Managing Corporate Lifecycles - Volume 1

How Organizations Grow, Age, and Die

Ichak Kalderon Adizes, Ph.D.

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This book is dedicated to the memory of my best friend, Marco Naiman.

Acknowledgments

I want to thank all my colleagues at the Adizes Institute for their help in writing this book.

My associates have debated with me for years, have sharpened my thinking and enabled me to make the improvements presented in this revised edition. Outstanding among them are Carlos Valdesuso of Brazil and Aurelio Flores Ysita of Mexico.

Dr. Sara Cobb provided all the references and footnotes that appear at the end of each chapter. I could not have done it by myself.

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My assistant, Dakota Bayard, kept it all together and worked on the illustrations and the accuracy of the manuscript.

Last but not least, I want to thank my wife, Nurit, who let me be by myself for weeks in a row. Although she missed my company for many, many weekends as I labored on the manuscript, she supported me without a fuss. Without her love, this book would not have been written.

To all, thank you!

—Ichak Adizes

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INTRODUCTION

In this book, I present the theory of organizational lifecycles—which allow us to discriminate normal from abnormal problems in organizations. Based on this understanding one can apply the appropriate interventions that lead organizations to their Prime condition.

This theory combined with the principles for leading organizational change— that I have developed and practiced over the past forty years—explain why organizations grow, age, and die, and what to do about it. It describes and analyzes the usual path organizations take as they grow and the optimal path they should take to avoid the typical problems of growing and aging.

Purpose and Methodology

This book is directed to organizational leaders who are responsible for managing or facilitating organizational change.

It is not a collection of case studies nor is it based on rigorous statistical analyses. Neither is this book a literature survey, although it provides footnoted references. Rather, this is a progress report on my experience with organizations since 1971, the patterns of behavior I have observed, and the approach I have taken in treating them. The Adizes Institute, headquartered in Santa Barbara, California, has associates worldwide who are trained and certified practitioners of the methodology, and this book reflects their experiences as well.

The examples in this book are collages of the many companies we have worked with over the years. Some of them are publicly known—through books and/or articles, as will be referenced later—as users of the methodology. Otherwise, names of clients of the Institute are kept confidential.

Domino's Pizza is one of those publicly known, as described in Tom Monaghan's book, *The Pizza Tiger.*[1] Domino's practiced the methodology and grew from $150 million to $1.5 billion in sales in seven years. Another of the better-known clients, the Bank of America—at the time the second-largest bank in the world with $120 billion in assets and

90,000 employees—had reached a point in its Lifecycle where it was no longer growing and used the methodology to revitalize.[2]

We have also used the Adizes methodology to help nonprofit organizations such as the Los Angeles Department of Children's Services, the largest children's welfare organization in the world.[3] In Ghana's Ministry of Health, I facilitated the establishment of the Health Delivery Planning Unit, which the World Health Organization considered at the time a model for third-world countries.[4]

I have used the methodology and consulted with the prime ministers and/or presidents of Sweden, Greece, Brazil, Macedonia, Yugoslavia, Israel, Mexico, Montenegro, and El Salvador, mainly lecturing on how to rejuvenate governmental bureaucracy and the political machinery. My associates and I have been involved in using the methodology to resolve some sensitive policy issues that remain confidential.

But not all clients are huge corporations or government agencies. We have worked with NGOs, churches and religious organizations, worldwide missionary organizations, and TV networks. I can say with confidence that the Institute has tested the methodology repeatedly under a variety of conditions, and we can replicate results regardless of organizational culture, size, and technology. The one variable that can affect the efficacy of the methodology is the CEO, who must be committed to implementation, and there must be positive chemistry between the CEO and the Adizes-certified associate who is implementing the process.

While this book focuses primarily on corporations, it also points out similarities to marriage, the personal process of growing and aging, and the process of change in civilizations, biological systems, and even religions. Obviously, such comparisons are necessarily superficial, and I admit that I wouldn't be surprised if they are even totally wrong. But life has taught me that everything is related to everything. If we do not see a relationship, it is only because we don't understand it yet. Still, we must try to pierce the veil of separation to gain a small glimpse of the universality and the rules that govern this universality.

Organization and What's New

Managing Corporate Lifecycles: How Organizations Grow, Age, and Die describes the typical behavior of organizations through the lifecycle stages on the typical path organizations take, from Courtship up through Prime and aging to the end of the organizational lifecycle, and the normal and abnormal problems they encounter on that path.

A companion volume to this book, *Why Organizations Grow, Age, and Die and What To Do about It* presents the principles for leading organizational change that I have developed and practiced since 1971. It also describes how an organization behaves, and the principles of guiding an organization along the optimal—faster—path. This is necessarily short because we have had insufficient experience with this path. It is a subject for further work and subsequent reporting.

Two other books that I have written complement the volumes described above:

Pursuit of Prime discusses how an organization should be managed depending on where it is on the lifecycle, and *Mastering Change* presents the theoretical underpinnings of the methodology for transforming (treating) organizations.

For clinical training on how to make therapeutic organizational interventions, I direct the interested reader to the degree and certificate programs at the Adizes Graduate School for the study of Leadership and Change, which has been licensed by the State of California and initiated since the first edition of *Corporate Lifecycles* was published.

Another point. After I had finished writing the first edition of *Managing Corporate Lifecycles,* I realized that something was wrong. I asked myself, if organizational integration is so important, why is it low at the growing stages and high in the aging stages? At the time, I could not answer that question. It took me ten years to resolve that dilemma, and I report my findings here. I have learned that although it remains true that entrepreneurship causes growth and a lack of entrepreneurship causes aging, Integration is the factor that precedes entrepreneurship in predicting organizational growth and aging. This factor enables the creation of the nurturing environment essential for entrepreneurship and, thus, for organizational growth. Integration also allows organizations to treat aging problems more proactively—that is, earlier. Because this factor is subtle, it is commonly ignored and neglected in the pursuit of growth. That neglect is what causes organizations to take the typical path—with all its pains—on the organizational lifecycle.

My research has illuminated several additional factors that enhance the existence, or cause the demise, of entrepreneurship in organizations. These factors further explain the pains of growing and what we used to understand as the inevitability of organizational aging.

Once we better understand the interplay among the factors that cause growing and aging, we can accelerate an organization's progress to Prime, the most favorable stage of the lifecycle, and keep it there longer. When the first edition of *Corporate Lifecycles* was published in 1989, to rejuvenate an aging organization and at least point it toward Prime used to take three years. Today, with better understanding and precision, presented and explained in this edition, we can achieve the same results with even bigger organizations in less than a year. Thus, I have discovered that organizations need not experience the growing pains I described in the first edition of this book. Presented here is an optimal path. Although it generates other problems, they are preferable to those on the typical path because they bring an organization to Prime faster and can keep it there longer. Furthermore, the problems on this path are rarely pathological, i.e., they do not endanger the existence of the organization.

The first edition described only the typical path. How to reach Prime faster and without the problems of the typical path—via the so-called optimal path—is a new addition.

My hope is that this will not soon meet the fate of receiving the review Samuel Johnson gave to a literary aspirant: "Your manuscript is both good and original; but the part that is good is not original, and the part that is original is not good." Nevertheless, I had fun writing it and hope you will find it thought-provoking.

I learn from the experience of others and encourage you to communicate your ideas—whether critical or supportive, theoretical or experiential—with me at adizes@adizes.com.

Ichak Adizes, Ph.D.
Santa Barbara, California

Notes

1. T. Monaghan, *Pizza Tiger* (New York: Random House, 1986).
2. See M. Johnston, *Roller Coaster: The Bank of America and the Future of American Banking* (New York: Tichnor and Fields, 1990); also R. Saisman, *Breaking the Bank* (Washington, DC: American Institute for Economic Research, 1990).
3. I. Adizes, R. Chaffee, and Y. Hasenfeld, *Revitalizing Child Protective Services.* School for Social Services (Los Angeles, CA: UCLA, 1988). (Also prepared as Adizes Institute Working Paper #22.)
4. I. Adizes and P. Zukin, "A Management Approach to Health Planning in Developing Countries," *Health Care Management Review* 2, 1(1997): 19–37.

CHAPTER ONE

Change and Its Repercussions

Change has no precedents.

NICCOLO MACHIAVELLI

The Perpetuity of Problems

It might not be news to you if I were to say that we all experience change and change is a phenomenon that exists for as long as we can perceive anything.

Change gives rise to events that can be opportunities or problems.[1] When we encounter changes, we need to make decisions and do something different because we face a different phenomenon. Think of walking down a street. When we come to an intersection—a change from what we have been experiencing—we confront a problem or an opportunity: Should we turn right, turn left, turn around, or continue straight ahead? We need to decide and act, and whatever we decide to do is itself a change that leads to new problems.

Every problem or opportunity introduced by change generates a solution, which causes more change, and we face a new reality and a new set of problems or opportunities.[2]

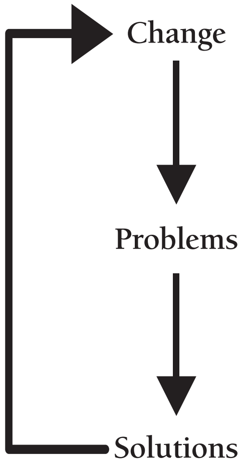

Figure 1-1 Change-Problems Cycle

Thus, as long as there is change, there will be problems and opportunities.

Nothing endures but change.

Heraclitus

And the corollary is:

Since change is here to stay, problems are here to stay
…Forever!!!

I was surprised when I reached that conclusion. After all, bookstores are full of books promising that if only we follow this or that recipe for success, our organizational problems will disappear. Many political ideologies and religions make the same promises: follow these rules and you will merit salvation or earn a place in heaven.

I suggest that those promises cannot be realized because change is life, and as long as we are alive, we will have problems. Consider the saying, "Life's a bitch; then you die." What's more, the "livelier" we are, the more problems we will have.

Take, for instance, a software company with which I consulted. The managers complained about the magnitude of the company's problems. The company had grown from zero to $180 million in annual revenues in less than two years. "What do you expect?" I asked. "When will you have no problems? Only when there is no change. And that will happen only when?" They knew the answer. "When we are dead," they replied.

If change is life and we have no problems only when we are dead, then slowing down the rate of change—one way to reduce problems—is tantamount to committing suicide. The dinosaurs did not adapt to change, and neither do many large corporations that currently rule the world. If they want to stay alive, they'd better learn to manage and *lead* change.

There is an old joke about two guys who went on a walking safari. They saw a lion approaching them. One of them started putting on his running shoes. "You can't outrun the lion," his companion said. "I'm not trying to outrun the lion," the first guy responded. "All I need to do is outrun you!"

As change accelerates, the challenge to survive becomes more complex.[3] Who survives? Those who make the right decisions the fastest and implement them the fastest.[4]

It is not the strongest of the species
that survive, nor the most intelligent, but
the one most responsive to change.

CHARLES DARWIN

Making wrong decisions quickly and implementing them quickly is a prescription for disaster. You end up with worse problems than those you were trying to solve. Nor will you thrive if your competition can make the right decisions faster than you can, or if in spite of making the right decisions promptly, you take more time to implement them than the competition.

My observations are not comforting, but the truth is that solving one generation of problems does not mean clear sailing forever. Your solutions only give rise to the next generation of problems. I don't know about you, but I admit that I still catch myself in the middle of the night wondering when my problems will all be over. And I know the answer: Never! I will stop having problems only when I stop being alive.

Growing up does not mean getting past all problems. Growing up means being able to handle bigger and more complex problems. Once I sent a New Year's greeting card to my clients that said, "I wish you bigger problems next year." At the bottom of the card, I added in very small letters, "that you can handle easily."

Each of us is as "big" as the problems we handle and struggle with. "Small" people deal with small problems: the kind of car they own and the quality of their neighbor's kitchen wallpaper. "Big" people struggle with such problems as the quality of their children's education, the environment they will leave behind, and the quality of life in their communities. Having fewer problems is not living. It's dying. Addressing and being able to solve bigger and bigger problems means that our strengths and capacities are improving. We need to emancipate ourselves from small problems to free the energy to deal with bigger problems.

What's new? It's not change itself. Change has existed for billions of years. The news is that the rate of change is accelerating.[5] More and more problems are confronting us at a faster and faster rate. We can become "smaller and smaller" people focusing on the more and more trivial, or we can grow to deal with what really counts for *life*.

I attend many executive committee meetings where people discuss necessary changes. More often than not, someone will interrupt the proceedings to say, "Slow down. We are running with too many balls in the air." But how can they slow down if the competition is putting on its running shoes?

Change is stressful. We all know that. People are stressed. Organizations are stressed. Societies are stressed. Psychologists have devised a way to measure stress, assigning a certain number of points to each of various life events: divorce, changing jobs, even going on vacation.[6] What is the common denominator in each of those stress-inducing events? Change.

So, should we slow our companies and ourselves?

Yes, if all the companies in our industry agreed to slow down. But even that wouldn't work unless society as a whole also slowed down.

That, in turn, would work only if the entire world slowed down. That is too much to ask. The solution cannot be to slow change. The dinosaurs tried that. The purpose of this book is not to show you how to slow change or how to survive it. Rather, my purpose is to show you how to accelerate finding and implementing the right solutions with a minimum of stress.

From Prediction to Acceleration

That which can be foreseen can be prevented.

Charles H. Mayo

For a blind person, every obstacle is a sudden surprise.

Anonymous

I learned from my two young sons how to speed up solutions. When they were small, they would make me take them to an electronic arcade. Once there, they spent most of their time with their favorite game: racing cars. I realized to my surprise that although neither of them had ever driven a car in his life, they were always able to beat me in the race. The secret was that they had played the game so many times they knew the computer program by heart. They knew when a car would pass and where the turns were. They could drive proactively. Because I didn't know what was coming next, every turn presented a crisis. I crashed. I tumbled. Not knowing the road ahead, I drove reactively, slower than their proactive driving. The game reminded me that when I drive in a foreign city I drive much slower than the locals who beep at me and make rude gestures. It's not that they can drive better. They simply know the road ahead. They can afford to drive faster than someone for whom each and every intersection is a crisis that demands a new decision.

When we know the road ahead, we can drive faster because we drive proactively. Likewise, if we can predict change, we will know what is ahead for a corporation, and the problems will not surprise us. We will deal with them promptly because, rather than being unexpected crises, they will be events for which we have planned and prepared ourselves.[7]

I have discovered that I can predict change. I can predict future problems. It's a lot like raising children. With the first child, every problem is a crisis. The fifth one grows almost by himself. Having seen the problems before, one is less likely to panic. Grandparents, because they've seen so much, often are more lenient than parents. "Leave the kid alone; he'll grow out of it," they advise. Like a grandparent who has experienced many children, I have worked with hundreds of companies. I concur with others who have studied dynamic systems. Problems appear in predictable patterns and have common causes.[8]

The Common Cause

First, let us identify the common patterns; we will then be able to identify the causes and discuss what to do about them.

Let's think about predictable patterns. What happens when a car gets old? It falls apart. How about an old house? It also falls apart. An old person? Falling apart.

What are the common denominators here? First, let us realize that a system does not need to "breathe" to be alive. Everything has a lifecycle—people, plants, even stones.[9] A geologist will tell you that one stone is young while another is old. And astronomers refer to stars as "young" or "old." Granted, lifecycles differ in terms of length: a butterfly's lifecycle is one day long. A star's lifecycle may last millions of years. Organizations, too, have lifecycles: they are born and grow, and, unless management knows what to do, they age and die.

The second common denominator is that when systems change, they fall apart. They disintegrate. And to fall apart and disintegrate, they do not need to get older. Young people commit suicide; young systems disintegrate, too. Whether a system is young or old, what causes its disintegration is change, and the faster the change, the faster the disintegration, which is manifested in what we call problems.

Problems are manifestations of
disintegration caused by change.[10]

I challenge you to consider the following. Each and every problem—your car runs badly, the bathroom plumbing is backing up, your boss and you don't get along, your neighbors are difficult, or you and your spouse argue continuously—I suggest, stems from something that is falling apart. The successful diagnosis of every problem is the correct identification of what is falling apart, and a successful treatment or therapy is the integration of those parts into a new whole.[11] That new whole, if it is healthy, is, by itself, capable of keeping itself together, and able to create a new self when it experiences new change.[12]

None of this should be news to anyone. When we are worried about someone, we say, "This person is falling apart! He is coming unglued!" On a larger scale, we say, "This family, community, or country is falling apart." By the same token, when we are impressed, we say, "This person, family, or country has it all together."

The role of leadership is to lead the necessary change that creates new problems, reintegrate the organization to solve those problems, prepare it to be changed again, and have new problems.

The challenge of leadership on any level—individual, family, organization and society—is to change continuously and, nevertheless, always remain together!

The false assumption is that the way to prevent a system from falling apart is to prevent change. That is tantamount to committing suicide. It is the ultimate "falling apart." In other words, if you do not assume responsibility for breaking the system the way you want it broken and then integrating it to a better plateau, it will break by itself to a worse plateau. So inaction does not save you; rather, it gives the power to effect your demise to outside forces. The way to remain healthy is to take charge of your destiny by changing that which needs to be changed.

The best way to cope with change is to help create it.

Bob Dole

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

When leadership can neither cause the necessary change nor bring the system together, it's time to call in those whose profession it is to provide this service. It's easier to perform that leadership function if one knows the road ahead: what to expect, which problems are normal, which are abnormal or pathological, what causes those problems, what to do about them, and when to do nothing about them.

The lifecycle theory of organizations presented in this book gives such tools to those who take responsibility for leading change.

Lifecycles and the Nature of Problems

I have suggested above that every system—breathing or not—has a lifecycle. We know that living organisms—plants, animals, and people—are born, grow, age, and die. So do organizations.[13] As they change, progressing along their lifecycle, systems follow predictable patterns of behavior. At each stage, systems manifest certain struggles—certain difficulties or transitional problems—they must overcome. Sometimes a system doesn't succeed in resolving its problems on its own. It requires external intervention, importation of external energy with different qualifications to emancipate it from its predicament.

For several thousand years, the medical sciences have been developing diagnostic and therapeutic tools for treating physiological systems. The tools for diagnosing and treating an individual's psyche have a more recent history, and the tools for diagnosing and treating organizational behavior—to change organizational culture and consciousness—are in their infancy. This book is my contribution to this emerging field.

Normal vs. Abnormal Problems

Whenever an organization makes the transition from one lifecycle stage to the next, difficulties arise. In order to learn new patterns of behavior, organizations must abandon their old patterns. When an organization expends energy to make effective transitions from old to new patterns of behavior, I consider its problems normal. If, however, an organization expends energy inward in futile attempts to remove blockages to change, it is experiencing abnormal problems which usually require external therapeutic intervention.

If the abnormality is prolonged and threatens the organization's existence, its problems are pathological, requiring a different intervention—surgical, not therapeutic, in nature. Such intervention is beyond the scope of this book.

An organization can solve its normal problems with its own internal energy, setting processes in motion and making decisions that will overcome the problems. An organization cannot avoid those normal problems because it needs to learn and develop its capabilities. Like a baby, it has to fall to learn to walk. An organization has to learn how to budget resources, how to set discipline, and how and when to make decisions. It has to develop an organizational memory of experiences in order to advance to the next stage of its life.[14]

Managers of many young companies complain about how difficult it is for them to make a budget and operate within it. I tell them they are lucky to have those problems to solve while they are small and young. They have the opportunity to learn while the cost of making a mistake is not so critical as it would be if the organization were much bigger and the stakes were higher. One executive compared the process to tracing a trajectory to a point in space. In the beginning a small deviation is inconsequential. If, however, you allow that deviation to continue, later, when you are far from the starting point, the costs of correction will be enormous. If one allows the normal problems of childhood to go untreated, in adulthood they can become abnormal or even pathological.[15]

Normal problems are transitional in nature: You encounter them, solve them, learn from them, and readily move on. Abnormal problems are cul-de-sac problems. You "drive around in circles," seeing your problems repeat themselves over and over again. You keep encountering problems you thought you'd solved, but they continually reappear in a new version or in a new manifestation. Management's attempts to resolve them only produce other undesirable side effects. Abnormal problems cause unnecessary pain and slow organizational progress, retarding an organization's ability to develop. They frustrate and entrap it in a particular stage of the lifecycle. The organization, like a middle-aged person with unresolved problems of adolescence, is "stuck." In abnormal situations, management feels incapable and helpless to resolve the issues by itself. Soon the organization loses trust in its leadership.

Organizations with normal problems don't require external intervention. Solving normal problems is the task of their leaders. Organizations with abnormal problems, however, require periodic external interventions that can lead them to Prime and keep them there. Organizations with abnormal problems need interventions from extensively trained organizational therapists who can help them overcome the cycle of repetitious problems that block their progress.

Pathological problems are distinguishable from abnormal problems by their gravity and their chronic nature. Those are problems that, because they were not treated in time, now threaten the organization's ability to survive. The most obvious examples of pathological problems are: uncontrollable negative cash flow, continuous emigration of key human resources away from the organization, unresolved quality problems, rapidly declining market share, and tremendous drops in the company's capacity to raise financial resources. Organizations with those problems can't afford therapy because therapy takes time, and time is a resource those organizations do not have. Instead of an organizational therapist, the board should hire an organizational turnaround specialist who can temporarily take on the chief executive officer's role, and perform whatever "surgery" is necessary. As I said before, treatment of pathological problems is outside the scope of this book.

To be successful leaders, to focus our energies and diagnose organizational ills, we must learn to distinguish normal problems— those transitions an organization *should* experience in order to move to the next stage of the lifecycle—from abnormal problems it need not experience.

The Typical vs. the Optimal Path

Most organizations follow a typical path. On that path, they encounter problems that exist because the organizations have yet to develop certain capabilities. By solving those problems, they develop the capabilities they need to advance along the lifecycle. On the usual, or typical, path, organizations develop capabilities one at a time. We talk about those capabilities—how they develop, the sequence in which they develop, and how they help solve predictable organizational problems—in a companion volume to this book, ***Why Organizations Grow, Age, and Die and What To Do about It.***

Since I published the first edition of *Corporate Lifecycles*, I have learned that organizations may take a shorter path to Prime, the state in the lifecycle in which function and form, flexibility, and self-control are all synchronized. An organization in Prime can change in a controllable way, achieving optimal results and sustaining that performance over time. Taking that path, an organization can and should develop all the capabilities simultaneously.

In this book, I describe both paths. First, I present the typical path, analyzing why problems occur at each stage of the lifecycle. Next, in the companion volume, I discuss the optimal path and its repercussions.

For the purpose of illustration, let us consider examples of three different organizational problems.

It's perfectly normal for start-up businesses to find themselves short of cash. They see it coming and predict it. In its earliest stages, a company's need for cash to finance growth far exceeds its ability to generate it. That is a normal problem on the typical path. But this normal problem can be avoided altogether if a company follows the optimal path. A well-managed company should be able to overcome that problem with good financial planning. If its business plan makes sense, and its leadership and its industry are trusted and respected, money will come pouring in. Thus, while shortage of cash on the typical path is a normal problem, on the optimal path it will be considered abnormal because it did not have to happen.

What if a company suddenly found itself short of cash because management, not knowing how to project cash flows, hadn't predicted the problem? That is an abnormal problem on the typical path. Management *should* have known. A cash crunch is deemed pathological if, even after instituting cost controls and cash-flow planning, the company cannot survive. In such a case, therapeutic intervention could be too little too late. A cash shortage also becomes a pathological problem when management refuses to recognize cash shortage as a problem.

Take, for instance, a company I knew whose founder lived in a fantasyland, dreaming of what *should* happen. People, he believed, should have been excited about his innovative ideas. He was always selling everyone his belief that the cash problem would soon be solved by an infusion of capital from willing—but nevertheless unknown—sources. That pathology is not all that rare. Its tragedy is that the founders honestly believe in what they say, and even at the last moment, they don't know what happened or why their companies failed. Some readers may find this difficult to believe, but I have witnessed such folly more than a few times.

An autocratic management style can also worsen from a normal problem into pathology.[16] I've often seen this syndrome in fledgling organizations during the early stages of growth. As I asserted in my book *Pursuit of Prime,* autocratic management is desirable in the start-up stage of development. Parents need to tell their child what to do, and founders need to be in control in order to sustain interest in their creations. The need to control becomes abnormal if that style doesn't change to keep pace with the company's development and maturation. The problem intensifies when the autocratic leader has only two choices: to change his style or to yield the leadership position. It reaches pathological proportions when no forces can persuade him either to change his style or to step aside. I have treated several companies where the autocratic, self-centered, ego-driven leaders could not be changed because they owned everything, lock, stock, and barrel. They were either unwilling or unable to change their style even though it meant the demise of their companies.

In a fledgling business, the founder is the biggest asset. If, however, the founder's style is destructive, he or she is the company's biggest liability. Frequently, when such a person dies, the company dies, or the family that owns it loses control within three generations.[17]

Now, let's consider organizational aging. Many of you will find the following surprising. I myself was surprised because, like everyone else, I had considered aging to be a normal predicament. After all, who expects to remain young forever? We wish for everlasting youth, and generations have searched in vain for a vitalizing potion. But having applied my methodologies to organizations worldwide, I have discovered that I can retard organizational aging. That led me to wonder whether it is also possible for humans to retard aging. Yogis look ageless, and they do not die from diseases of aging. They die healthy. They recognize when the time has come to go to sleep and not wake up. Who of us wouldn't like to die healthy rather than suffer from the debilitating diseases of old age? People can retard the aging process. So can organizations. What is the secret?

Rather than steal my own thunder, I'll keep that secret for another chapter.

Organizations can have normal and/or abnormal problems of growing. The problems of aging should all be considered abnormal because organizational aging can be averted with appropriate treatment. To reverse pathological aging requires major sacrifices such as downsizing, which I consider a radical solution to a pathological problem.

Curative treatment at any stage of the lifecycle calls for removing abnormal problems so that the organization can progress to the next stage of the lifecycle and experience a new set of normal problems.

Preventive treatment involves development of capabilities that enhance the company's advance to Prime and sustain it there. Prime is the most desirable state, and it is not necessary to depart from it.

Now that we have defined terms and outlined the purpose and structure of this book, let us proceed with descriptions of the various stages in the development and aging of organizations on the typical path.

Notes

1. See P. Watzlawick, J. Weakiand, and R. Fisch, *Change: Principles of Problem Formation and Problem Resolution* (New York: Norton Books, 1974), for a clear description of the relationship between change and problems. These authors note that change and problems are interlinked, and that they inevitably arise together.
2. See B. Keeney, *Aesthetics of Change* (New York: Guilford Press, 1983), for a discussion of the role of language in the construction of problems. He suggests that "reality" is a function of the descriptions that we make of it. Thus problems, as well as the process of problem solving, are a function of our descriptions.
3. M. Eigen, R. Winkler, and M. Kimber, *Laws of the Game: How the Principles of Nature Govern Chance* (New York: Harper Colophon Books, 1981) give a cogent discussion of the relationship between evolutionary processes in nature and the drive to survive in complex environments.
4. For an elaboration on this point, see J. Diamond, *Guns, Germs and Steel: The Fates of Human Societies* (New York: Norton, 1997) for a discussion of sociobiological perspectives on "right decisions."
5. K. Gergen and D. Whitney, "Technologies of Representation in the Global Corporation," in D. Boje, R. Gephart and T. Thatchenkery, eds., *Postmodern Management and Organization Theory* (Thousand Oaks, CA: Sage, 1996), carry on a thoughtful discussion regarding the impact of globalization on rates of change in organizations.
6. L. Holmes and R. Rahe, "The Social Adjustment Rating Scale," *Journal of Psychosomatic Research,* 11 (1967): 213–218.
7. D. Barry and M. Elmes, "Strategy Retold: Toward a Narrative View of Strategic Discourse," *Academy of Management Review* 22, 33 (1997): 429–452, argue that planning is a narrative process that involves developing the scenarios that can adapt to crises as they emerge.
8 S. Kauffman, *The Origins of Order: Self-Organization and Selection in Evolution* (New York: Oxford University Press, 1993), extends the arguments of chaos theory. He makes it very clear that, in the relationship between order and chaos in emerging systems, even in chaotic processes there is a pattern that emerges.
9. E.C. White, "Negentrophy, Noise and Emancipatory Thought" in N.K. Hayles, ed., *Chaos and Order: Complex Dynamics in Literature and Science* (Chicago: University of Chicago Press, 1991), pp. 236–267, discusses

patterned cycles present in the emergence of a meaning system which has, he argues, attributes of a living system.

10. See F. Masterpasqua and P. Perna, *The Psychological Meanings of Chaos: Translating Theory into Practice* (Washington, DC: APA, 1997). The authors have examined psychological disintegration using chaos theory. They argue that change brings about chaos, which then results in problems of integration.
11. F. Verela, E. Thompson, and E. Rosch argue in *The Embodied Mind: Cognitive Science and Human Experience* (Cambridge: MIT Press, 1993) that Eastern philosophy provides a framework for understanding and enacting integration.
12. S. Kauffman, *At Home in the Universe: The Search for Laws of Self Organization and Complexity* (Oxford: Oxford University Press, 1995), has a very clear and readable discussion of the relationship between chaos, as disintegration, and order; integration requires, from this perspective, the introduction of new information into the system.
13. Eastern societies have long integrated biological and natural processes into their social thought. In the West, the idea that human societal organizations could be explained by natural organic lifecycles was first articulated by the new historical criticism of the Enlightenment: Montesquieu (1744), *De L'esprit des lois;* Vico, *Scienza nuova* (1744, 3rd ed.); Edmund Burke, and esp. Condorcet, who posited a ten-stage cycle of historical growth, (1794) [Sketch of an historical tableau of the progress of human spirit]. In the 19th century, the modern science of historiography looked in reverse directions (with the possible exception of Hegel and the distinct exception of Russian social critics Belinksy, Herzen, and Chernyshevsky) to the detail of "fact as fact." In the 20th century, historiography has been more concerned with transcendent historical values than immanent "cycle-like" models of explanations of human organizations, with the exceptions of O. Spengler (*Der Untergang des Abendlandes,* 1919) and the more successful, but also controversial, study of world civilizations on a lifecycle model by A. Toynbee (*A Study of History,* 1946–).

    The impetus for studies in the lifecycle of business organizations in the 20th century came from the new social sciences of sociology (Comte's 19th century positivism) and, particularly, from psychology (esp. Piaget, [1954]); M. Klein and the psychodynamics developed by the Tavistock school; and esp. Erik Erikson's studies on the stages of human growth (often cited by early business writers on the lifecycle). Coincident with this interest in the late 1930s was the introduction of typologies, stages of organization, and managerial dynamics in business writings, esp. J. Schumpeter on the entrepreneurial and bureaucratic: *Business Cycles: A Theoretical Historical & Statistical Analysis of the Capitalist Process* (New York: McGraw Hill, 1939), and Max Weber and the translation of his 1912 treatise into English as *Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest and the Business Cycle* (1932; 1954); D.C. McClelland (1961), esp. his research on entrepreneurship in Indian villages; P. Drucker (1946; 1954); and the sensitivities for further study of organizations created by A.B. Chandler on strategy and structure (1962). The use of the lifecycle in family, marriage, and vocational studies also spread partially under the impact of Erikson (P.C. Glick et al. [1955]), S. Minuchin (1974), and later produced a number of significant family and marriage studies parallel to the organizational lifecycle studies, esp. Carter and McGoldrick (1989).

An early effort to construct a lifecycle model was D. Super et al., in *Teacher's College Record,* 58 (1957), who divided vocational life into five stages from growth to decline. Other early writings in applying the idea to business were E.T. Penrose on biological analogies to the firm (1952); D.H. Thain on stages of corporate development (1969); L.L. Steinmetz on the dynamics of growth and survival (1969); and A. Tanski (1980). A key article in propelling lifecycle studies was L.E. Greiner in the *Harvard Business Review* (1970) on "Patterns of Organizational Change," in which he postulated five stages of growth. In the 1980s and into the early 1990s, there was a spate of lifecycle and "evolutionary" studies; in the July, 1986 *Business Periodicals*, it achieved for the first time a sub-heading in categories of business research and publication. In 1980, J.R. Kimberly, R.H. Miles, et al. drew together a series of articles, *Organizational Life Cycle,* which included contributions by N. Tichy, W. Ouchi, J. Freeman and D.A. Whetten. Other significant studies during the decade included work by: D. Boulding (1974; 1975 on "decline"); D.A. Whetten (1980 and subsequent articles, also on "decline"); J.B. Miner (1982, on "entrepreneurial types" and bureaucratic "stages"); R.E. Berenbeim (1984, on "business families"); J. Freeman (1982, on "natural selection and survival"); P.H. Mirvis (1977); W.G. Dyer, Jr. (1986, on "transitions in family firms"); L.M. Miller (1990, with a six-stage development process); among others.

During the 1980s, several longitudinal studies on the "effectiveness" and "predictability" of lifecycle stages were done by D. Miller, J. Freeman, D. Miner, K.S. Cameron, R.E. Quinn, P.H. Friesen, R. Drazin, R.K. Kazanjian, among others. D. Miller and P.H. Friesen (1983) tested five stages of growth and decline supported by 54 variables with prevalence of "complementaries" at each stage; they had positive results of predictability. R. Drazin and R.K. Kazanjian (1990) used the del procedure for prediction analysis of three separate stage models of "lifecycle imperatives." They found some support. The overall results of such studies have been ambiguous.

In the 1990s, research on the lifecycle theory has changed, giving way to the study of other segmented approaches to organizational development and transformation. The difficulty in many of these early—and revolutionary—studies is that they sought either a mechanical application to the organic realities of life and organization, treating regularities as absolutes; or, they stopped short of pursuing the modifications and subtleties of human interaction. I have had the good fortune to apply my theory to over 1000 companies worldwide in the "laboratory of experience," and this lifecycle theory has had constant feedback and modifications from this experience.

14. In his book *In Over Our Heads: The Mental Demands of Modern Life* (Boston: Belknap Press, 1995), R. Kegan develops a model of the stages of evolution of consciousness. It is interesting to consider how managers develop the administrative and relations skills to negotiate, to manage differences, and to work collaboratively. According to Kegan, these are skills that are developed in stages, as consciousness itself develops and grows. This model suggests that good management requires more than an MBA.
15. See A. Maslow, ed., *Motivation and Personality,* 3rd ed. (New York: Harper Press, 1987); of the many works by Erik Erikson, see especially *Childhood and Society,* 2nd ed. (New York: Norton, 1963), *Identity and the Life Cycle* (New York: Norton, 1980), and *Identity: Youth and Crisis* (New York: Norton, 1968).
16. In *Reframing Organizations: Artistry, Choice, and Leadership* (San Francisco: Jossey-Bass, 1991), L. Bolman and I. Deal discuss the role of the leader in framing problems for solution. They note that management style is key to being able to foster effective frames for action that promote creativity and growth.
17. See D. Bork, et al., *Working with Family Businesses: A Guide for Professionals* (San Francisco: Jossey-Bass, 1996) for a description of the complexity of the family business lifecycle, addressing the specific kinds of problems the family business encounters in its evolution, i.e., succession.

CHAPTER TWO

Courtship

The best way to predict the future is to create it.

Peter Drucker

I call the first stage of organizational development Courtship. This stage precedes the organization, which has yet to be born. It exists only as an idea.

Figure 2-1 The Courtship Stage

Building Commitment

In Courtship, the emphasis is on ideas and the possibilities the future offers. The would-be founder is excited and enthusiastic and "selling" everyone on how wonderfully his idea is going to come out. To whom is he really selling the idea? Whom is he working hardest to convince? Himself!

Something very important is taking place. During this time, the company is like a jet sitting at the end of the runway preparing for takeoff. The pilot is revving up the engines, creating a lot of noise. Why the noise? The jet isn't even flying. The pilot is building thrust and momentum so that once the brakes are released the jet will take off quickly and smoothly. Likewise, the Courtship stage of development is characterized by lots of talk and no action, but what is happening is critical for the future success of the company.

Lest you miss my point, let me emphasize that the founder is building commitment. At the same time that he is testing the idea on others, the founder is building his own internal commitment to the idea. He's wondering what everyone else thinks. Is it viable? The more he succeeds at selling his idea to others, the stronger his own commitment grows. This process is crucial for the healthy "birth" of an organization. Why is it so important?

He who has a "why" to live can bear almost any "how."

FRIEDRICH NIETZSCHE

I have named this stage Courtship because the situation is not so different from the prelude to marriage. At what point are we really married? Not when we put rings on our fingers. We are truly married when commitment happens, is tested, and survives the test. When are we divorced? Not when the judge signs the papers. The marriage is dead when there is no more commitment to keep it alive. Rings and papers are only formalities. It is commitment that makes any organization—marriage, business, or society—viable.

For a plane to perform the function for which it was designed, it must first take off. To become airborne, it needs forward thrust—the momentum it builds during the engine-revving stage. Similarly, for an organization to start performing the function for which it was designed, it needs to undertake risks. No risk is taken without commensurate commitment, and it is during the Courtship stage that founders build that commitment.

If you want to gauge the viability of your organization,
you should assess the commitment of all who are
related to or associated with it.

You should consider not just your managers. Ask the same questions of your employees, customers, suppliers, and other stakeholders from your community.

Excitement, enthusiasm, emotion, and passion for the subject—coalescing energy to a single point—these are the signs of building commitment. Such a process can generate abnormal or pathological problems. Like lovers building mutual commitment, company founders are given to making unrealistic promises that could cause problems later on. The regrettable promises of Courtship seem almost inevitable. In exchange for vague assurances of support, the excitable founder promises and gives away shares of the future company to family members, lawyers, and friends. At the time, the promises are easy to make. After all, at the Courtship stage the company has no tangible worth. The inexperienced founder doesn't believe he's giving away anything significant, but later on, when the company is worth something, his lavishness will return to haunt him.

Just as in marriage, where love nourishes commitment during Courtship, founders must fall in love with their ideas that will build their commitment. Later on, when their companies come into being, it is the founders' commitment that sustains their motivation during the difficult challenges of early development—Infancy.

An organization comes to life when the founder's commitment has been successfully tested; that is, when the founder and investors undertake risk. Conversely, if no one shares commitment for an organization, it dies. Courtship needs to build commitment commensurate with the risk associated with bringing the organization to life. The higher the risk, the deeper should be the commitment. As Conrad Hilton said, "If you wish to launch big ships, you have to go where the water is deep."

If we know the weight of the jet, we can tell the pilot how much thrust it will take to lift it off the ground. If we can predict the bumps on the road map of a marriage, we should be able to predict how much commitment will be needed to avoid divorce. If we know how much risk a fledgling company will face, we can tell its founder how much of his and other people's commitment will be required to launch a successful enterprise.

When innovators bring me their new products and tell me they want to start companies, at first I do not listen to what they say. I listen to who says it and how it is said. To create a successful company, one needs more than just a good idea, a market, and the money to back it up. What every new company needs is a committed leader—someone who is willing to lose sleep once the company is born, and who can bring together the idea, the market, and the money.

It's important to test the noise level—the sound of the revving motors. How committed are the founders? Have they made significant financial commitments to their endeavor? The bigger the task, the more zealous the commitment must be. Commitment must parallel the long-term difficulty of turning the idea into a viable business. I base the assessment of the necessary level of commitment on a number of factors: The complexity of putting the business together; how long it will take to see positive results; and the degree of necessary innovation. I estimate the last factor by estimating how many existing "sacred cows" must be slaughtered.

Too many people want to make big money with small commitments. It simply does not and cannot work. If there is inadequate commitment, all the energy will be spent on labor pains, and a stillborn organization is delivered.

We can examine the relationship of commitment to risk on a macro level, too. For example, we can predict the success or failure of a revolution by looking at the commitment of revolutionaries. The task of changing a society is immense. To bring about a significant change, revolutionaries must be willing to die for their cause. Talk and rallies are good for prime-time television, but the magnitude of a commitment is measured by the price people are willing to pay.

Commitment—or lack of it—is what sustains—or destroys—an emerging enterprise.

Without substantial commitment, organizations break apart when they encounter rough times.

Founder: Prophet or Profit?

When we talk about commitment to undertake risk, we should also ask: What is the source of the founder's commitment? What motivates the founder or product champion? If the founder's motivation is only to make money, that will be insufficient to sustain the enterprise through this Courtship stage. No one knows for sure what kinds of profits a company might produce. When a baby is in her cradle, is her parents' motivation to feed and change her their desire that when she grows up, she will be a doctor or a lawyer who can support them in their old age? It had better not be.

The motivation of a founder has to be transcendental; it must exceed the narrow limits of immediate gain. The commitment cannot be strictly rational. First and above all, founders must be emotionally committed to the value of their ideas in the marketplace. The idea should obsess them. Founders should be responding to a perceived need. They can't help but satisfy that need. The profits or money the product or service will produce merely validate their belief in their idea.

In Courtship, the founder's motivating goal should be to satisfy a market need, to create value, to make meaning.[1] Founders should be excited about the needs the product will satisfy; and when challenged, they should defend the functionality of their product and its service. If we were to ask founders to describe their creations five years hence, they should describe companies that service clients increasingly well—that satisfy needs more effectively. If founders speak exclusively about the return on investment (ROI), commitment won't sustain their companies should difficulties arise. Of course, without profits, their companies will die. While poor ROI can kill a deal, the promise of ROl can't make a deal. To make deals you need founders who believe that their products or services serve real needs and that there are live clients who will appreciate what the founders have started.

If a person plans to form a company because he anticipates a good return on his investment, he is like a prophet who speaks because he wants to go to heaven or a woman who yearns for a child because she wants to have a doctor for a daughter. The prophet does not want to go to hell; the woman does not want to have a child who can't hold a job;

and, the founder does not want to go bankrupt. Return On Investment is a controlling, not a driving, factor. ROI cannot engender an organization, but lack of ROI can eventually bring about its demise.

People who are exclusively interested in money or ROI will get discouraged and quit before profits are realized. After all, business isn't always profitable. Ideas must be made operational, and that process usually involves at least a few mistakes that postpone profitability. A baby requires parents to care for her through all the diseases of childhood. It's not all smiles all the time.

A successful Courtship is one that focuses on issues beyond the potential for profits.

Profitability is like a scoreboard in a tennis match. You can't win by watching the scoreboard. The scoreboard tells you only whether you are winning or losing. To actually win a game, you must hit the ball over the net into the opponent's court. Each volley is another opportunity to improve your performance. Players might not hit each ball right, but each volley is like a new game, starting from zero. When one is learning to play, the score is meaningless. A person must be committed to the idea of learning the game first and to winning it later. The same is true of emerging organizations. Founders must be determined to hit the ball. They must be aiming to satisfy their clients' needs as measured by sales first, second, and third. Only after that is established as being successful will the scoreboard—profits—come into question.

The commitment to client needs is independent of whether or not the client perceives the need. Founders, like prophets, forecast needs as they perceive them—not necessarily as expressed by potential clients. Thus, the founder talks about what the market should buy, not necessarily what it is buying. If market needs were known, and if the market already had expressed its wishes in high sales volume of the product or service, the innovation and risks would be lower and the project would demand lower commitment. In such a case, we are seeing not a prophet who gives birth to a movement, but a "me-too" exploiter of trends. Even in that case, there must be enough commitment to pay the price that makes that exploitation work.

Entrepreneurs who start companies focused on needs that have yet to be identified or expressed are product-oriented rather than market-oriented. Even they can't easily describe the need their products aim to satisfy. Rather than responding to established needs, they try to educate and change the behavior of the market. They, in a sense, express what should be the need of the market. Through their actions, they articulate and operationalize that need. They are more business prophets than business entrepreneurs.[2] And, like other prophets, they can be crucified because, in the short run, the power structure will reject them. No one understands their messages until their products prove themselves.

Founders are highly vulnerable to those who promise to help them sell or finance their ideas. In exchange for the promise of marketing and financing, the newcomers are likely to take significant shares of ownership. And the prophets, the founders, whose devotion is more to their products than to control and ROI, end up losing control of their companies to venture capitalists or fast-talking marketeers who get to enjoy the fruits of the innovation, measured in money and recognition, while the founders are frequently ignored or forgotten.

Why, despite any number of marketing courses, are prophet/founders not market-oriented? Prophet/founders focus on what the market should want, and they dedicate their energy to developing the product or service that should satisfy that need. Consequently, they must be product-oriented until they can develop products of acceptable quality, capabilities, and functionality. Prophet/founders fight the dilution of their dreams; always speaking of the reality they are trying to create, and not the reality they are willing to accept.

Observers accuse many founders of being ignorant of marketing strategies and realities. This phenomenon is normal. To quote George Bernard Shaw: "Reasonable men adapt to their environment; unreasonable men try to adapt their environment to themselves. Thus all progress is the result of the efforts of unreasonable men."

As we will see in the next section, founders' commitments to products they believe the market *should* have rather than to products the market *wants*, and their relatively low commitment to profit, may later become pathological problems for their companies. Founders might not know when to give up their exclusive dreams. They may be too product-oriented for too long. They won't compromise even to get their products or services on the market. They act according to their perception of what *should* be for far too long.

Even founders who progress beyond product orientation might find it difficult to make the transition to profit orientation. That transition requires attention beyond the technology of the product or service. When it's time to focus on client interface as well as financial and human factors, those elements of management may be beyond the founders' experiences. Nevertheless, many founders insist on making all strategic decisions alone—and at their peril.

What is normal at one stage of the lifecycle
can be abnormal in another stage.

Fanatic commitment is necessary for a successful Courtship and its successor, Infancy; in later stages, however, it can become pathological. For example, consider a company that is chronically losing money because its product or service is misplaced in the marketplace. It needs to change and adapt to client needs. Founders who fight that reality because of their dreams are like overzealous parents who deny, and thus do not act on, their child's psychological problems because they are blinded by the image of what they believe the child should be. In some cases, the more founders fight reality, the deeper into trouble their companies sink. They hold on to their dreams. Their fierce commitment to their ideas is what sustains their creations through the very early stages of Courtship. At a point in the next stage, Infancy, founders need to know if it's time to let go of their dreams and adapt to reality. That paradox makes it difficult to appraise the qualities of good founders. If founders are committed, can they let go? If they are capable of letting go, are they committed enough?

Investors encounter another problem. Highly committed founder/innovators are highly charismatic, and their commitment can be contagious. They believe in their innovations; they believe in themselves.

It's easy to confuse them with pathological liars or con men. Many investors have found themselves caught in the webs of fast-talking, apparently highly committed and enthusiastic innovators who, it turns out, were selling snake oil. If it seems too good to be true, it *is* too good to be true. Investors should check how much founders personally have at stake. Watch out for anyone who uses Other People's Money exclusively.

Healthy founders are highly committed, and, at the same time, they have an eye on reality. They are committed, but they are also willing to learn from experience. A founder should be a reasonably unreasonable person—someone who has fanatically strong beliefs and is still able to listen to reason.

Building a Commitment Correctly

It is normal to have doubts during the Courtship stage. Conversely, to have no doubts whatsoever can generate pathological problems down the road. The founder should be able to answer these questions:

- Why are we doing this?
- Who is going to do it?
- What exactly are we going to do?
- How are we going to do this?
- When should we do it?

Note that the focus is on why-who-what-how-when "**WE**" are going to do, not why-who-what-how-when "**I**" am going to do.[3] The founder must realize from the beginning that he or she cannot do it alone.

Please also note the sequence of the questions. The most important of those questions are the *why* and *who* questions. Next in importance are those that ask *what* and *how*. Why start a company, or a unit within a company, or even the seed of a future unit by spending resources on a new product or new market?

Is there a need? Can we develop and nurture the need? Do we have the capability to provide and satisfy the new need? Note that I am skirting the question: Is it within our capabilities? That question applies more to an established company. In that case, be careful. The people who answer that question have vested interests and will give a negative response to protect their turf. That is why the personal computer had difficulty growing in the mainframe environment of IBM and Digital Equipment Corp., and why cellular phone got nowhere with AT&T. Later, when AT&T saw the proven market for the wireless, it bought back what it had invented in the first place—for more than a billion dollars. This point will become clearer when we discuss how structure impacts strategy—how structure can age an organization and dampen its capability to innovate and grow.

The *who* question is also critical. Many innovator/founders have difficulty managing money and marketing and promoting their creations. The problem is similar to artists who are ill at ease negotiating the price and, by implication, the value of their own art. They do fantastically well representing others, but they can't negotiate on their own behalf. It's not unusual for an innovator to have difficulty selling his or her own creation. So the new product—even if it's a winner—doesn't easily penetrate the market, and the company suffers from debilitating cash crunches.

To overcome the problems of starting businesses successfully, the government of Israel has funded a number of incubators to nourish innovation and nurture emerging businesses. An inventor who wants help promoting his or her innovation can submit a proposal that describes a new idea or product and demonstrates a need for it. The proposal should also describe other products or services the innovation will replace and provide an estimate of the amount of capital necessary to commercialize it. The experienced executives who serve as the incubator's advisory board review each proposal. If they believe in it, they allocate a sum of money and appoint a project manager to manage the finances. Eventually, they will designate a marketing manager to search for strategic alliances or identify distribution channels. In exchange for all that, the innovator yields a percentage of ownership to the incubator, and the incubator redeems its equity when the new company goes public, is sold, or merges. The project manager and the marketing manager also get stock.

The incubator never maintains ongoing ownership of the companies it has established. The ROI from successful ventures finances other endeavors. Instead of doing everything on their own, innovators have the support of a complementary team in a nurturing environment.

I have found that answers to the *what* and *how* questions are secondary. *What* exactly we are going to do changes as the company gains experience. The answer to the *how* question is even less reliable. The *how* changes almost daily until success is realized. Nevertheless, from the start, we need to think about *what* and *how*, continually adapting and changing as our experience grows.

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

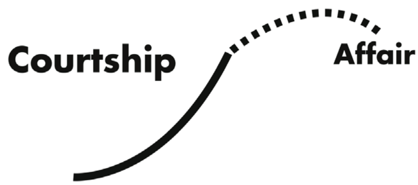

Figure 2-2 The Affair

A Courtship that can't withstand reality testing is only an affair. If at the first sign of obstacles, commitment evaporates it is a Courtship with pathological problems. The would-be founder has fantasies about how things should be, but they are grounded in nothing more than wishes. The idea never progresses beyond the dream.

During Courtship, pathological problems do not look like problems because they don't seem difficult and they cause no pain. Everything is rosy. That is precisely why Courtship's pathology is so dangerous. It can give birth to an Infant organization, but because nobody has tested the idea, the Infant organization will be ill-prepared to deal with reality. There was no reality-testing at conception, and now nobody is prepared for the newborn infant.

Compare the formation of a business to the transition from rosy courtship to the reality of marriage. In some cases, it can be quite devastating. It's worth dealing with hard questions at an early stage. The process of writing a prenuptial contract convinces many couples to cancel their plans to wed. Similarly, when we get excited about a business idea, we may start negotiations to form a partnership, but once we work out the details and put everything into writing, it may not look quite so exciting. As the Arabic expression says, “The devil is in the details.”

What, then, defines the birth of a company? It’s not the signing of articles of incorporation. A company is born when there is some tangible expression of commitment—when the founder undertakes risk. Risk has a number of manifestations: a person quits his or her old job, signs an office lease, or promises to deliver a product on a certain date. When the founder incurs and undertakes substantial risk, the organization moves to the next stage of development, called Infancy.

Problems of Courtship

Normal Problems	Abnormal Problems
Excitement, reality-tested	No reality testing of the commitment
Details thought through	Details not thought through
Realistically committed founder	Unrealistically fanatic founder
Product orientation—commitment to add value	Exclusive ROI-profit orientation
Commitment commensurate with risk	Commitment not commensurate with risk
Founder in control	Founder’s control is vulnerable

Notes

1. K. Weick's "Sensemaking in Organizations: Small Structures with Large Consequences," in J. Murnighan, ed., *Social Psychology in Organizations: Advances in Theory and Research*, pp. 10–38 (Englewood Cliffs, NJ: Prentice Hall, 1993), offers a theoretical framework which addresses the role of communication in creating the vision that generates commitment and enthusiasm. Weick later published this as a book, *Sensemaking in Organizations* (Thousand Oaks, CA: Sage, 1995).
2. J. Schumpeter's ideas were first published in 1912 as *Theorie der wirtschaftlichen Entwickelung* and first translated into English in 1934 as *Theory of Economic Development* (Cambridge: University Press, 1934). In *Business Cycles* (New York: McGraw Hill, 1939): 102–109, is found his most popular discussion of the entrepreneur and entrepreneurship. See also D.C. McClelland, *Motivating Economic Achievement* (New York: The Free Press, 1969) and *Achieving Society* (Princeton, NJ: Van Nostrand, 1961) as key works representative of McClelland's pioneering research in synthesizing economic activity and motivation, which he published in many studies in the 1950s and 1960s.
3. D. Barry and M. Elmes, in "Strategy Retold" (*Academy of Management Review* 22, 33, 1997): 429–452, have an interesting perspective on the role of narrative in organizational processes; they differentiate a collective story, one which elaborates a "we" and operates to create a culture of participation from the story of "I" which autocratic leaders tell.

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Contact Us:

Adizes Institute Worldwide
1212 Mark Ave, Carpinteria, CA 93013
United States

Ph. (805) 565-2901
Web: www.adizes.com
E-mail: publishing@adizes.com