



Successful Organizational Development and Growing Pains

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Abstract

This article reviews a framework for understanding and managing the process of “successful organizational development” in business enterprises. It also summarizes recent empirical research designed to test the framework. Finally, it examines some of the implications for practising managers and leaders.

As used here, “organizational development” refers to the process of developing the set of “organizational capabilities” or “form” required by an enterprise as it increases in size and complexity. If done well a business enterprise will thrive and prosper. If done inadequately, the organization will suffer.

In order to develop successfully, an organization needs a model of what is required to be built. Flamholtz (1986; 1995) has developed a model for organizational growth, which identifies the key “building blocks of successful organizations.” In this growth model, organizational “form” or structure consists of six key components or “building blocks”: markets selected, products (including services), resources to support growth, operational systems, management systems, and culture. Under this growth model, the challenge of building an organization is to create the appropriate combination of these six key variables or building blocks for the stage of growth an organization is currently in.

This paper presents a specific organizational life cycle model (Flamholtz, 1986; 1995) that can be used to identify (measure) the point at which specific transitions in the development of an enterprise should occur. The paper uses this model in conjunction with an organizational effectiveness or success model (Flamholtz, 1986; 1995) that has been and is being empirically tested (Flamholtz, 2003) to indicate what needs to be done for successful organizational development as well as what happens when organizational development is unsuccessful (i.e., “growing pains”).

Flamholtz *et. al.* have conducted a program of research designed to test this model. Their research has provided empirical support for the proposed six variable model (Flamholtz and Aksehirlı, 2000; Flamholtz, 2001; Flamholtz and Hua, 2002A; Flamholtz and Hua, 2002B; Flamholtz and Kurland, 2005).

Key Words: Growth, Organizational development, Growing pains, Organizational life cycle

Introduction

Practising managers are faced with the problem of building and sustaining successful business organizations. This is an extraordinarily complex process, and requires the ability to make adjustments based upon changes in the market (customer tastes and preferences), competition, technology and trends as well as changes in the size and complexity of the organizations

themselves in response to prior growth.

One critical aspect of organizational development concerns the problems which emerge as a result of “suboptimal” organizational development. These problems have been termed “growing pains” (Flamholtz and Randle, 2007). These growing pains are symptoms that something has gone wrong in the growth and development of a business enterprise. They are symptoms of organizational distress, and an early warning or leading indicator of future organizational difficulties, including financial difficulties.

This paper reviews a framework for understanding, measuring, and managing the process of “successful organizational development” in business enterprises. It also summarizes recent empirical research designed to test the framework. Finally, it examines some of the implications for practising managers and leaders.

The Continuous Challenge of Organizational Development

As used here, “organizational development” refers to the process of developing the set of “organizational capabilities” or “form” required by an enterprise as it increases in size and complexity. If done well a business enterprise will thrive and prosper. If done inadequately, the organization will suffer. In fact, organizations can literally “choke” on their own growth, when they have not developed the internal capabilities to support it (Flamholtz and Randle, 1987). The challenge of organizational development is continuous rather than a one-off task. Life cycle models (Greiner, 1972; Adizes, 1979; Quinn and Cameron, 1983; Churchill and Lewis, 1983; Flamholtz and Randle, 2007) suggest that there are definable states in the growth of enterprises from birth to expansion to maturity and ultimate decline. Each stage of growth after successful “birth” occurs at a specific point in an organization’s life and brings with it a predictable set of organizational development issues that must be successfully dealt with, if the organization is to effectively move on to the next stage.

Accordingly, we define “organizational development” in economic enterprises as “the extent to which an organization’s design (systems, processes, and structures) fits with its stage of growth/development.” When an organization’s design (internal capabilities) effectively supports the challenges it faces at a given stage of growth/development, the organization is said to have “developed” effectively. When the organization has failed to develop and implement the systems, structures, processes (or “infrastructure”) needed to support its stage of growth/development, it has not “developed” effectively, and, as a result, it will experience difficulties and might even be in jeopardy of failing.

Model for Organizational Development

In order to develop successfully, an organization needs a model of what is required to be built. Flamholtz (1986; 1995) has developed a model for organizational growth, which identifies the key “building blocks of successful organizations.” In this growth model, organizational “form” or structure consists of six key components or “building blocks”: markets selected, products (including services), resources to support growth, operational systems, management systems, and culture. The first two of these variables relate to the particular business the organization is in, while the last four comprise what might be termed “organizational infrastructure.”

Under this growth model, the challenge of building an organization is to create the appropriate combination of these six key variables or building blocks for the stage of growth an organization is currently in. If the organization is able to achieve the necessary design and changes in structure, systems, and management focus before it reaches a particular stage (as indicated by its size), it will not experience problems or problems will be minimized. However, this happens very seldom.

The lack of “fit” between size and organizational design leads to problems, which Flamholtz

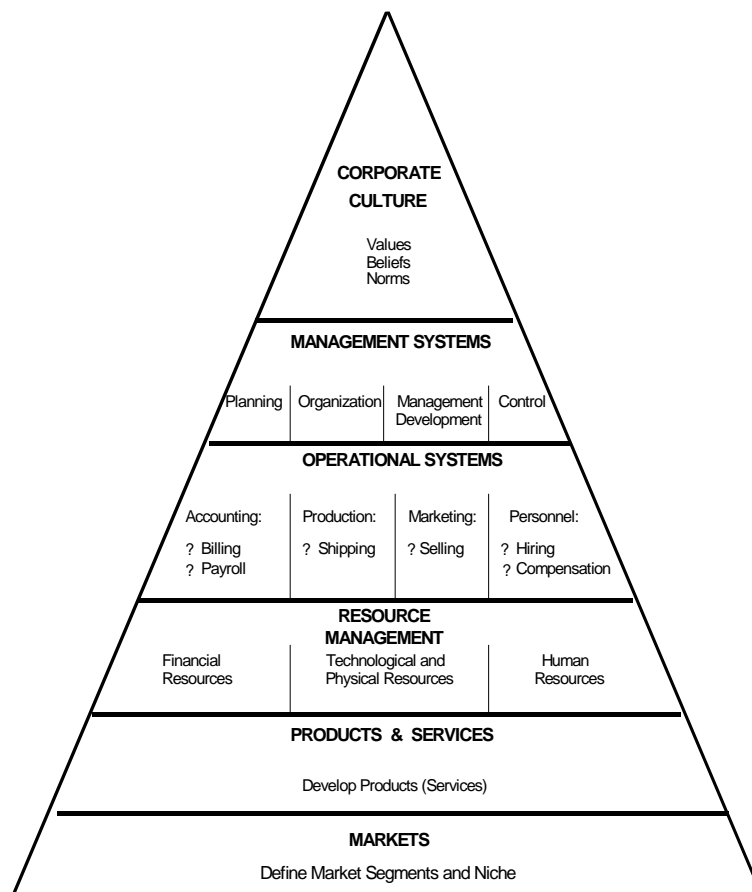
(1986; 1995) refers to as “Organizational Growing Pains.” These growing pains indicate that change is needed if the organization is to continue operating effectively and thus reduce the likelihood of failure. They are also an indication of a lack of successful organizational development. If, for example, a company does not focus on developing the systems needed to support its operations at \$10 to \$100 million in annual revenues, it will in essence still be operating as a birth stage organization even though its size (and growth) is consistent with the growth stage. This will place it at risk of failure (Flamholtz, 1986; Flamholtz and Randle, 1987). Life cycle theorists, then, suggest that success depends on the ability of managers to recognize and make the necessary changes in organizational form at the appropriate time (Flamholtz and Randle, 2007): Operationally, the problem is to create the appropriate design for the organization, given its stage of growth. In other words, successful organizational development depends, to a great extent, on the organization’s ability to create the internal systems, structure, processes, and design needed to support the size that it has become.

Flamholtz (1986; 1995) embeds these six critical tasks in what he calls a “Pyramid of Organizational Development” (shown in Exhibit 1), suggesting that these tasks must be performed in a stepwise fashion in order to build a successful organization. In fact, Flamholtz suggests that the six key tasks making up the pyramid must all be developed individually and as a system, for the organization to function effectively and increase its chance of long-term success.

Empirical Research Support for this Model

During the past several years, Flamholtz *et. al.* have conducted a program of research designed

Exhibit 1: The Pyramid of Organizational Development



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to test this model. Their research has provided empirical support for the proposed six variable model (Flamholtz and Aksehirli, 2000; Flamholtz, 2001; Flamholtz and Hua, 2002A; Flamholtz and Hua, 2002B; Flamholtz and Kurland, 2005). The emphasis that should be given to each task differs depending upon the size of the organization – that is, the stage of growth. The stages of growth and their related critical development areas, as well as the approximate size (measured in millions of dollars of sales revenues) at which an organization can be expected or should scale-up to the next stage is shown in Exhibit 2.

Exhibit 2

Growth Stage	Critical Development Areas	Approximate Organizational Size (\$ in Millions of Sales)
I. New Venture	Markets and Products	Less than \$1 million
II. Expansion	Resources and Operational Systems	\$1 to \$10 million
III. Professionalization	Management Systems	\$10 to \$100 million
IV. Consolidation	Corporate Culture	\$100 to \$500 million
V. Diversification	Markets and Products	\$500 million to \$1 billion
VI. Integration	Resources, Operational Systems, Management Systems, Culture	\$1 billion +
VII. Decline	All Six Tasks	Any size organization

Long-term success depends on the extent to which the organization’s design (defined in terms of these six critical success factors) “fits” with its size. In other words, successful scale-up depends on the extent to which the organization has developed a design consistent with its size. When an organization has not effectively developed the systems, structures, and processes needed to support its size, it will begin to experience what Flamholtz (1986; 1995) calls “growing pains.” Growing pains are symptoms that the organization has not yet made the successful transition (defined in terms of having the appropriate organizational design) to its current stage of development (defined in terms of revenue). In brief, Growing Pains indicate that the organization has not successfully scaled up and that it is in need of doing so.

Flamholtz (1986; 1995) has identified ten common organizational Growing Pains:

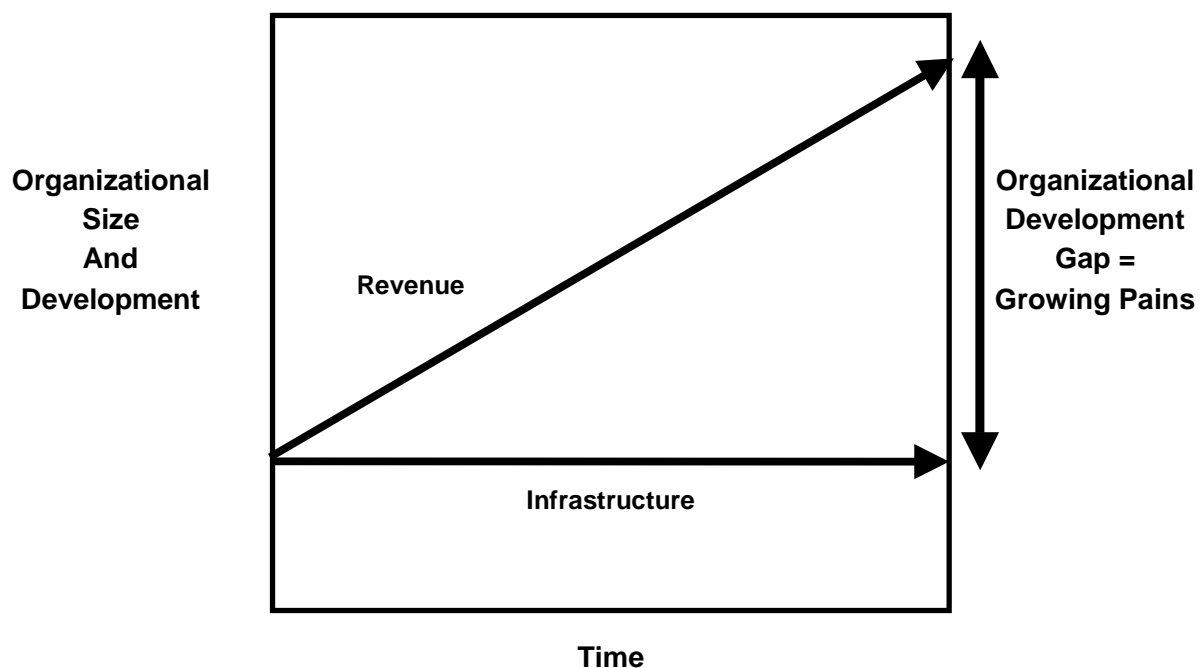
- People feel that “there are not enough hours in the day.”
- People are spending too much time “putting out fires.”
- People are not aware of what others are doing.
- People lack an understanding about where the firm is headed.
- There are too few good managers.
- People feel that, “I have to do it myself if I want it done correctly.”
- Most people feel that meetings are a waste of time.
- When plans are made, there is very little follow-up, so things just don’t get done.
- Some people have begun to feel insecure about their place in the firm.
- The firm has continued to grow in sales, but not in profits.

Nature and Causes of Organizational Growing Pains

Growth, though essential to organizations over the long term, creates its own set of problems: the growing pains described above. These growing pains are symptoms that something has gone wrong in the growth and development of a business enterprise. They are a symptom of organizational distress, and an early warning or leading indicator of future organizational difficulties, including financial difficulties.

Growing pains indicate that the “infrastructure” of an enterprise (i.e., the resources, internal operational and management systems and culture it needs at a given stage of growth) has not kept up with its size, as measured by its revenues. Stated differently, it means that scale-up has not been successful. For example, a business with \$200 million (U.S.) in revenues may only have an infrastructure to support the operations of a firm with \$50 million in revenues, or one-fourth its size. This type of situation typically occurs after a period of growth, sometimes quite rapid growth, where the infrastructure has not been changed to adjust to the new size and complexity of the organization. The result, as shown in Exhibit 3 is an “organizational development gap,” (that is, a gap between the organization’s actual infrastructure and that required at its current size or stage of development) which produces the growing pains.

Exhibit 3: Organizational Development Gap



The severity with which an organization experiences these Growing Pains indicates the extent to which it is experiencing problems scaling up (to the next stage of development). When these Growing Pains are extreme, the organization is in jeopardy of failing if it does not take the steps needed to develop the systems, processes, and design needed to take it fully into the next stage of growth (i.e., have a design that “fits” with its size).

Empirical Research to Test the Framework

There is a growing body of empirical evidence which provides support for the proposed theoretical framework. This research is summarized below.

Organizational Development and Financial Performance

Flamholtz and Aksehirli (2000) empirically tested the proposed link between the organizational development model and the financial success of organizations. They analyzed financial and non-financial information relevant to the hypothesized model for

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eight pairs of companies in different industries, and found a statistically significant relationship.

Flamholtz and Hua (2002A) provided additional empirical evidence of the hypothesized link between the organizational development model and financial performance. They reported the results of a test within a single firm, using a set of fifteen relatively comparable divisions, and found a statistically significant relationship. They also identified thresholds of strategic organizational development for profitability of individual companies or operating units.

Flamholtz (2001) provided empirical evidence of the hypothesized link between corporate culture and financial performance. He reported a test of this relationship within a single firm, using a set of 18 comparable divisions. He found a statistically significant relationship between culture and financial performance.

Flamholtz and Kurland (2005) have replicated the study by Flamholtz and Hua (2002A). The prior research was replicated with similar results in an independent research site in a different industry (financial services). Using a set of seven relatively comparable divisions, Flamholtz and Kurland (2005) reported the results of a test within a single firm. They found a statistically significant relationship between the six key variables contained in the pyramid and financial performance. They also found that a statistically significant relationship between the variables that are hypothesized to comprise an organization's infrastructure (the top four variables in the pyramid) and financial performance.¹

Stages of Growth

Randle (1990) provided empirical evidence that the stages of growth occur when predicted in terms of organizational size or revenues. She studied the evolution of the entire personal computer industry from the formation of new ventures until the industry "shakeout," and confirmed that the stages occurred when predicted.

Randle (1990) also provided evidence that firms with "organizational forms" that are adapted to the requirements of their size have a higher probability of success, and *vice versa*.

Growing Pains and Financial Performance

Flamholtz and Hua (2002B) presented an empirical test of the hypothesized relationship between organizational growing pains and financial performance. They found a statistically significant relationship. In addition, they identified evidence that there appear to be threshold levels of growing pains which might be used to predict which organizations are likely to be profitable and versus those that are unlikely to be profitable.

Flamholtz and Kurland (2005) have replicated the study by Flamholtz and Hua (2002B). Their overall results were not statistically significant at the standard 0.05 level but were statistically significant at 0.07². However, regressions of the individual variables

¹ The variables comprising infrastructure include; resources, operational systems, management systems, and culture.

² Adjusted R² was significant at 0.07. The sample size for this study was relatively small (n=6); it was considerably larger in the prior Flamholtz Hua (2002A) study. As a result this relationship requires further investigation.

comprising the infrastructure indicated that there was a statistically significant relationship between the variable resources and growing pains. All of the divisions were experiencing rapid growth. This finding suggests that those which had the greater resources (including people, financial and other resources) were better able to manage their growing pains.

Additional Research Required

Taken together, this empirical research is supportive of the proposed theoretical framework. However, as noted in each of the prior studies (Flamholtz and Aksehirli, 2000; Flamholtz, 2001; Flamholtz and Hua, 2002A; and Flamholtz and Hua, 2002B) there is a need for additional research to replicate and confirm these findings. In addition, as noted above certain hypotheses remain untested.

Implications for Managers

This paper has some significant implications for practising managers, as outlined below. First, it provides a “strategic lens” for viewing the process of developing a successful enterprise. It identifies the key areas that managers should be focusing upon to build an organization (the variables comprising the pyramid of organizational development). It also provides a template for their construction, the step wise form of the pyramid itself. As such it provides an analytic framework for the process of organizational development.

We have used this strategic lens as a template for strategic planning with many companies for more than 25 years. There have been several published case studies describing this application of the pyramid framework (Kurland and Flamholtz, 2005; McGee and Flamholtz, 2005; Nayar and Flamholtz, 2005)

A second implication concerns the sources of competitive advantage. In contrast to the conventional view that products are the key source of competitive advantage, this framework suggests that the true sources of long-term sustainable competitive advantage are found in the organization’s infrastructure, especially in its operational systems, management systems, and culture. This has been supported by empirical research (Flamholtz and Kurland, 2005; Flamholtz and Hua, 2003)

A third implication is that this framework provides an improved version of the so-called “Balanced Score card” (Kaplan, R.S. and Norton, D.P. (1996). Although the balanced scorecard popularized by Kaplan and Norton is widely referenced, the variables contained in the scorecard have not received any empirical support, they are simply proposed, and the user is supposed to accept them as having face validity. The current framework offers an improved alternative to the four factors proposed in the balanced scorecard based upon variables which have received empirical support. In effect, the current research leads to the next generation of the concept of the balance scorecard. The variables of focus in this revised version would be the six variables of the pyramid plus financial results: markets, products, resources, operational systems, management systems, culture, and financial results.

Conclusion

This paper has provided a framework for understanding, measuring, and managing the process of “organizational development” in economic enterprises. “Organizational development” is viewed in terms of the movement from one stage of organizational growth to another over an enterprise’s life cycle, after the stage of “birth” has been successfully completed. Specifically, “organizational development” refers to the process of developing the set of “organizational capabilities” or “form” required by an enterprise as it increases in size and complexity.

We have presented a specific organizational life cycle model (Flamholtz, 1986; 1995) that can be

used to identify (measure) the point at which specific scale-ups to the business enterprise should occur. The paper uses this model in conjunction with an organizational effectiveness or success model (Flamholtz, 1986; 1995) that has been and is being empirically tested (Flamholtz, 2003) to indicate what needs to be done for successful scale-up as well as what happens when scale-up in unsuccessful (i.e., “growing pains”).

Although there are pitfalls, it is possible to manage the process of organizational development successfully. This paper has provided a framework and related research to help make a contribution to this process.

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