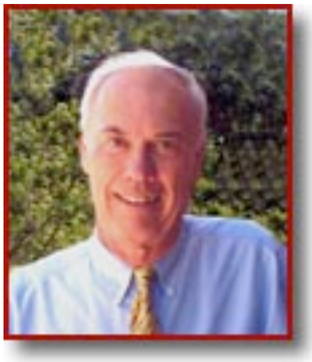

Dr. Larry E. Greiner

Dr. Greiner is Professor of Management and Organization in the Marshall School of Business at the University of Southern California. He is also Academic Director of the U.S.C. Executive MBA Program. He holds D.B.A. and M.B.A. degrees from the Harvard Business School, and a BA from the University of Kansas.

Professor Greiner has served on the faculties at the Harvard Business School, Oxford University, University of Kansas, and INSEAD in Fontainebleau, France. He is a former Chairperson of the Management Department at U.S.C., as well as Chairperson of the Organization Development Division and the Managerial Consultation Divisions of the national Academy of Management. He is a Fellow of the Managerial Consultation Division of the national Academy of Management.

Professor Greiner is the author of numerous publications on the subjects of organization growth and development, management consulting, and strategic change. Among his many articles is the classic Harvard Business Review article, "Evolution and Revolution as Organizations Grow." His most recent book is Power and Organization Development (with Dr. Virginia Schein), published by Addison-Wesley. In addition, he is the author of the book, Consulting to Management (with Dr. Robert Metzger, published by Prentice-Hall.

Dr. Greiner has acted as a consultant to many companies and government agencies in the U.S. and abroad, including Coca Cola, Pacific Bell, Olivetti, Merck, Times-Mirror, Red Lion Hotels, U.S. Forest Service, Internal Revenue Service, Cadence Design Systems, ChipSoft, Korn-Ferry International, Andersen Consulting, KinderCare, Health Systems International, and American Golf Corporation

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The following two summaries are based on the work of Dr. Greiner and included as an introduction to his concepts.

Change in Organizations

Based on a summary of a Harvard Business Review article, "Evolution and Revolution as Organizations Grow," written in 1972 by Larry Greiner, this article outlines the stages that a company goes through from its inception to maturity, and it details each management crisis and the solutions that lead to the next phase of growth.

> "A small research company chooses too complicated and formalized an organization structure for its young age and limited size. It flounders in rigidity and bureaucracy for several years and is finally acquired by a larger company.
>
> "Key executives of a retail store chain hold on to an organization structure long after it has served its purpose, because their power is derived from this structure. The company eventually goes into bankruptcy.
>
> "A large bank disciplines a "rebellious" manager who is blamed for current control problems, when the underlying cause is centralized procedures that are holding back expansion into new markets. Many younger managers subsequently leave the bank, competition moves in, and profits are still declining."

These problems are actually rooted in past decisions rather than present events or dynamic market dynamics. It is important for management to understand where the company is in its evolution, and where it is going.

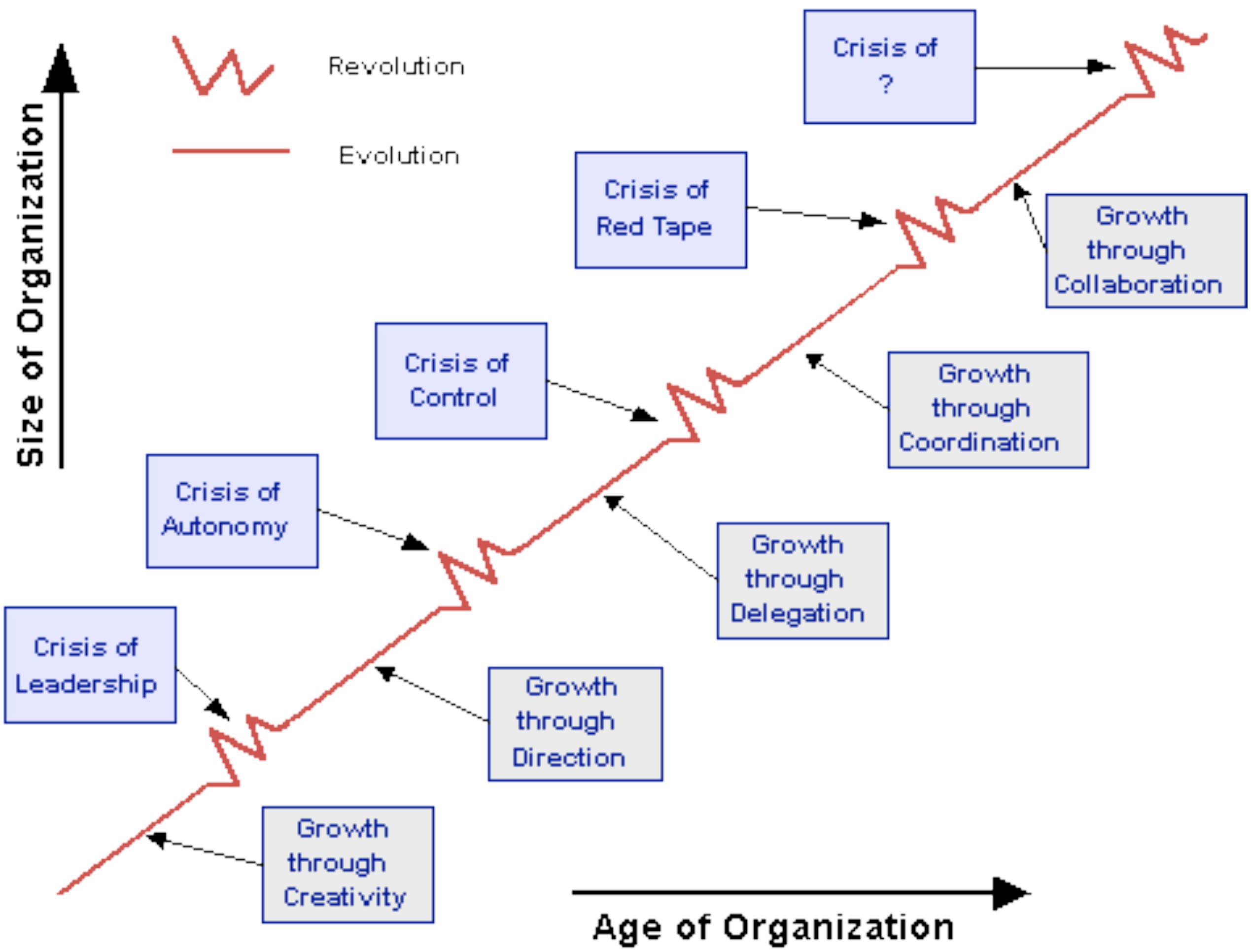
Key Forces in development

There are 5 key dimensions that are essential for building a model of organizational development:

1. Age of the company
2. Size of the company
3. Stages of evolution
4. Stages of revolution
5. Growth rate of industry

Phases of Growth

During its life, a company goes through well-defined phases, each characterized by a gradual, evolutionary period followed by a shorter, revolutionary period. Greiner describes 5 such phases in the growth of a company. These are shown graphically in the following diagram:



Phase 1 - Creativity

The first phase is characterized by the following:

- Founders are technically or entrepreneurial oriented
- Communication is frequent and informal
- Long hours and modest salaries
- Reactive to feedback from the marketplace

The Leadership Crisis

As the company grows, new systems are needed - manufacturing, accounting, personnel, etc. The founders usually do not have the expertise to manage this new set of systems nor can they motivate new employees. this is the *Leadership Crisis*. The company may bring in management who can manage in this new environment or may flounder as founders try to "maintain the old guard."

Phase 2 - Direction

This phase is characterized by:

- Functional organization structure
- Accounting systems
- Formal, impersonal communication
- Direction centralized to the new, top managers

Autonomy Crisis

As the company grows further, centralized management is inappropriate. Lower level managers come to possess better knowledge of the marketplace but are unable to react quickly. The second revolution comes from a demand for greater autonomy.

Thus, the solution to the first phase becomes the crisis for the second phase. The solution to this crisis is to push decision responsibility to lower levels. Managers who fail to do so will see their companies passed by quicker organizations.

Phase 3 - Delegation

This phase is characterized by:

- Greater responsibility in the plant and field marketing managers
- Use of profit sharing and bonuses for incentives
- Top managers manage by exception
- Management becomes active in acquisitions
- Communication from the top is infrequent

Control Crisis

Field operations become diversified and inefficiencies creep into the system. Top management loses control over planning, money, technology, and manpower. Parochialism in field operations characterizes this new revolution. Management must solve it by bringing in special coordination techniques.

Phase 4 - Coordination

This phase is characterized by:

- Decentralized units are merged into product groups
- Formal planning procedures are established and reviewed
- Staff is hired at headquarters to initiate company-wide programs
- Capital expenditures are reviewed and distributed across the organization
- Return-on-Capital becomes the criteria for measuring field operations
- Certain technical functions, such as data processing, are centralized
- Stock options and profit sharing are used to encourage identity with the firm

Red Tape Crisis

A lack of confidence gradually builds between the line and staff, and between headquarters and the field. Systems begin to outlive their usefulness and field managers begin to resent formalized control by staff managers who do not understand the local markets. Staff personnel resent the "uncooperative" line managers. The organization has become unwieldy and everyone resents the bureaucratic system that has evolved. A new crisis is underway.

Phase 5 - Collaboration

This phase is characterized by:

- Focus on solving problems through team action
- Teams are formed from across functions
- Headquarters staff are reduced and reassigned to teams which consult with field units
- A matrix organization structure often develops
- Formal systems are simplified and combined
- Conferences of key managers are held frequently
- Educational programs are utilized to train managers
- Real-time information systems are used in decision making
- Economic rewards are geared to team performance
- Experiments in new practices are encouraged

The ? Crisis

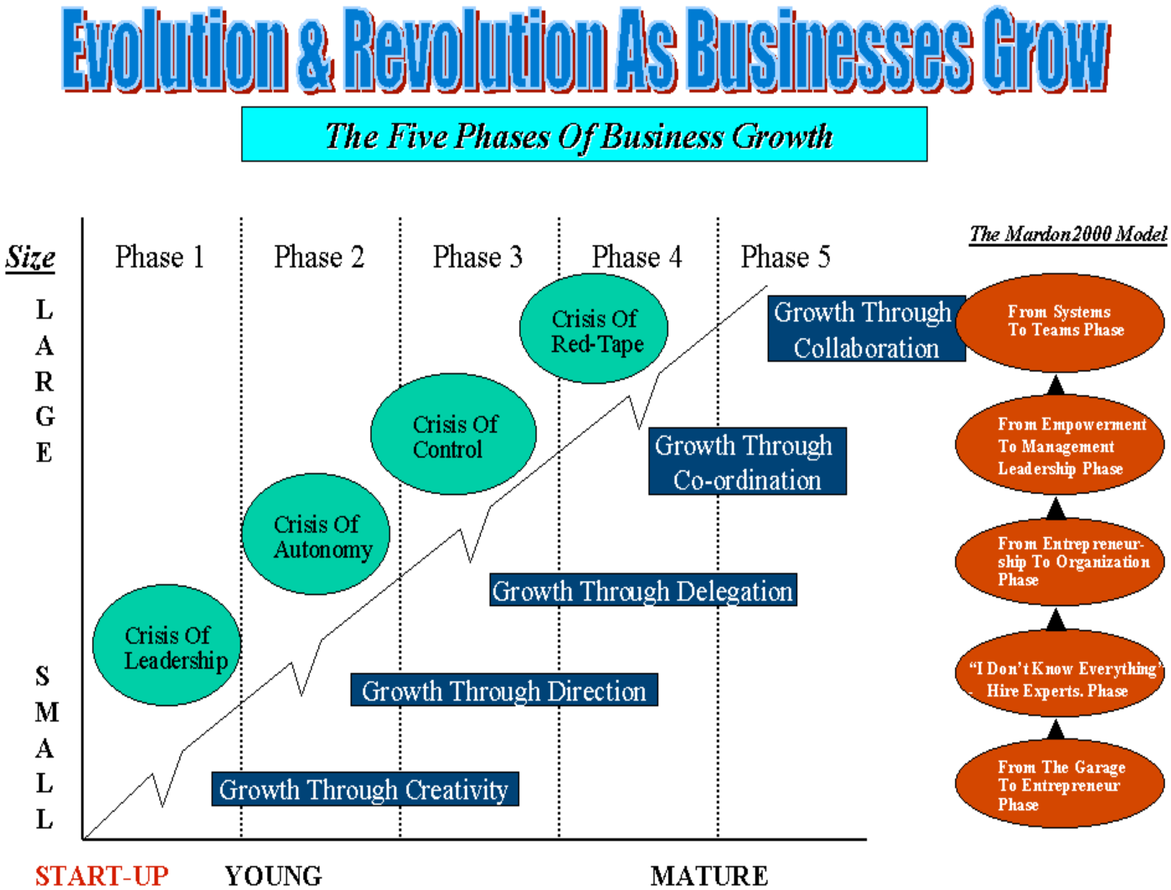
Here Greiner speculates about the solution to this new crisis that comes about from employees who become saturated emotionally and "who grow emotionally and physically exhausted by the intensity of teamwork and the heavy pressure for innovative solutions." He illustrates this with a European company that has created a structure that allows employees to include a "reflective" period in their daily activities.

He also cites the Chinese practice of requiring executives to spend time in lower-level jobs. This is interesting in light of the increased contact that our western and Pacific industrial complexes have with the Chinese.

Implications of History

There are specific management actions that characterize each growth phase. These actions are also the solutions that ended each preceding revolutionary period. They are shown in the following table:

	Phase 1	**Phase 2**	**Phase 3**	**Phase 4**	**Phase 5**
Management Focus	Make & Sell	Efficiency of operations	Expansion of market	Consolidation of organization	Problem solving & innovation
Organization Structure	Informal	Centralized & functional	Decentralized & geographical	Line-staff & product groups	Matrix of teams
Top Management Style	Individualistic & entrepreneurial	Directive	Delegate	Watchdog	Participative
Control System	Market results	Standards & cost centers	Reports & profit centers	Plans & investment centers	Mutual goal setting
Management Reward Emphasis	Ownership	Salary & merit increases	Individual bonus	Profit sharing & stock options	Team bonus



A. From The Garage To Entrepreneur Phase
The founders are entrepreneurial and all energy is absorbed entirely in making, selling, delivering, and supporting the new product or service. Communications with the few employees is frequent and informed. Long hours are rewarded by modest salaries but high promises for the future. Control of activities comes from immediate customer feedback and fast management reaction (a.k.a., the knee jerk).

Crisis

The creative activities and energies of the founders are essential for the company to "out of the garage". But therein lies the problem.

- *New employees are not motivated by the intense dedication of the original founders*
- *The founders long for "the good old days" still trying to act as they did in the past*
- *Strong, new leadership skills are required.*

Actions:

- *Begin adding business functional expertise. Human Resources is a prime example.*
- *Motivate employees through salary raises tied to appraisals against a rigid job description.*

- *Founders relinquish day-to-day business decisions to newly recruited executive level officers.*

B. "I Don't Know Everything - Hire Experts" Phase

Those businesses that survive the first phase through good management will only embark on further sustained growth under able and directive leadership. It is apparent to management that some functional-level expertise is required. Hiring is targeted to personnel with specific tool or product skills, industry knowledge, or industry contacts.

A functional structure is introduced to separate marketing, development, and support functions. Strong accounting and control systems are introduced. Control system measurements are instituted.

Crisis

Although the new directive techniques channel employee energy more efficiently into growth, they eventually become inappropriate for the more diverse, complex organization:

- *Staff become more knowledgeable about the markets and products than the management*
- *Consequently they feel torn between following procedures and taking their own initiatives*
- *The organization flounders as it establishes centralized methods while lowered staff grow disenchanted and leave*
- *Re-organizations become common place with little time between to inspect what works and what doesn't*
- *Functional management is turned over, re-assigned in attempts to restructure for streamlining.*

Actions

- *Process and procedures are re-engineered along with the introduction of empowered staff.*
- *Team concepts begin to surface and be introduced.*
- *Growth goals are directed by measurement system (i.e., quotas, Six-Sigma, Customer Satisfaction Surveys)*

C. From Entrepreneur to Organization Phase

The next phase evolves into a decentralized organization structure. Profit centers and bonuses are used to stimulate motivation. Communication from the top is infrequent and usually non-verbal. Senior management seriously consider growth by acquisition for the first time.

Crisis

- *Top executives sense they are losing control with autonomous field managers running their own show*
- *Hence, top management (sometimes the original founders) attempt to return to centralized management*
- *Middle-management fiefdoms emerge*
- *Measurement goals begin to conflict between business functions that sap energy and direct resources into none growth actions and decisions*
- *Management buy-outs and buy-ins are considered.*

Actions:

- *Middle-managers are coordinated via measurements common to growth*
- *Functional layers' employees are placed on achievement bonuses tied to growth, quality, and customer satisfaction versus rigid job description appraisals*
- *Profit centers are established for most major business/product functions. If you don't directly support bringing in revenue, you are a cost of doing business.*

D. Empowerment To Management Leadership Phase
This phase is characterized by the use of formal systems for achieving greater coordination. Formal planning procedures are established. Numerous staff are hired and located at headquarters. Share options and employee incentive packages are used to stimulate dedication and motivation.

Crisis

- *A red-tape crisis is created as a lack of confidence develops*
- *Making measurements become the goal rather than using measurements as true corporate health indicators.*
- *Procedures take precedence over problem solving and innovation is dampened*
- *The organization has become too large, complex, and geographically disbursed to be managed through formal programs, and rigid systems and measurements.*

Actions

- *Full team concepts and empowerment are utilized*
- *Measurements are relegated to "corporate health" indicators rather than tied to employee incentives.*
- *Employees have added incentives for finding better ways to accomplish business functions.*

E. From Systems To Teams Phase
The last phase establishes strong interpersonal collaboration to overcome the red-tape crisis. A more flexible and behavioral approach to management is needed through teams. Headquarters staff are reduced in number and smaller coaching teams are developed to work with field units. Remuneration is more geared to team performance than to individual achievements. Innovative thinking and the creation of new products is encouraged.

Crisis

- *Employees grow emotionally and physically exhausted by peer pressure and intensity of team work.*
- *The organization itself becomes increasingly pressurized to develop innovative products.*

Actions

- *Employee motivation becomes paramount*
- *Management moves into team "coaching" mode*