

Rejuvenating An Aging Organization

An organization's vitality is a function of two competing forces – flexibility and predictability. Young companies tend to be flexible and unpredictable while those that are aging are usually predictable and inflexible. When an aging company looks out toward the technological, socio-demographic, political, legal, economic and competitive forces in its environment it sees problems. When a young company looks at the same things it sees opportunities. Other common signs of aging include the following:

- ❶ Loss of market share
- ❷ Inability to incubate and start new businesses
- ❸ Exaggerated emphasis on outward signs of respectability – including offices and titles
- ❹ Denial of reality
- ❺ Infighting and turf battles among executives
- ❻ Dominance of form over function
- ❼ Shift of power from line to staff
- ❽ Mismatch of authority and responsibility – those with authority don't have responsibility while those with responsibility don't have authority

Maintaining peak performance and avoiding or reversing aging requires that management systematically address the following:

1. Mission and Scope
2. Organization Structure
3. Accountability
4. Compensation and Incentives

1. MISSION AND SCOPE

There's a fundamental question here that's never going to go away. What business are you in? Never define your business by your product because your product can and probably will become obsolete over time. Define it instead from your customer's perspective -- by the needs that you satisfy. Don't get hung up on what you're selling – think instead about what the customer is buying. Young companies often become over divergent in their scope and need to decide what not to do. On the other hand aging organizations consistently define their businesses too narrowly and require more divergent thinking.

Companies can diverge their scope in a number of ways:

- (1) by addressing customer needs that are not being met
- (2) by identifying market segments that are not being served
- (3) by exporting know how and capabilities currently resident within the organization and in this way creating completely new businesses.

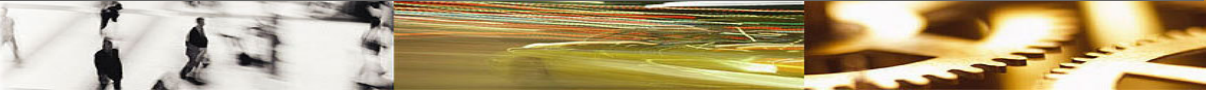
The Thomson Corporation, a global provider of information to businesses and professionals, has recently redefined itself as being in the business of helping their customers make better decisions faster. This broader definition of scope enables Thomson to go beyond selling information and focuses them on trying to understand their customer's work-flows so that appropriate solutions to their decision making needs can be developed.

2. ORGANIZATION STRUCTURE

Organization structure is a means to an end. We need to understand what we are trying to do before we can design the structure that will make this possible. A submarine cannot fly and hiring a qualified and experienced pilot to stare down the periscope will not change this. Young companies tend to be highly centralized. The founder cannot, does not and indeed should not delegate much. Rapid growth quickly leads to structural confusion as the organization chart begins to resemble a piece of paper a demented chicken ran all over and if the founder cannot or will not "let go" the organization may feel stifled. To become more flexible a company needs to continuously decentralize by organizing its profit centers around its customers and markets so that it is structured from the outside in rather than from the inside out. In this way the customer becomes the driving force and the organization the driven force.

3. ACCOUNTABILITY

While organization charts reflect what a person is responsible for responsibility does not necessarily translate into accountability. People can only be held accountable for what they control or have authority over. Here's a simple test. Think about all the dollars that come into your company (revenue) and all the dollars that go out (expenses). Can you write one person's name on each of these? (Note: only one person's name)



Does this person accept that they control it and that they can be held accountable? How many people in your organization are not sleeping well at night because they are being measured and held accountable in this way? If it's only the CEO we have a problem.

4. COMPENSATION AND INCENTIVES

Caution – many compensation and incentive programs are effectively undermining organization performance and are in themselves causing aging. Paying incentives on the basis of reaching certain goals can often create a conflict of interest during the goal setting process. One party may be perceived as stretching too much while the other is stretching too little. Trust is undermined and we never know if our goals reflect the best we can do or if they have been sub-optimized by the process of arriving at them.

MISALIGNMENT

These issues need to be addressed in a systematic way. If they are allowed to evolve independently misalignment will occur. Like a car with misaligned wheels, you can expect difficulties as each wheel moves in a somewhat different direction. Yes, you can drive the car, but it will take more energy, it will burn up more resources, and if you go too fast the whole thing will begin to shake.

About Corporate LifeCycles and TGM Life Cycle Group Abel & Berger GmbH

All living things, including organizations, have a lifecycle. They are born, they grow and over time many will age and die. As organizations progress along this lifecycle they can expect to encounter certain predictable challenges. How management responds to these will ultimately determine the success or failure of the organization.

Making successful lifecycle transitions is not easy or obvious. The methods that produce success in one stage can create failure in the next. Leaders who fail to understand what is needed (and not needed) can inhibit the successful development of their organizations.

Corporate LifeCycles (CLC) has developed powerful tools that enable organizations to navigate these difficulties and reach PRIME – the optimal lifecycle stage. Since 1986, we have partnered with Founders, CEOs, Presidents and their leadership teams to design and implement change programs that accelerate the achievement of their growth, profit and other business goals.

We are experienced and persistent agents of change who roll-up our sleeves and work side-by-side with our clients. We are consultants, consultants, facilitators and coaches. To each of these roles we bring the pragmatic perspective of former senior executives with a bias towards practical solutions and implementation. Our powerful concepts, tools and methods for accelerating change surface and unlock the expert knowledge, innovation and energy already resident in the client organization. We help our clients discover their own solutions, and in this way build ownership as well as strong commitment to change.

TGM Life Cycle Group Abel & Berger GmbH is the German partner in the CLC network.

© Ian MacDougall