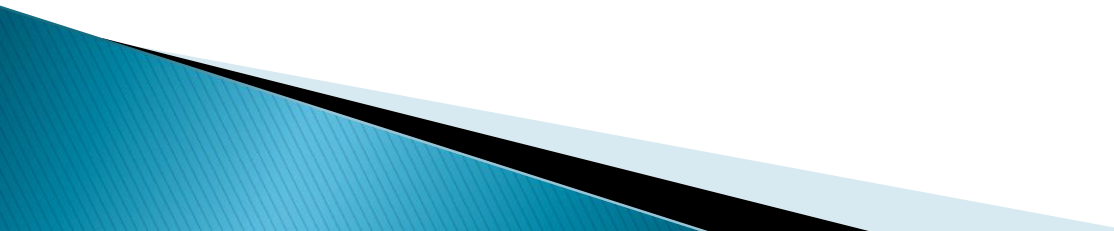
What is Bureaucracy?

- Weber defined bureaucracy as a threat to liberty
- Bureaucracy includes:
  - Rules and standard procedures
  - Clear tasks and specialization
  - Hierarchy of authority
  - Technical competence
- Bureaucracy is the most efficient system for organizing
- The control introduced by Weber was rational and a significant idea

# Weber's Dimensions of Bureaucracy and Bases of Organizational Authority

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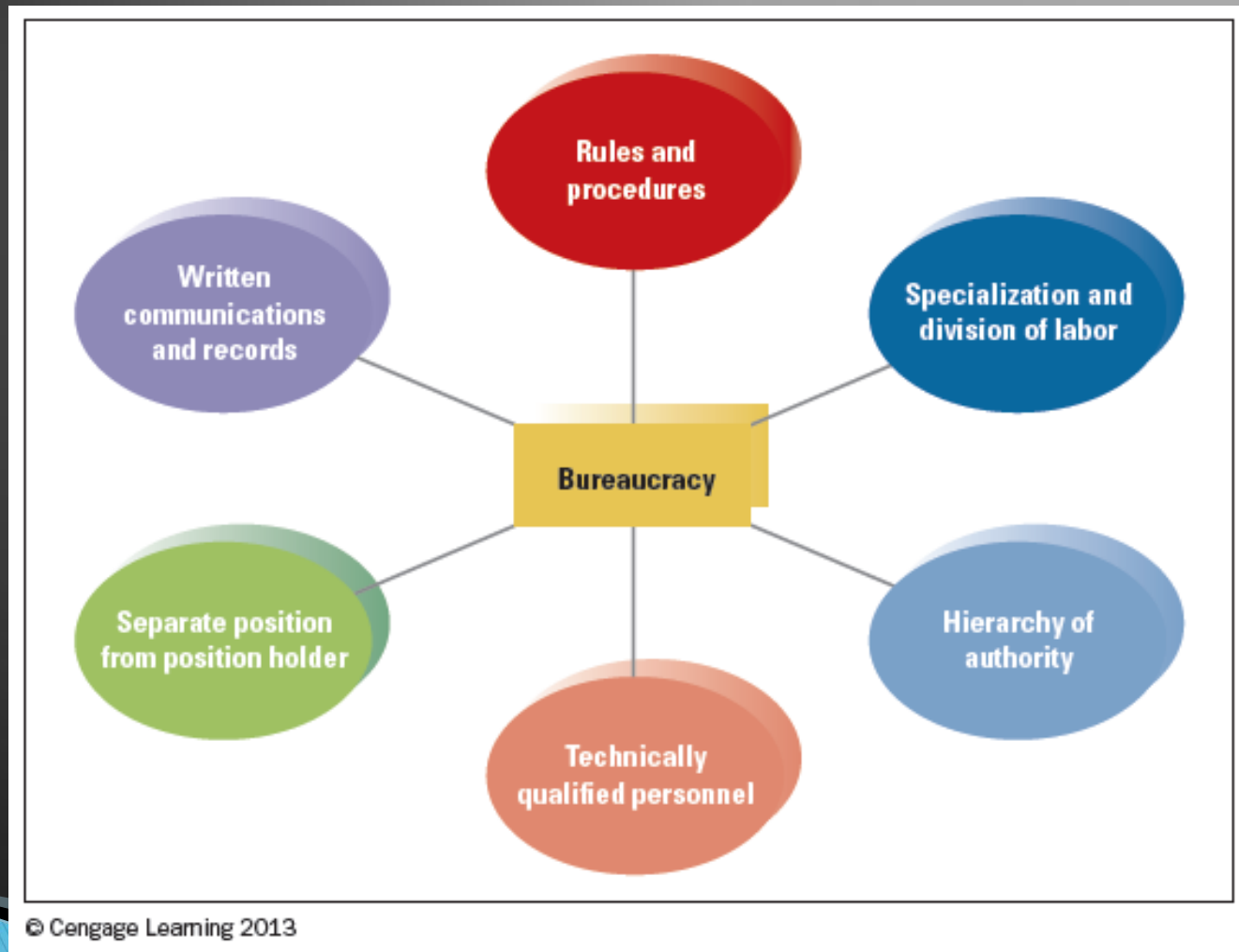
Size and Structural Control

- *Formalization* – rules, procedures, and written documentation

- *Centralization* – level of hierarchy with authority to make decisions

- *Personnel Ratios* – clerical and professional support staff ratios

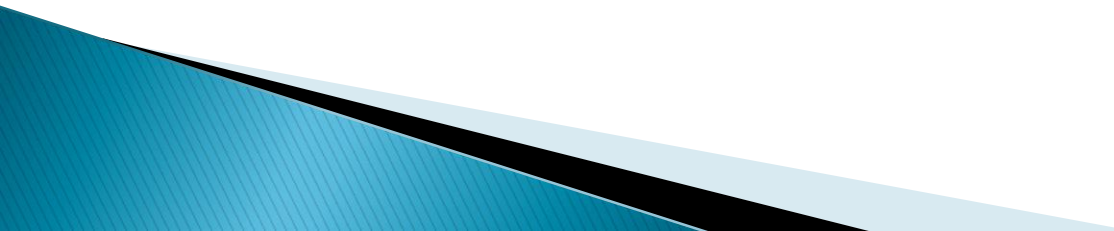# Percentage of Personnel Allocated to Administrative and Support Activities

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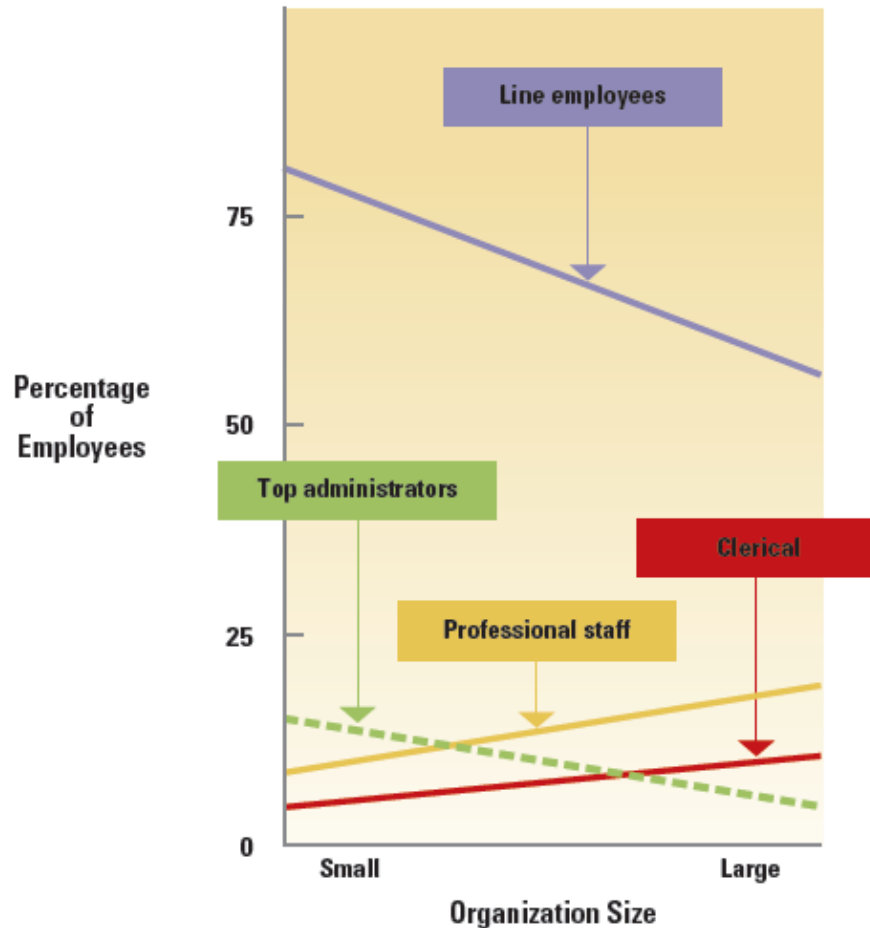
Bureaucracy in a Changing World

- Bureaucracy worked for the industrial age
- The system no longer works for today's challenges
- Organizations face new challenges and need to respond quickly
- Over-bureaucratization is evident in the inefficiencies of large government organizations
- Narrowly defined jobs and rules limit creativity, flexibility, and rapid response
- Some organizations are using temporary structures for emergencies or crisis situations

Approaches to Busting Bureaucracy

- Google uses bullpen sessions every afternoon

- Small geographic based teams

- Increasing authority of workers

- The increasing professionalism of employees is attacking bureaucracy

Three Organizational Control Strategies

Type	Requirements
Bureaucratic	Rules, standards, hierarchy, legitimate authority
Market	Prices, competition, exchange relationship
Clan	Tradition, shared values and beliefs, trust

Source: Based on William G. Ouchi, "A Conceptual Framework for the Design of Organizational Control Mechanisms," *Management Science* 25 (1979), 833–848.
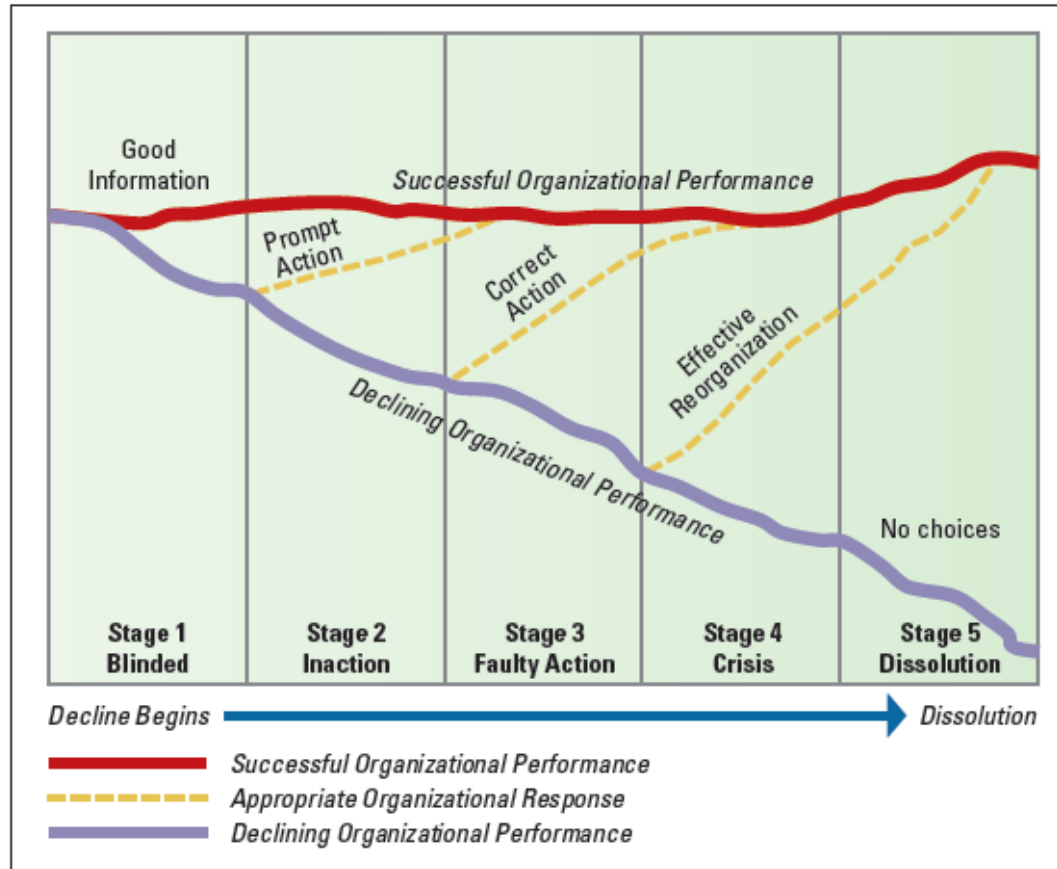
Organizational Decline and Downsizing

The decrease of an organization's resources over time is caused by:

- Organizational atrophy
- Vulnerability
- Environmental decline or competition

Downsizing refers to intentionally reducing the size of a company's workforce

Stages of Decline and the Widening Performance Gap

Source: William Weitzel and Ellen Jonsson, *Administrative Science Quarterly.* "Decline in Organizations: A Literature Integration and Extension," by, vol. 34, pp. 99–109, March 1989. Reprinted by Permission of SAGE Publications.

Easing Downsizing Tension

1) Search for alternatives

2) Communicate more, not less

3) Provide assistance to displaced workers

4) Help the survivors thrive