



AN INTERNATIONAL ORGANIZATION OF CEOs

SPEAKER PRESENTATION SUMMARY

THE THEORY OF ORGANIZATION LIFECYCLES: AN ANALYSIS OF HOW ORGANIZATIONS GROW, WHY THEY DIE, AND WHAT TO DO ABOUT THIS

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INTRODUCTION

In order to be effective and efficient, in the long run and in the short term, an organization has to perform four rules. This is regardless of size, technology, culture or location, and whether the organization is for profit or is non-profit. Any time one of these rules is not being performed, the organization will suffer. These rules are individually necessary, but together they are sufficient. In other words, if you perform all four rules, you won't need anything else; but, if any one is missing, the organization will experience problems.

What is the main purpose of your organization? Most often the response to this question is "to make profits." This response is wrong. Profits are the result of good management. It's the result of the four rules, not the reason for doing it in the first place. Profits are there to tell you how well you are doing, the scoreboard.

THE P-A-E-I RULES

What type of good management is required for your organization to be profitable? The following four rules will make the organization profitable in the long term and in the short run:

P-RULE: The P-Rule means to produce results. When the P-Rule is being performed, the organization will be effective.

Think of the Greek analogy of five people walking up a narrow mountain path. There is a steep mountain on the left, and a deep canyon on the right. All day the people are walking, whistling, joking, and fooling around as they walk. A behavioral scientist, an anthropologist or a psychologist could write at least three books, and perhaps even half a dozen doctoral dissertations studying this group. But, for those interested in management, there is nothing to observe until about 3:00 o'clock in the afternoon.

The people are now walking single file, and they come to a rock that blocks the path. There is no way around it to the right, and no way around to the left. If the people are to continue, they must move the rock. What is the significance? This is a rock that no one can move alone. Now someone has to direct, motivate, lead, plan, strategize, supervise, beg, plead, etc., to get the rock moved out of the path.

You'll find a very interesting thing when you read books about management. There are chapters on motivation, delegation, coordination, supervision, control, strategy and planning. The only chapter that appears to be missing is the one on work. Who is working in these organizations? Everyone is coordinating and supervising the efforts of others. What working means is "who of those five people is pushing the rock?"

In the beginning of an organization, people don't have any doubts about what the rock is. They all have a hand on it. The problem when an organization grows is that you no longer have just those five people pushing the rock. There are 100 people or a thousand people in the organization. There are so many people surrounding that rock. Some are two miles from the rock. They don't even know what the rock is.

You talk to someone a mile away from the rock and say, "What do you do here?" He says, "I come in at 8:30, I count things, and I leave at 5:00." You tell him, "Let me take you to the front and show you what is going on." He'll probably say, "Oh, my goodness, I didn't realize that."

The P-Rule means to also understand "Who needs me?" and "Why do they need me?" But, the most important is "Why do they need me?" What they need might change. It is product-oriented. But why they need it is customer oriented.

A-RULE: The A-Rule means to administer. This won't necessarily make the organization effective, but will make it efficient. It's the right things happening at the right time, in the right place, in the right sequence, and with the right intensity. It is a well run, tightly run ship.

Can a manager be effective and not be efficient? Absolutely. Can a person be efficient but not effective? Definitely. In fact, some people are so well organized that, if anything ever happens around there, they are really ready for it. But, this creates a problem. They don't want anything to happen. It might shake everything up, and they will no longer be organized.

E-RULE: The E-Rule is the entrepreneur. The entrepreneur makes the organization pro-active, not reactive. Many people would rather be reactive. Using a tennis analogy, the P-Rule would be hitting the ball. The A-Rule is how you hit the ball, your form, which is what the coach works on. The E-Rule is strategy and positioning. This is where you are going to be on the court. It's knowing where the next ball is coming from.

The reactive way is to wait and see where the next ball lands, and go there to hit it back. The problem with the reactive mode is that it is too late. The pro-active way is to imagine and anticipate, to be there waiting on the ball in advance. The problem with this is you might be wrong. So, you are either late or wrong.

Most middle managers in an organization would rather be late than wrong. That's what is called being precisely wrong rather than approximately right. The reason is, it is much easier for the guy to explain why he was late if he is in the right place. It is not his fault the ball was going so fast. But, if he is way over there, and the ball is over here, he looks like a schmuck. It is very difficult to explain such a mistake.

I-RULE: The I-Rule means to integrate. Integration makes the organization organic. The I-Rule creates a system of values within the organization that will cause it to behave a certain way, regardless of whether you are there or not. In a sense, the organization becomes independent of the founder.

In the beginning, the organization's values are those of the founder. For too many organizations, this may amount to a kind of vague concept of team spirit and a Christmas party once a year. That is fine, but it is not enough.

The family that prays together, stays together. This is a beautiful American saying. But, the family that steals together, also stays together. Unfortunately, it is not the praying that is doing the trick. It is the fact that they do it together. So whatever is legal, if you do it together, it is good for the I-Rule orientation. There is a sense of belonging when you do it together. You want the people to feel, "We belong together."

APPLYING THE P-A-E-I RULES

There are certain ways to apply the P-A-E-I Rules. One of them has to do with organization life cycles. Another way is the whole question of styles. When you say a person has a certain management style, you are saying he has predictable patterns of behavior.

There are people who perform outstandingly in the one role, but are zeros in the other three. The P-0-0-0 person might be the best producer in sales. But, when you make him a manager you might have a problem. This guy is great on his own, but being a manager involves delegation, supervision and control. He is a shoot-first, ask-questions-later type person, and is a fast decision maker.

You can always tell this guy in a seminar by certain signs. Number one, he is not there. He does not have time to attend seminars. He doesn't like meetings, and he doesn't like to take vacations. He is working very hard. He might fly all over the world with that briefcase and never open it. But it's there just in case. He doesn't delegate because he doesn't have time.

The 0-A-0-0 type of person is not interested in what is being done but how it is being done. There is a right way to do everything. He manages by the book. The book does not have to be written; it might be between that person's ears. He comes to work on time and leaves on time. His desk is always neat and orderly.

This guy calls his secretary and says, "Miss Jones, I have an odd number of paperclips here. What is going on? Please take one out of my sight. Put it in the used paperclip file and bring me a receipt."

This type of person has staff meetings on Monday, Wednesday and Friday. They don't necessarily discuss important things at those meetings. Item number one is the paperclip procurement policy. He would rather be precisely wrong than approximately right. He's a bureaucrat. He is managing a well controlled disaster. The organization is going broke. How? On time. The organization may be going south, and he is complaining about the secretary who arrived 15 minutes late from lunch.

The 0-0-E-0 type does not care what you are doing or how you are doing it, so long as it is exciting. He has a "why not?" perspective. He says, "I know we are in computer software, but why not cucumbers? We could do it." So, this guy is interested in new goals, new direction, new possibilities and new excitement. That is why Monday morning is the most dangerous time in his company. He comes to work whenever he wants, and he leaves whenever he wants.

When you work for this guy you have to be there all the time. He has staff meetings, but nobody knows when they will be. Nevertheless, when he has a staff meeting, he usually does not have an agenda. If he does have an agenda, he will violate it. Regardless of that, he expects you to be prepared. So, people walk around the company with a suitcase of information in their heads. They don't have the slightest idea when there is going to be a meeting, what the meeting is going to be about, or what questions he is going to ask. You have to be on your toes in such a company when this guy is around.

This guy is not a crisis manager. He is management by crisis. He is the arsonist who sets the fires. An arsonist may move in an unpredictable way. So, the people around him are going crazy trying to figure out where he will strike next.

The next type is the 0-0-0-I. He is the super follower. The super follower will say, "Tell me where you want to go. Let me follow you there. I am your leader." The most extreme example of this would be a cheap politician. He loves meetings, but in those meetings everybody else talks and he listens.

This person wants to catch the wave. In other words, he is saying, "I don't want to tell you what I think, but I want to find out what you think. I will tell you what I am thinking after I find out what you are thinking." That is why you never get a direct answer from this type of person.

He will always answer a question with a question, to try to get himself off the spot. If you do put him on the spot, he will speak like this, "On my way here, I've been thinking about this, and I have an idea, but I'm not so sure that I agree with it. I think it could be this way, but then I look at it this way, and I think it could be that way." He never feels strongly about it.

There is a fifth type who is completely balanced in all four. He is a 0-0-0-0. This type of manager focuses strictly on survival. You call this type of manager "deadwood," and the characteristic of this deadwood is compliance. Everything is fine, no problems, no complaints, nothing is happening. Any time something does happen, this guy responds with excuses.

The sixth type is the manager who is an outstanding producer. He is results oriented, hard working, has drive, is a knowledgeable achiever, and is dedicated to detailed, systematic thinking. He is conservative, yet at the same time is creative, risk taking, visionary, and a big picture guy. He is sensitive to other opinions and concerned about the team. "What do you think?" The problem with that type of manager is he does not exist. This is a text book manager. He's a theory in a book, or a fantasy.

The reality is that no one is perfect. Some people are goal oriented people, the "P" type. Some people are conservative, systematic, much more thoughtful, the "A" type. Others are excitement and charisma, the "E" type. Then, some are sensitive, the "I" type. The person who is all four of these together does not exist. It is possible to be a combination of these. A person may be a combination of a P-E.

A founder of a company is usually a P-E. An A-I combination would be a statesman. A P-A combination would be a slave driver. A P-I combination is very unusual, but he would be a coach, a result-oriented team builder. An A-E is also a very unusual combination. If the guy is a O-A-E-0, he is a pain in the neck. But, if he is a p-A-E-i (small "p" and "i," big "A" and "E"), he is the devil's advocate. He's a border line pain in the neck. So, there are all kinds of combinations.

Since the perfect manager does not exist, the solution is teamwork. The problem with teamwork is conflict. Conflict is not a problem if it brings mutual respect. Managers need to recognize the following three simple things:

1. No one is perfect
2. Therefore, people need one another
3. Therefore, they are going to disagree

Conflict is good. There is nothing wrong with it as long as you have mutual respect. When mutual respect and conflict come together, you have learning and enhanced decision making. But, conflict without mutual respect creates problems. If life is simple, why isn't everyone doing this? The problem is balance. It's difficult to bring all these rules into balance.

LIFE CYCLES OF AN ORGANIZATION

Organizations are like people, or any living system, in the sense that they have a life cycle. Having a life cycle means you are born, you grow, and you experience adolescence, old age, golden age and death. There is a certain predictability to that. There is also a predictable pattern of behavior which organizations go through, and this P-A-E-I model can be used to describe it.

Try to figure out where your organization fits into this model. Once you find out where you are, it gives you the benefit of being able to predict the problems of the future. Does everything look nice and rosy now? That's wonderful. But, remember, there is never an organization that does not have problems. The question is, are you having the right problems at the right time?

Where an organization is in its life cycle is a function of the following two factors:

1. **Flexibility:** A young company is highly flexible, but not very strong. It's like a newborn infant who can put his foot in his mouth, but can't stand up. A small company can change direction in half an hour. But, a young company cannot predict the future very well. That is why the younger an organization is, usually the greater is the variance between budget and actual. But, that is normal.
2. **Predictability/Strength:** As individuals or organizations grow up, they gain strength and predictability. But, they become less flexible. When an organization is at its prime, its peak performance, that is when it is perfectly balanced between strength and flexibility. It is not so predictable that it has lost its flexibility. Nor is it so flexible that you can't predict what is going to happen next.

In the organizational life cycles leading up to prime, there are certain types of behavior, certain types of problems. After prime, the organization has different kinds of problems. You can determine where the organization is in its life cycle by listening to the problems it is having, and by determining whether the problems are normal or pathological. The job of the CEO is to know the difference between the two, and solve the abnormal problems. He has to know where the organization is in its life cycle to determine if the problem is normal or abnormal.

People have to age. It is biological. Organizations don't have to age. An organization can get to prime and stay there. Thus, any problem you have after prime is abnormal.

Organizational aging is not a factor of size. Growing from one store to twenty stores does not mean you will necessarily be getting older. You can be \$5 million old or \$25 million young.

The stages of a life cycle are the following:

COURTSHIP: This is the first life cycle stage. There is no organization. There is the possibility of an organization. Talk is cheap. There are usually a lot of unrealistic ideas, and they are working to build a commitment. It's like a 747. It's still on the ground, but it is making a great deal of noise while getting ready to take off.

This courtship, where you are starry-eyed and flying around at 60,000 feet, while the bank manager is trying to put you back down on the ground, is much like falling in love. It is necessary to marriage, but it is a temporary madness.

Watch out for promiscuity here. Promiscuity is giving out shares to anyone who will smile and

tell you it's a great idea, at a time when you are vulnerable. You need some reinforcement that you are on the right track. And, giving away 5% of nothing is nothing, right? But, many companies later get into difficulties because of certain promiscuous relationships created early on.

The most important test in the courtship phase is not the business plan, not the product, not the competitive analysis, but is the commitment. You have a great idea, it looks good, but you have to find the person who is going to make this work. There is no shortage of ideas in this stage. There is a shortage of energy, application, dedication and the single mindedness required to make things work. Things never work out quite the way they were planned. There are continuous accommodations to reality and changes going on all the time.

INFANCY: This second stage is the infant organization. The kind of commitment, work and effort required to make it work is not something that is very easily hired. There is a high rate of infant mortality in this stage of an organization.

There is an incredible change taking place in infancy. The "E" goes down, and the "P" goes up. The marriage has spoiled a very good relationship. Things are not so rosy anymore. When you were in love, it was all fun, it was easy. Now, you are married, and there are commitments. It's time to wake up to the cold hard facts.

You don't have time for ideas anymore. You are interested in selling. You need money. You need money for the crib and the nursery. You have to provide milk for the baby. If the organization is going to stay alive, you need a cash flow.

The better the organization is doing, the worse the problems might get. You have to have capital to finance your success. The tendency is to shoot first, and ask questions later. You make decisions on the run. That is a fatal mistake. Anything that will cause the founders to lose their commitment will kill the organization quickly.

Another danger to your infant organization is the hand of the government. By the time you satisfy the government, you could be out of business. One day, only very large corporations will be able to start new businesses. America is becoming underdeveloped in a hurry. The government is going by the A-Rule. The A-Rule kills the E-Rule and the P-Rule.

GROW (GO-GO): You can't remain an infant forever. The organization has to grow or die. The organization has to get back its E-Rule.

This will happen when you have a positive cash flow here. Anytime you have a positive cash flow, you can start to dream. You get back to the big vision. This is relatively dangerous. The toddler can finally walk, and the whole world looks very interesting.

The first word a toddler usually learns is "no." You tell a toddler not to do something, and he will do it. It looks fairly interesting, so it goes into the mouth.

So, you have an organization that survived infancy and has some money, so everything looks interesting. The problem is no one is saying "no." The founder gets on an airplane and, by the time it lands, he is in the real estate business. Why are you in the real estate business when you are supposed to be in the software business? You say that because you did it in software, you think you can do it in real estate.

So, the normal behavior of a go-go company, this is the period of fastest growth, is to go from first branch to second branch. Or, you go into franchising. You are growing like crazy. "More is better," according to the organization. They are measuring by sales, growth and market share. This growth and this success, this rags-to-riches, creates a certain arrogance in the founder.

You could go to such a guy and say, "Cool it, maybe you are growing too fast." The guy will look at you and you can see he is thinking, "I'm not going to listen to a schmuck like you. If I did, I would probably be where you are. I got to where I am by being unreasonable. I'm not going to start being reasonable now." This kind of arrogance is dangerous. It allows you to make a mistake. It's like a wake up call when it happens. You just pray when that mistake comes it's not too fatal.

ADOLESCENCE: Things are happening, you have to get organized and get focused. You need some control. You need more of the A-Rule.

The pathological problem here is the founder, the family trap. Up to this point, the love of the founder has been keeping the organization alive. But, there comes a time when it is time to let go. You no longer embrace the organization, the organization embraces you. There comes a time when the loving embrace becomes a stranglehold.

The founder is stuck. He and the organization are outgrowing one another, but he does not know how to make one fully independent from the other. He does not know how to systematize himself. If it's a family business, the stranglehold is much stronger. Statistics show that a family business organization will last for three generations. Folklore about family business says, "first generation merchant, second generation playboy, and third generation pauper."

So, the founder has to get out of this, and getting out of this is getting through the adolescent stage. You know this is difficult. But, an organization cannot get to prime if it can not get through this.

The difficulty in making this switch in adolescence is going from an absolute monarch to a constitutional monarch. The king has written a constitution, and now he has to subject himself to that constitution. Not many kings like that. This is the quantum leap that capitalism made when management was separated from ownership. Owners don't have to be managers, and managers don't have to be owners.

The adolescent organization has to focus more on what not to do. They don't know how to say "no." Everything is either "yes" or "maybe." On Monday morning the first person to violate all of the standard operating procedure is the founder.

PRIME: A prime organization is not necessarily the biggest in its field, but it is considered the best. There's an E-Rule vision, there's an A-Rule system, and they are flexible and predictable. The sign of the prime is having babies. Organizations often confuse go-go and prime. The difference is, in prime they will tell you how well they are going to do. In go-go, they will tell you how well they did.

In go-go, the budget and actual variances are usually quite enormous. But, in prime, the budget and actual variances are usually much smaller. Prime has a system of predictability without loss of vision. They are a money-making machine.

STABLE: When you reach the Stable Organization, the E-Rule goes down, but the I-Rule goes up. The organization is resting on its laurels. It is becoming more internally focused, rather than externally driven. The P-Rule needs to go down, and the E-Rule needs to come up. When the E-Rule goes down, there is premature aging.

So, you try to figure out at this point whether you are growing or merely aging. There are certain variables that will tell you this. When you are growing, everything is permitted, unless specifically forbidden. When you are aging, everything is forbidden, unless specifically permitted.

Thus, in a growing organization, people ask for forgiveness. But in an aging one, they will ask for permission. In the growing organization, problems are perceived as opportunities. Within the aging organization, opportunities are perceived as problems. The power base in the growing organization will be in sales and marketing. In the aging organization, power goes to finance, accounting and legal.

Within growing organizations, people are kept because of their contributions, and despite their personalities. Within the aging organization, they will be kept for their personalities, and despite their contributions.

With the growing company, "what" is more important than "how." Management controls the system. It is vice-versa with the aging organization. The system is controlling management.

CONCLUSION

Organizational aging is not chronological, and is not caused by size. Movement in the life cycle is caused by three factors, which can be analyzed, diagnosed and treated. The three things which can cause you to age are the following:

RELATIVE PERCEIVED MARKET SHARE: How do you perceive your market share of whatever market you are in relative to your next competitor? If you perceive that it is high, you are going to go downhill in the organizational curve in a hurry. If you perceive that it is low, you will strive for growth. A championship team cannot remain a championship team unless they enter competitions which they might lose. There is no winning unless there is the possibility of losing.

STRUCTURE: Consider who is reporting to you. If you are a founder and are still in the go-go, then all the E-Rule functions are still being done by you. That is fine and desirable up to a certain point. But, watch out for this trap. Learn to delegate.

LEADERSHIP: Leadership is a word that has lost its meaning. It should mean leading, taking the organization where it needs to be going. The leadership style must be contingent upon what the organization needs, like the parenting style is contingent upon what the kids need. When you are a parent, the style of parenting changes as the child grows. Apply the same thinking to managing your organizations.

A guy at IBM said, "Trying to get anything done is like swimming through ponds of peanut butter." It's very hard to get anything done that way.

Vitamin E retards aging in people. The E-Rule retards aging of the organization. Ray Crock said, "When you are green, you are growing. When you are ripe, you are rotten." You have to stay green to grow. When you are growing, success comes to those who take risks.

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