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Section A

DECLINE AS A CHANGE PROCESS

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*Organizational Growth and Decline Processes*

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**Introduction and Historical Context**

The increasing emphasis on the temporal aspects of organizations represents a significant trend in the study of organizations. Authors stress the need to examine dynamic, evolutionary processes within single organizations (Cameron & Whetten 1981, Kimberly & Quinn 1984, Miller & Friesen 1980, Kimberly & Miles 1980, Tushman & Romanelli 1985, Singh et al. 1986), as well as in populations of organizations (Freeman & Hannan 1975, Tushman & Anderson 1986). Evidence of this trend is reflected in the extensive use of the organizational life cycles analogy, which focuses on the natural, metamorphic processes associated with birth, maturation, decline, and death in organic systems.

Recent efforts to organize strands of organizational theory taxonomically have made clear that theories can be categorized as either mechanistic or organic. Further, some writers see a

general trend in the field from mechanistic to organic views of organizations (Van de Ven & Astley 1981, Perrow 1979, Scott 1981). Although economists have drawn on the biological analogies of natural selection and birth and death processes for decades (Marshall 1920, Boulding 1950) and isolated early organizational theorists urged their adoption (Haire 1959, Katz & Kahn 1966, Lippitt & Schmidt 1967), such analogies did not gain widespread use in organization research until the 1970s.

Clearly the most hotly contested issue in the life cycles literature is how literally the biological analogy should be applied to social systems. In his early work, Kenneth Boulding advocated a fairly extreme position in favor of a strong, literal adoption of the biological model (1950). He argued that economics should move beyond its prevailing paradigm, which he characterized as a static equilibrium theory of maximizing behavior, to adopt an ecological approach to economics. He described society as a large "ecosystem," in which every organism (organization) behaves according to the interplay between an "inner law

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of growth and survival" and "a complex hostile-friendly external environment of other organisms" (p. 6). He further argued that economics should develop a life cycle theory which was cognizant of disequilibrium and "the irreversible processes of (decline) and entropy" (p. 37). Indeed, Boulding contended that for all organisms ("individuals, families, firms, nations, and civilizations") there is an "inexorable and irreversible movement towards the equilibrium of death" (p. 38).

This position prompted a strong rebuttal from an early organizational theorist, Edith Penrose (1952). She asserted that "the data" simply do not support organizational analogies either to the natural selection process or to biological life cycles. She maintained that there was no evidence to support the claim that all organizations must die or that life cycle stages are a function of age. Penrose argued that the literal adoption of the biological analogies by social scientists "suggest[s] explanations of events that do not depend upon the conscious willed decisions of human beings" (p. 808). Further, she argued that the search for general laws predetermining individuals' choices missed the mark, because it would "rid the social sciences of the uncertainties and complexities that arise from the apparent 'free will' of man and would endow them with that more reliable power of prediction which for some is the essence of 'science'" (p. 818).

#### Debate over Life Cycle "Stages"

The debate between voluntaristic and deterministic theories of human behavior within organizations is still active today (Van de Ven & Astley 1981), and it is evident in the unresolved question of how literally the life cycles model should be applied to the study of organizations. The central issues in the current writing on this topic are the number of stages in the life cycles model, and the deterministic nature of these stages, including whether movement through the stages is linear or recursive.

One of the major challenges to a serious discussion of these issues is the proliferation of life cycle models. Quinn & Cameron (1983) and Cameron & Whetten (1983) have published reviews of close to 30 life cycle models from the group development and organizational development literatures. The resulting summary model contains four stages: entrepreneurial (early innovation, niche formation, high creativity), collectivity (high cohesion, commitment), formalization and control (emphasis on stability and institutionalization), and elaboration and structure (domain expansion and decentralization).

The most distinctive feature of this summary model is that it covers only the "growth stages," roughly from birth through maturity. This highlights the lack of attention devoted to the stages of decline and death in these literatures, particularly during the growth oriented decades of the 1960s and 1970s (Whetten 1980a). However, it also simplifies the debate over the deterministic nature of OLC stages. Several contemporary authors (e.g. Filley & Aidag 1980, Freeman 1982, Starbuck 1968, Tichy 1980) echo the conviction of Edith Penrose that organizational changes cannot be predicted in advance and that current organizational characteristics do not necessarily foretell future characteristics. Still, a review of this literature by McEvoy (1984) indicates there is considerably more consensus about sequential movement through these early stages of development than through the later stages of decline and death.

Part of the reason for disagreement over this issue is the different interpretations of "stages of development" in the literature. Those who choose a fairly narrow definition, analogous to biological development, are most opposed to its application to social systems. These authors object to the deterministic logic reflected in organizational life cycle models which is based on a dialectical view of problem solving (e.g. Greiner 1972). They also feel that the summary models of stage development, containing three to five stages, are overly simplistic and therefore of little predictive value (beyond denoting gross developmental processes

approximating common sense views of youth, adolescence, maturity, and old age).

A less controversial view suggests that these "stages" are simply clusters of issues or problems that social systems must resolve, and that the inherent nature of these problems suggests a roughly sequential ordering (Miller & Friesen 1980, Cameron & Whetten 1983, Tushman & Romanelli 1985). That is, problem B logically follows problem A in the evolution of a typical organization. In addition, it is argued that these problem sets should be specified at the level of organizational subsystems (e.g., management, technology, structure) to avoid the implication that all facets of an organization proceed simultaneously, in lock-step fashion, through a small number of organization-level developmental stages. This is especially true of mature organizations in which the subsystems become increasingly loosely coupled. An example of a subsystem evolutionary sequence is the need to solve the problem of poor coordination between several organizational units, or product lines, which logically follows an earlier period of structural expansion.

If we define stages as clusters of subsystem problems or issues that are linked sequentially and embedded within the natural evolutionary processes of organizations, then there is considerable logical, as well as empirical, support for this view of organizational development (Lyden 1975, Kimberly 1979, Quinn & Cameron 1983)—with three important qualifications.

First, critics of social evolution theories have consistently objected to the normative connotation of "more advanced" associated with terms like progression and development (Timasheff 1967). It is, therefore, important to note in the life cycle literature that movement from one stage to the next need not be viewed as progression to a higher, more effective, or more sophisticated level of development.

Second, it is important to distinguish between sequential and nonrecursive development. Linear movement implies one direction only. In the life cycle literature no compelling reason argues that

the problems present at one stage can only be resolved by moving toward the next stage. Research on group stage development has shown that a recycling phenomenon often occurs when groups in their latter stages of development encounter major crises (Cameron & Whetten 1983). A similar phenomenon undoubtedly occurs in organizations. As the result of a merger, a substantial decrease in resources, or the loss of key personnel, a mature institution may appropriately revert to an earlier set of problems.

Third, it is important to differentiate between growth stages, or problems and decline stages. As noted earlier, life cycle stage models to date have emphasized primarily the growth side of the developmental process. There are several possible explanations for this lack of attention to decline processes in the organizational sciences literature (Whetten 1980a). These include: (a) the practical problems of gaining access to collect data in dying organizations; (b) researchers' cultural biases stemming from the association between growth processes and our society's preoccupation with youth, vigor and virility; (c) the fact that social science research on organizations is largely supported by an entrenched establishment in which managers are rewarded primarily for their ability to foster and sustain organizational growth; and (d) the obvious conclusion that not all mature organizations decline and die, which has undoubtedly discouraged some authors from adding additional stages to the standard life cycle model.

This reluctance to concentrate on decline and death stages ignores important findings in the life cycle literature. Research on the effective management of declining organizations has shown that the problems associated with shrinking economic resources and moral support are qualitatively different from problems associated with growth (Cameron, Whetten & Kim 1987, Nyström & Starbuck 1984). This important observation suggests the need to develop a series of problem sets capturing the essence of organizational decline and recovery, or death, which are not causally linked to the birth and growth stages.

Although a coherent, empirically grounded model of organizational decline and death stages has not been proposed thus far, rudimentary bits and pieces are starting to emerge (Whetten & Cameron 1985, Sutton 1983, DeGreene 1982).

In examining this literature, it is important both to understand the largely unresolved controversy over the empirical support for patterned development and to look beyond the debate to examine the theoretical and practical benefits derived from the life cycle stages analogy. The literature has identified four important applications for the analogy (Cameron & Whetten 1983). First, it serves as a very useful diagnostic tool, in the sense that awareness of an organization's current life cycle stage conveys information about problems and experiences probably encountered previously by organizational members. Second, it sensitizes us to the fact that goals, priorities, and even the appropriate criteria of effectiveness shift over the course of an organization's life span. Third, it is an important source of contextual information that must be factored into the analysis of organizational research results. That is, the structural properties and internal processes observed in rapidly growing organizations are very different from those found in declining organizations. Fourth, at a practical level, an understanding of the clusters of problems one is likely to encounter at different stages of organizational development, as well as insights for effectively managing the transitions between stages, represent important aids for organizational leaders.

In reviewing the life cycles literature, it is apparent that in addition to debating these conceptual issues, the discussion of growth and decline processes has focused on two major themes. A number of authors have examined the *causes and consequences* of organizational growth and decline as one way of assessing the extent to which different life cycles stages are qualitatively different. Others have chosen to focus on the *effective management* of the growth and decline processes — arguing that management initiatives influence the incidence and amplitude of the growth and decline cycles, as well as blunt or exacerbate their

natural consequences. We discuss in turn the literature addressing each of these themes.

### **Causes and Consequences of Growth and Decline Stages**

#### *Causes of Growth*

Organizations grow for a variety of reasons. However, as Pfeffer and Salancik (1978) point out, it is often difficult to assess the true motivations for growth after the fact. That is, one must avoid the pitfall of attempting to extrapolate causes from consequences. Gaining consensus on the reasons for the observed growth in a specific organization can, therefore, be a formidable task. However, three general explanations for organizational growth have been highlighted in the literature (Child & Kieser 1981).

The first and most self-evident explanation is that growth can occur as a by-product of other strategies. As organizations successfully satisfy needs for their services, this success fosters growth.

Second, growth is frequently sought directly because it facilitates the internal management of an organization. Increased surplus resources resulting from growth make it easier to obtain commitment to organizational goals and priorities from various factions and to resolve conflicts between those factions (Pfeffer & Salancik 1978). In addition, growth and expansion increase opportunities for promotion (Dent 1959), provide greater challenge for (and utilization of) managers (Starbuck 1965, Penrose 1959), and satisfy needs for higher salaries and prestige (Roberts 1959).

Third, growth enables an organization to attenuate its dependence on the environment by reducing either uncertainty or external control. Research studies have shown that the performance of larger organizations tends to be more consistent and stable (Caves 1970, Ferguson 1960, Marris & Wood 1971). The likelihood of an organization being either taken over or allowed to go out of business also declines with size (Singh 1971, Steindl 1945). The strategic advantage of large

size stems from a variety of factors. For example, in cases where economies of scale can be achieved in the production process, growth makes the organization more efficient and therefore more competitive. Growth also provides the resources for the diversification that enables an organization to spread its risk across several product lines or even industries. Further, growth supplies large organizations with the resources necessary to fund the development of new projects or to produce and market more economically designs pioneered by smaller firms. Taking all these factors into consideration, Child and Kieser (1981: 32) have concluded that "Growth is therefore [pursued by organizations as] a basis for security."

Before leaving this topic, it is important to point out two basic problems with the measurement of size and growth. First, studies often do not differentiate between the two (Scott 1981). Size is an absolute measure of the scale of an organization, generally based on number of employees or total revenues (Kimberly 1976). In contrast, growth is a relative measure of size, as observed over time. Consequently, it is important that we treat with caution conclusions about the causes or consequences of growth (like those noted above) based on cross-sectional studies of the correlates of size. Research studies on the correlates of large size represent a fertile ground for extrapolating hypotheses for longitudinal studies of the advantages of growth, but there are a variety of reasons why the two approaches might produce different results.

For example, Filley & Aldag (1978) argue that many of the studies correlating size and various measures of success do not control for type of organization (industry, organizational form, or technology); consequently, the correlation between size and outcomes may be spurious. Penrose (1959) also noted several constraints on growth that must be taken into consideration: (a) some types of business are unsuited to large size, such as service organizations; (b) large firms may protect small operations through protective pricing; (c) situations in which easy entry and exit and high mortality rates preclude the achievement of

large size; (d) a large business may ignore certain small businesses who could be driven out of business and thus encourage smallness.

The second problem with the traditional approach to measuring growth is that it typically does not examine what Boulding (1953) calls population growth. Because growth is not randomly distributed across a population of organizations, it is bound to create a differential strategic advantage (or disadvantage), Boulding argues. This line of reasoning anticipated the contemporary population ecology perspective which argues that outcomes or characteristics of population members can be presumed to have strategic value only in reference to others in the population and to the carrying capacity of the ecological niche (Hannan & Freeman 1978, Freeman 1982). This argument demonstrates the need to measure growth of an organization relative to others in its population, if one is interested in assessing the impact of growth on other organizational properties related to survival.

### *Consequences of Growth*

One of the most controversial issues in the literature on the consequences of growth is whether there is an inevitable point of diminishing returns, past which the advantages of growth become less evident until gradually growth becomes disadvantageous. A common and enduring theme in the sociology of organizations literature has been the dysfunctional consequences of large size. Extremely large organizations are perceived by outsiders as too complex, too rigid, too impersonal, too inefficient, and too inaccessible. Consequently, many researchers consider growth beneficial only up to a point (Perrow 1979, Hedberg, Nystrom & Starbuck 1976, Meyer 1977). This view was borne out in Pfeffer & Salancik's (1978) review of this topic in which they found that profitability increased in growing organizations up to a point and then tapered off. Warwick (1975) also observed a steady decline in flexibility and responsiveness due to bureaucratic growth in the U.S. State Department, despite reforms designed to

curb it. This is consistent with Aldrich & Auster's (1986) observation that the rate of innovation diminishes with organizational size.

There are basically three prevailing explanations for these apparent dysfunctional outcomes of large size. First, many point to the diminished capacity for changes, and increased bureaucratic ossification, inherent with the aging process. Because organization age and size are positively correlated, consequences of large size are often confused with advanced age. Inkson, Pugh and Hickson (1970) found that fourteen organizations in England increased their level of bureaucratization over a four-to-five year period, independent of changes in their size. Starbuck (1965) has argued that this process reflects organizational learning, in which organizations learn to cope with their growth by routinizing and formalizing critical communication and coordination activities. The resulting increased efficiencies encourage further bureaucratization, which over time rigidifies more and more of the organization's processes.

Second, several authors have argued that the loss of responsiveness associated with increased size is the result of the substitution of the personal, self-centered goals of key leaders for the original organizational goals emphasizing service and quality. This argument is exemplified by Michels' (1962) "iron law of oligarchy," which grew out of his investigation of the shift towards more conservative goals in the German Socialist party, in response to its leaders' desire for greater security. A related leader-driven bureaucratization process was proposed by Weber (1947) in his discussion of the "routinization of charisma" process. He argued that as organizations founded by charismatic leaders grew, the founder would institute a system of hierarchical offices as a means of legitimizing his or her power and in order to increase its efficiency and continuity through routinization.

Third, as young organizations mature, their growth often reflects adaptation to the dominant societal institutions. Several studies of the maturation process in reform government organizations have observed a pattern of liberal goals and flexible, open structures transformed by the give-

and-take associations with established opposing groups (Selznick 1949, Lipset 1950, Cahn & Cahn 1964).

Fourth, undermanning theory suggests that mature, large organizations tend to become less motivating environments for employees because jobs become highly specialized and so provide less autonomy, variety, and task identity (Wicker et al. 1976).

Although this "curvilinear benefits of growth" viewpoint pervades the field, others have argued that the relation between growth and effectiveness is moderated by other organizational factors. For example, organizations with routine technologies can capitalize on growth to increase their economies of scale, but rapid growth in nonroutine job shops creates debilitating coordination problems (Fillee & Aldag 1980). Zald and Ash (1966) have made a similar argument for the impact of organizational goals, or domain. Contrary to the prevailing view that growth inevitably leads to increased conservatism in organizations, they argued that social-movement organizations with exclusive membership rules and a remote chance of reaching their goals in the near future will likely adopt very radical organizing processes. Others have also argued that growth produces the serious dysfunctional consequences, connoted by "bureaucracy," only in organizations that are poorly managed. In other words, it is not growth per se that causes the problems, but rather poor management (Child & Kieser 1981).

Up to this point, we have examined the consequences of growth primarily in terms of their strategic implications, that is, whether growth increases or decreases an organization's chances of survival. Another segment of this literature focuses on the consequences of growth on internal organizational processes—without reference to their strategic implications. This area has its own controversies, focusing primarily on the causal relationships between size, technology, and structure (Aldrich 1972). However, Child and Kieser identify several commonalities in the literature on the effect of organization growth on structure. These include: "a rising level of internal differentiation

into specialized roles, functions, and divisions; a growing complexity in terms of occupations and skills employed; increased delegation and an emphasis on solving problems through direct, lateral communications rather than hierarchical communications; an increasing use of formal systems and procedures; and a rising proportion of employees concerned with administrative and staff functions" (1981: 38). They also observed three general changes in organizational technology associated with organizational growth: a shift to mass production of goods and services, the increased utilization of knowledge technology (e.g. computers), and the application of new specialist techniques (1981: 42).

### *Consequences of Decline*

Several authors writing on the topic of life cycles have argued that more attention needs to be given to the nongrowth periods of organizational development and evolution (Whetten 1980a, Greenhalgh 1983, Zammuto & Cameron 1985). In response, an extensive literature on the management of decline has emerged within business administration (Starbuck et al. 1978, Taber et al. 1978), as well as in the related fields of public administration (Levine 1978, Biller 1980), hospital administration (Jick & Murray 1982) and educational administration (Petrie & Alpert 1983, Cyert 1978, Berger, 1983).

Unfortunately, there is little agreement in this literature on the definition of organizational decline. Authors typically focus on decreases in the number of employees or financial resources. However, some combinations of organizational size, performance, and resource levels are extremely difficult to categorize. For example, if a professional football team's win-loss record drops, but its revenues increase (possibly due to the employment of a star quarterback with broad fan appeal), is the organization declining? And what about a liberal arts college that reduces its enrollment, culls its course offerings, and fires several of its faculty, all in the process of becoming a more prestigious and higher-priced institution?

Or a drug rehabilitation center whose clientele (and staff) increases while its cure rate drops? The resolution of these issues is beyond the scope of this review. The interested reader is referred to Cameron et al. (1987). For our immediate purposes, we will use the common definition of decrease in profit or budget.

Thus far, little empirical research has investigated the individual and organizational consequences of decline. Writers have limited their discussions largely to case studies, theoretical treatises, model development, or demographic trend analyses (Zammuto & Cameron 1985, Jick & Murray 1982, Whetten 1980b, Hirschhorn 1983). With the exception of the research on the impact of retrenchment on administrative ratios (Freeman & Hannan 1975, Ford 1980) relatively little empirical research has examined the antecedents or consequences of decline in organizations. There is virtual consensus in the literature, however, that decline produces dysfunctional consequences at both individual and organizational levels. It is argued that conflict, secrecy, rigidity, centralization, formalization, scapegoating, and conservatism increase, and that morale, innovativeness, participation, leader influence, and long-term planning decrease (Cameron et al. 1987). The logic of these dysfunctional "outcomes of decline" is explained as follows.

Conditions of decline inherently involve restricted resources and pressures to retrench. Levine (1978, 1979), Whetten (1980b), Hermann (1963), and others have noted the intensification of conflict under these conditions as fights over a smaller resource base and consequent attempts to protect turf predominate. Pluralism, or the development of organized and vocal special interest groups, increases as organizations become politicized (Pfeffer & Salancik 1978, Pfeffer 1981a, Whetten 1981). Morale worsens as a "mean mood" becomes wide-spread (Bozeman & Slusher 1979, Levine et al. 1981, Starbuck et al. 1978). Attempts to ameliorate conflict and increase morale often involve the use of slack resources to meet operational needs, hence slack and redundancy (and, therefore, flexibility) are eliminated. Managers

generally prefer across-the-board cutbacks, rather than selective, prioritized cuts, to appease conflicting demands and minimize the political fallout of retrenchment (Whetten 1980b, Cyert 1978, Boulding 1975).

Authors also have suggested that conservatism and short-term orientation result from decline (i.e. the threat-rigidity response), and efficiency takes priority over effectiveness (Staw et al. 1981, Cameron 1983, Whetten 1981, Rubin 1979, Bozeman & Slusher 1979). Innovation is more likely to be blamed for decline than seen as a solution to it. As a result, risk taking and creativity decrease (Boyd 1979, Starbuck & Hedberg 1977). Centralization of decision-making increases because mistakes become more visible and costly when resources are scarce, and decisions are pushed up the hierarchy. Participation consequently decreases. Centralization restricts communication channels and increases the likelihood that leaders will be scapegoated by frustrated organizational members who feel uninformed. Leader credibility suffers, and this often leads to high rates of leader turnover and "leadership anemia" (Whetten 1981, Hermann 1963, Greenhalgh & Rosenblatt 1984, Levine 1979).

In sum, despite the lack of extensive empirical verification, general consensus exists in the literature that declining organizations are characterized by a wide range of dysfunctional organizational processes. These outcomes of decline erode organizational effectiveness and undermine member satisfaction and commitment. The management of decline is characterized, therefore, as both difficult operationally and hazardous politically.

This is not to say that decline cannot stimulate organizational renewal through increased productivity, prioritization of organization commitments, and renewed personal dedication. Indeed, a sizable literature has emerged during the past decade codifying the procedures for turning around declining organizations (Hofer 1980, Schendel et al. 1976, Bibeault 1982), and several authors have argued that the key stimulant for major change and innovation in mature organizations is the shock of failure in the marketplace

(Nystrom & Starbuck 1984). However, it is evident from this literature that, as its name implies, turnaround management involves taking an organization that has been buffeted by the vagaries of diminished resources and setting it upon a new course. With rare exception, organizations are turned around only after the internal organizational and personal consequences of decline are so pervasive and severe that a consensus on the need for drastic action has grudgingly emerged.

Research on the consequences of organizational decline and death suggests an important linkage between the organizational life cycles and population ecology literatures. To date research on micro (organizational) processes has not linked very well with that on macro (population) birth and death rates. Multilevel studies of organizational morbidity would enable us to examine in fine-grained detail the causes of changes in the size and composition of populations of organizations, as well as the aggregate impact of individual organizational processes. They would also allow us to examine important public policy issues, such as: How can the components of defunct organizations be used most efficiently to stimulate the generation of new organizations?

### *Causes of Decline*

In considering the causes of decline, one must keep in mind the distinction between environmental and organizational decline. The model of decline proposed by Zammuto & Cameron (1985) highlights the two major forms of environmental decline: (a) decrease in a niche's carrying capacity for current activities and (b) a qualitative shift within a niche to support new activities. From a population ecology perspective, these environmental decline conditions will precipitate organizational decline among members of a population who are unable to compete successfully for a shrinking resource base in condition (a), or who fail to shift into new activities supported under condition (b) (Hannan & Freeman 1984).

This leaves open the question of why some organizations fail to adapt to these shifting environmental conditions, while others hold their own

or even flourish. Obviously, we must look at the management practices within organizations to understand fully the causes of organizational decline. Information about environmental conditions is, therefore, necessary but not sufficient for understanding the causes of organizational decline.

The literature on the internal causes of organizational decline tends to focus on two themes. First, Starbuck and his associates (Starbuck & Hedberg 1977, Nystrom & Starbuck 1984) have examined numerous cases of organizational decline within the American and European business community to try to better understand the organizational decline process. They coined the phrase "success breeds failure" to explain a frequently observed pattern of decline. Their argument is that very successful organizations often become over-confident of their ability to dominate a market. This over-confidence is manifest in a reduction in both product development and emphasis on quality, insensitivity to negative feedback from customers, failure to monitor trends in basic research and product innovation, and discounting of the seriousness of short-term drops in sales. In essence, these organizations do a poor job of anticipating problems, or even of responding to them in their nascent stage. Instead, they wait until erosion of their competitive position has reached a crisis level, and then they tend to over-react with draconian actions to save a product or, in some cases, the entire company.

This argument goes further. The tendency to discount pressing environmental problems is not the result of all forms of growth ("success"). Rather it is the natural outcome of earlier spectacular and continuous growth. That is, this dysfunctional over-confident mind-set is brought on by the absence of any disconfirming evidence. In a sense, it is a form of the Midas Touch problem, in that senior officials become convinced that any task they set their mind to will turn to gold, and this egotistical view is reinforced by their very impressive track record.

The second explanation for organizational decline focuses on organizations with a very different growth pattern. These are mature institutions who have maintained a steady, though gen-

erally modest, growth rate. However, in the process they have fallen prey to the liabilities of large size and complexity discussed in an earlier section. They have become so cumbersome and rule-bound that they are unable to respond quickly to changing environmental conditions. Furthermore, a feeling of complacency pervades the organization. This condition has been referred to as decline-as-stagnation (Whetten 1980b). In contrast to the mercurial rise and precipitous fall of the decline-as-crisis organizations described by Starbuck, most members of these latter organizations are unaware of the slight changes in growth or decline. Whereas the bottom seems to fall out of the first organization's growth, the second organization slides almost imperceptibly into trouble. An example of this form of gradual erosion is a large state university whose annual increases in operating expenses from the legislature do not keep pace with inflation. In this situation it generally takes several years to detect a significant impact on organizational performance, and even in those cases where an astute administration points to the problem early on, they have difficulty generating a mandate for change.

## Effective Management of Growth and Decline

### *Organizational Growth*

Thus far we have determined that authors in this field generally agree that members of organizations view growth as a desirable objective to pursue; there is considerably less agreement on the merits of growth once it is achieved. This discussion of motives and consequences still leaves open the question of means, that is, "How do organizations grow effectively?" In this section we review the most common growth mechanisms, or means, used by organizations. The larger question of how managers can mitigate the organizational and personal dysfunctional consequences of growth (or large size) is beyond the scope of this review. Access to this extensive literature can be gained through the articles proposing life cycle models summarized in Quinn and Cameron (1983), or through DeGreene (1982), Miller and

Friesen (1983, 1980), Tushman and Romanelli (1985), or Child and Kieser (1981).

There are at least four distinct vehicles for organizational growth—two strategic and two operational (suggested by Child & Kieser 1981).

The first is growth in an organization's existing domain. The trend towards greater concentration in most industries suggests that many organizations strive for monopoly within their field of activity. This can be done either through competitive or noncompetitive strategies (Pennings 1981). The latter include contracting, co-opting, and coalescing (forming joint partnerships) (Thompson 1967).

Second is growth through diversification into new domains. Diversification is a well-known strategy for spreading risk in business organizations, or for increasing legitimacy (political support) among government organizations (Peabody & Rourke 1965). Aggressive diversification has been particularly characteristic of big businesses and appears in a variety of forms, including development of new products and services, vertical integration, concentric diversification, and conglomerate diversification (Ansoff 1965, Rumelt 1974, Wood 1971).

Third is growth through technological development. The history of organizational development since the industrial revolution has to a large extent been one of adaptation to technological progress. This has resulted in a substantial increase in average firm size (Child & Kieser 1981). The trend is evident in both business and non-business organizations (Perrow 1965), although the causal direction between increases in size and changes in technology is sometimes difficult to determine (Mansfield 1968).

Fourth is growth through improved managerial techniques. As we noted earlier, one of the early explanations for organizational growth was that it served as a means for utilizing excess managerial talent (Penrose 1952). It follows that increases in the efficiency of the management process would provide the impetus for further growth. Again, it is often hard to separate cause from effect, but there are strong position statements in

the literature arguing that improved management fosters organizational development (Hedberg et al. 1976, Weick 1977, Staw 1977, Porter 1980, Tushman & Romanelli 1985).

### *Organizational Decline*

Because the literature on the effective management of decline is less well formed than the comparable literature for organizational growth, we review it in more detail. In reviewing the material on this subject, the distinction in the biological ecology literature between r-extinction and k-extinction is a useful organizing device (Wilson 1980). A key concept in the ecology literature is that ecological niches have an inherent carrying capacity. The upper limit "K" represents the maximum population size that can be supported by the resource base in that niche. Organizations that decline short of this upper limit are generally victims of poor management (r-extinction). Their failure to remain competitive is self-induced. In contrast, organizations that decline at the zenith of the carrying capacity curve are victims of a depleted resource pool (k-extinction). They are having problems coping, but so are most other members of the population. In today's economy, the death of a software manufacturing firm would generally represent a case of r-extinction, whereas the failure of a coal mine would represent k-extinction.

The literature on the management of decline typically addresses one of these two conditions. The extensive treatment of turnaround management typically focuses on the problems of r-decline (Hofer 1980). A single organization has made a serious strategic miscalculation and needs to remedy the situation. One of the early studies on this topic distinguished operational from strategic responses to decline (Schendel et al. 1976). These authors found that a common mistake made by businesses is that they respond to strategic (effectiveness) problems with operational (efficiency) remedies. Recent research has underscored the importance of this distinction. Hambrick & Schecter (1983) identified three successful turnaround

strategies among a sample of approximately 260 businesses experiencing declines: asset/cost surgery, selective product/market pruning, and piecemeal strategy. All three strategies were used widely in this sample, depending primarily on the business' level of production capacity utilization.

Based on his extensive practical experience with turnaround management, Bibeault (1982) identified a four-stage process: management change, evaluation, emergency actions, and stabilization and return-to-normal growth. This model explicitly argues that successful turnaround strategies can only be implemented by new management. This has been a fairly controversial subject in the literature (Whetten 1984, Starbuck & Hedberg 1977), but the general consensus is that when the cause of an organization's problems is widely attributed to current management, both external and internal support for a turnaround strategy is contingent on a change in top personnel. In other words, problem causers have little credibility as problem solvers (Pfeffer & Blake-Davis 1986, Salancik & Meindl 1984).

The symbolic value of a change in management is emphasized in Chaffee's (1984) work on strategic management in universities and colleges. She distinguishes between the traditional view of strategic management (which she refers to as adaptive) and an interpretive approach. The adaptive strategy for turning around an organization focuses on taking substantive action to reconcile inconsistencies and imbalances between organizational components and environmental conditions. The interpretive approach focuses on the management of meaning and underscores the value of symbolism. While the specific actions may be similar under both approaches, the emphasis of the interpretive approach is on anticipating the ways in which planned actions will be interpreted by critical constituencies (see also Pfeffer 1981b).

Zammuto & Cameron (1985) have used a different approach in analyzing turnaround strategies. Building on a typology of business strategies proposed by Miles & Cameron, they clustered successful turnaround efforts into five categories.

Domain defense is oriented towards preserving the legitimacy of the existing domain of activities and buffering the organization from hostile environmental conditions, possibly through the formation of coalitions with similar organizations. Domain offense focuses on expanding those activities that the organization already does well. Domain creation supplements current domain activities with new domains, primarily through diversification. Domain consolidation involves reducing the size of the domain occupied by the organization, by cutting back to the core products or services. Domain substitution involves replacing one set of activities with another; such a substitution occurred when the March of Dimes shifted its orientation from polio to birth defects.

In contrast, the work on managing organizations in declining industries (k-decline) focuses on a different set of issues. The principal theme in this literature is selecting the appropriate response to the dwindling resource base available to the population (Harrigan 1980, Porter 1980). The options typically include: taking a leadership position in terms of gaining a larger share of the dwindling market, creating a specific niche in which the organization can exploit a unique competitive advantage, "harvesting" the organization by managing a controlled divestiture, and exiting quickly through immediate liquidation. In considering these choices, firms must confront several "barriers to exit." There are financial, legal, structural, emotional, and informational obstacles to selling a firm and leaving the industry (Harrigan 1982, Porter 1976).

The literature on managing population decline has stimulated considerable interest in the divestment process in large corporations. Studies have focused on the deterrents to divestiture (Harrigan 1981), factors influencing the divestment decision (Duhaime & Grant 1984), and methods for increasing cooperation between the corporate headquarters and the divesting operation (Nees 1981).

There are two bodies of literature on the management of decline that cross-cut the distinctions between r and k decline. These focus on the effec-

tive management of retrenchment (down-sizing), and, when necessary, of organizational death.

*Organizational Retrenchment.* The retrenchment literature has primarily dealt with the internal management of decline, rather than with strategic responses to it. It is not surprising that this literature is concentrated in the areas of public, health care, and educational administration. In these contexts the recommendations for turning-around an organization or exiting a domain are generally inappropriate. The administration of a school district with shrinking enrollments can do little to turn that situation around, and many underfunded government agencies cannot ignore their legislative mandate and close their doors. Consequently, the only option left in these situations is to manage the downsizing process effectively.

The recommendations in this literature for managing retrenchment effectively can be grouped into roughly three sequential stages (Whetten 1984, Whetten & Cameron 1985). First, it is proposed that management should strive for "early warning and detection" of the impending problem. Effective anticipation of an emerging budget problem can often allow administrators to conserve resources and thereby blunt the impact of the cuts (Levine 1979). Once the problem has been identified, it is important for management to report an accurate and credible account of the causes of the problem and to seek out the experience of others who have encountered similar problems (Behn 1980). It is also critical for the administration to demonstrate their willingness to come to grips with the problems early on, to avoid the appearance of lack of moral conviction or political courage (Warren 1984).

The second stage involves "seizing the initiative." Once the need for change is clear, leaders are urged to convey a clear message that the organization is capable of handling the crisis (Behn 1980). This helps dispel the confidence-shaking attribution, typical of these situations, that the organization is being buffeted by its environment and has no control over its destiny (Salancik &

Meindl 1984, Levine 1978). One way to convey this message is to open up the communication and decision-making processes (Gilmore & Hirschhorn 1983). Crises create uncertainty, and uncertainty is reduced by information. Managers are also encouraged to promote critical thinking within the organization regarding alternative courses of action (Warren 1984, Perry 1986). At a time when the normal reaction is to become very conservative and essentially opt for doing less of the same, opportunities for revitalizing and overhauling old organizations are often overlooked (Biller 1980, Whetten 1981). A key element in this process is encouraging the high-quality members of the organization to remain. The best way to do this seems to be through co-opting them into key leadership positions (formal or informal) and assuring them that quality will not be compromised during the retrenchment process (Behn 1980). Another aspect of seizing the initiative is creating, and then focusing attention on, a clear vision of the future opportunities within the organization (Cyert 1978). Shifting the attention of members from survival to excellence is a key to circumventing the tendency to mourn one's losses (Sutton et al. 1986, Walton 1986).

The final stage in the retrenchment process involves effectively "implementing the downsizing program." It is argued that a key aspect of any retrenchment process is creating incentives for reducing or redirecting organizational activities. The tendency to become defensive and suspicious must be countered by overarching goals, personal incentives to cooperate, and social mechanisms for integrating "winners and losers" (Krantz 1985, Biller 1980). It is also important during this period to establish mechanisms for helping members cope with their insecurity, stress and anxiety (Gilmore & Hirschhorn 1983, Greenhalgh & Rosenblatt 1984, Brockner et al. 1985). A key element in effective retrenchment management appears to be preserving some organizational slack for stimulating ongoing innovation (Behn 1980, Cyert 1978). Innovation is the life blood of most organizations and the source of considerable personal

satisfaction and pride. It must, therefore, be sustained during periods of retrenchment (Greenhalgh et al. 1986).

*Organizational Death.* Probably the most understudied aspect of the growth and decline process in organizations is organizational death. Although the prediction of bankruptcy is a popular topic in the business finance (Altman et al. 1977, Argenti 1976) and business strategy fields (Miller 1977, Sharma & Mahajan 1980), very little research has examined the behavioral aspects of actually managing the close-out process (Slote 1969, Loving 1979, Mick 1975). However, this void is rapidly being filled (Harris & Sutton 1986, Sutton 1983). One of the most important contributions on this topic thus far has come from the research on employee behaviors during the organizational closing process (Sutton 1983). This work has shown that many of the negative expectations and suspicions held by managers during this time are incorrect. For example, managers typically believe that once a plant closing has been announced, productivity and quality will plummet, employee sabotage and stealing will increase, the best employees will leave, rumors will abound, anger toward management will become the dominant emotion, conflict will increase, and employees will have difficulty accepting the fact that the closing is going to occur. Sutton reports evidence that some of these anticipated reactions never occur and that others occur only under special circumstances (see also Nees 1981).

Sutton's (1983) work has also examined the dilemmas and paradoxes encountered by management during the closing process. These include accepting blame versus deflecting it to external causes; disbanding the organization while at the same time needing to sustain high morale and productivity; informing openly and broadly versus shielding interested parties from all but the most essential information; and finally, giving hope versus taking it away. These issues effectively portray the complex challenges facing managers of closing facilities. Fortunately, research

on strategies for effectively managing the disengagement process should provide significant aids for these managers. Promising disengagement mechanisms include shared symbolic events, such as "parting ceremonies" (Harris & Sutton 1986, Albert 1984), and the establishment of inter-organizational social support and outplacement programs (Taber et al. 1979).

A slightly different perspective on the task of closing down an organization is provided in the program termination literature in public administration (Behn 1980, Kaufman 1976). It offers several suggestions for accomplishing the seemingly impossible task of terminating a public policy or program. These include the following. Don't float a trial balloon and give your opposition a chance to muster support against your proposal—act quickly and decisively. Enlarge the policy or program's constituency to incorporate interest groups supporting your position. Focus attention on the policy's harm. Inhibit the natural tendency to compromise with opponents. Recruit an outside administrator/terminator. Buy off the beneficiaries of the current program to reduce their opposition. Advocate the adoption of a new (replacement) program, rather than the abolition of the current one.

There is an important distinction between the close-out literature that has emerged in the private and public sectors. The public administration recommendations tend to focus on the termination decision-making process, specifically, how to achieve consensus for your position, or at least how to minimize opposition to your stated objectives. In contrast, research done on the close-out process in the private sector has tended to focus on the effective implementation of the decision. That is, how to minimize the costs, in terms of human capital, of your decision to close a facility.

One of the more promising new topics for study related to organizational death is employee buy-outs (O'Toole 1979, Hochner & Granrose 1985). This research has thus far examined the effects of employee ownership on employee attitudes (Stern & Hamme 1978) and productivity

(Conte & Tannenbaum 1978), and the requirements for effectively initiating employee ownership (Stern & Hammer 1978, Hoehner & Granrose 1985, Woodworth 1982), including financial support, adequate leadership and management expertise, favorable responses from the parent organization, and union support. Future work in this area should focus on building bridges to the broader streams of research on management succession, organizational innovation, owner control, and management of change.

### Conclusion

The organizational life cycles literature to date has focused primarily on the early development phases of growing organizations. This has spawned considerable controversy over the legitimate use of the life cycle stages concept to characterize evolutionary processes in older, larger organizations. Recent writing on this subject suggests that the concept of stages should be loosely interpreted to mean a set of problems that logically follows an earlier set but is not determined by that set. Furthermore, the application of this problem-tracking approach appears to be most useful at the subsystem level of organizations. It is also evident that more effort needs to be focused on identifying the sets of problems unique to organizational decline and death.

The research on the causes and consequences of growth and decline processes in organizations has focused on the role of environmental, structural, and individual factors. Indeed, the distinction between internal and external causes has been particularly problematic in the decline literature. In general, our knowledge of the antecedents and outcomes of growth far surpasses our understanding of organizational decline. Important breakthroughs in this area await the development of comprehensive models and concrete operationalizations of key terms.

The literature on the management of growth and decline is the least well developed. Here again, our knowledge about the effective management of growth far surpasses what we know about re-

trenchment or downsizing. Due to the lack of large-scale research on this subject, prescriptions for managers are largely based on sketchy, anecdotal evidence. This is an especially promising area for future research.

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