

Alfred Chandler

The Enduring Logic of Industrial Success

Major claims:

- Successful firms profit from economies of scale & scope
- Successful firms create management structures
- Successful firms create marketing and distribution organizations
- Successful firms invest in research & development

- Once a firm loses the opportunity to be a first mover, it is difficult to regain competitive advantage

- First mover: Those who first made these large investments

- When you have the competitive advantage, you must use the logic of managerial enterprise to make sure you are on top-----being smart, motivated, organized, concept that you are the best-----understand what you're good at, and specialize in that

Concept List:

- **Economies of scale** (cheaper per unit when you manufacture in larger quantities); economies of scope (by using the same resources you can produce more)
- **Functional divisions, management hierarchy & geographical expansion**
- **First movers**
- **Research & development**
- **Entrepreneurial enterprise**----staying small (why size matters? managerial enterprise can stagnate)
- **Diversification, related & unrelated**
- **Separation of top vs. middle managers**
- **Stock market pressures**

- **Short-term thinking**

Chandler's secondary claims:

- Growth through unrelated diversification is a poor strategy
- Business ownership patterns have diminished the likelihood of many firms' long-term success

Larry Greiner

Evolution and Revolution

Claims:

- Organizational growth is characterized as a series of development phases
- Management practices that work well in one phase bring on a crisis in the next

Concept list:

- **Evolution & Revolution**
- Leadership, Autonomy, Control, Red tape, Crises
- Creativity, Direction, Delegation, Coordination, Collaboration **phases of growth**
- Size, Age, Growth rate industry
- Organizational structure; Management style

Many managers' behaviors are determined by past events and experiences, rather than what lies ahead. They overlook critical development questions, which is what leads the company to bankruptcy

Companies tend to go through phases as they grow. Each phase begins with a period of **evolution**, with steady growth and stability, and ends with a **revolutionary** period of substantial organizational turmoil and change.

A model of how organizations Develop:

When we analyze how companies grow, 5 key dimensions emerge

- 1) **Age of organization:** research shows that the same original organizational practices are not maintained throughout a long life span which demonstrated managerial problems
- 2) **Size of organization:** A company's problems and solutions tend to change when the size of the company increases. Organizations have to adjust to the new problems and find new solutions.
- 3) **Stage of evolution:** Quiet periods of growth, they experience growth without setbacks
- 4) **Stage of revolution:** After a period of evolution comes revolution, the period in growth in a company were top level managers realize that what used to work for smaller size companies, no longer works because of the growth in the company. In each set of revolutionary staged, organizations have to find new practices that will become the bases for the next evolutionary stage.
- 5) **Growth rate of the industry:** the speed at which a company experience evolutionary and revolutionary stages.

5 Phases of Growth:

Phase 1: Creativity

In phase one the company must create both a product and a market. In this stage the founders of the company are highly involved and motivated. Communication is very abundant and helpful in this process. At this point a *crisis of leadership* occurs and the organization must locate and install a strong business manager who is acceptable to the founders and who can pull the organization together.

Phase 2: Direction

Phase 2 is during a period of sustained growth. An organizational structure is introduced and departments form. Communication is still important but becomes more formal due to hierarchy. The new manager now takes control, and assigns lower-level managers to assist him/her and they are considered to be supervisors. This is usually when a *crisis of autonomy* arises. Lower level employees feel less important even though they may possess more knowledge of the product/market this makes them feel left out, which causes temptation to leave.

Phase 3: Delegation

The delegation phase is more of an establishment/expansion stage where jobs become more specific and specialized. Managers receive responsibility of plants and market territories. Top-level managers are not as active in the company meaning they limit their involvement. Also communication with the top level is scarce and is done usually by phone or email. This stage enables the company to have a better chance at penetrating larger markets. Problems occur when top-level managers feel they are losing control, which puts the company in a *crisis of control*. These top-level managers try to return to centralized management techniques but are unable to due to the expansion of the company organization.

Phase 4: Coordination

Phase 4 involves more innovation within the company where top-level executives try new systems of organizations. Interdepartmental groups are formed and treated as an investment, which means if it makes money, more money will be allocated there. Planning procedures are established and constantly reviewed. Money is carefully overseen and distributed around the company. Employees are offered stock options in order to keep them motivated and feel like a part of the company. These “improvements” however give birth to a *red tape crisis* where a lack of information and trust runs

throughout the company. In consequence, the size of the company has overgrown and cannot be managed via formal programs.

Phase 5: Collaboration

In this phase formal control is put aside and social control and self-discipline are implemented. Although the transition process is difficult, these adjustments must be made in order to be flexible. Team problem solving becomes an important weapon. Teams are composed of different departments in order to have diversity and expertise in different fields. Key managers also meet frequently to discuss current matters. Workshops are created to inform managers on teamwork and better conflict resolution. Experimentation with new practices is also encouraged to form new ideas. The 5th revolutionary phase is unknown because many US companies are in that phase right now, but the author assumes it will be centered around the psychological saturation of employees who grow emotionally and physically exhausted from the intensity of team work and the heavy pressure for innovation solutions. That is why companies are trying to create relaxing facilities during workdays, so that employees will have a better performance.

These phases show innovation within the company's organizational structure and demonstrate how important evolution can be to the survival of a company. Problems must be carefully solved because a company must be able to move forward with that solution so they can continue to grow rather than be stagnant and fall. Using past solutions is unfavorable because they may not allow the company to progress to the next step.

Specific Guidelines for managers on Growing Organizations

1. Know where you are in the developmental sequence
2. Recognize the limited range of solutions
3. Realize that solutions breed new problems

Much of what happened in the past may help to foresee the company's future and enable the manager to make the appropriate decision as to whether the changes they had in mind are right for the company.

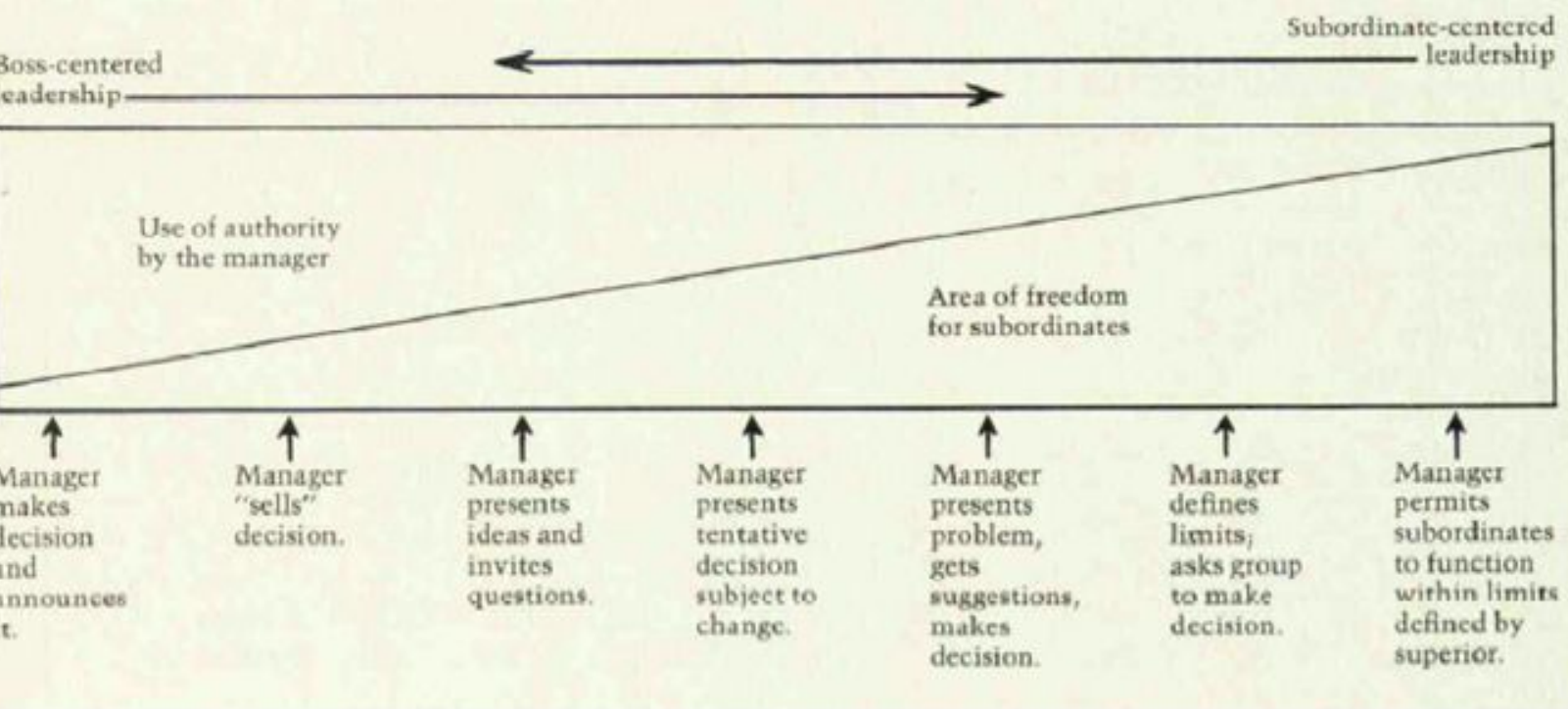
Tannenbaum & Schmidt

Key Questions

- If the subordinates make the decision, is the manager responsible?
- What role should managers play?

Tannenbaum & Schmidt: How to choose a leadership pattern -- concept map

Exhibit 1. Continuum of leadership behavior



- Member or authority figure
- Should subordinates be able to tell what style manager is using?
- How do you measure a manager's "democracy"?

Style of manager (authoritarian or democratic) depends on

How to Lead:

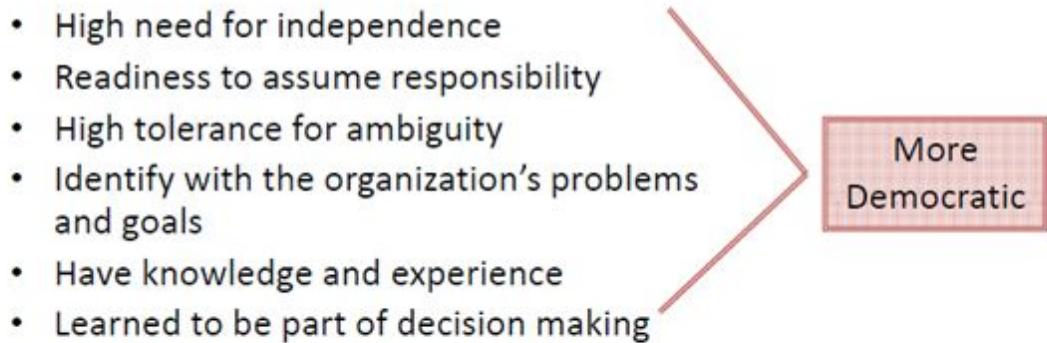
Forces in the Manager

- Value system
- Confidence in subordinates
- Leadership inclinations
- Feelings of security

How to Lead: Forces in the Subordinate

Remember That They are Individuals Like You!

- High need for independence
- Readiness to assume responsibility
- High tolerance for ambiguity
- Identify with the organization's problems and goals
- Have knowledge and experience
- Learned to be part of decision making



More
Democratic

How to Lead:

Forces in the Situation

- Type of organization
- Group effectiveness
- Nature of the problem
- Time pressures
- Long-run strategy
- Objectives to be attained

Important terms

- 1) Shareholders: People who invest money in the company by buying stocks, which gives them a percentage of the company.
- 2) Diversification: The process of entering new business markets with new products. Such efforts may be undertaken either through acquisitions or through extension of the company's existing capabilities and resources.
- 3) R&D: Stands for research & development (combines scientific research and technological development to produce innovations in products and services
- 4) Environmental change:
- 5) CEO: Chief executive officer who is appointed by the board of directors to be the leader
- 6) Multinational firm:
- 7) Globalization: Where markets, labour, knowledge, commercial, social... activities in countries around the world integrate
- 8) Management style:
- 9) Organizational structure:

Claims

- The first thing we have to do when we evaluate an argument is to identify the authors claim, his major conclusion, and what the author is trying to persuade you to accept. Usually, the author's claim is followed the following words: *thus, in summary, in short, as a result*

and other synonyms. Using the words *the fact* and *there is no doubt* does not make it an uncontested claim.

- **Uncontested claims** are statements that we do not need to challenge for example: facts, agreement among experts, technical and mathematical claims.
- **Contested claims** are statements that do not fall under the category of *uncontested claims* and should be challenge to see if it is true or false.
- **Concept map** is any picture, diagram, or geographic map that summarised the author's main point.
- **Writing effectively:** when you are the author, you have to make sure that you precise your claim clearly by using words like *in conclusion*, *therefore*. You have to present you main ideas with clarity and emphasis.

Qualities of evidence

Accuracy: The problem is that accuracy can be impossible to judge without a self-determining and dependable source of information.

Precision: Using numbers and providing direct quotations is precise. Overuse of ambiguous words (great deal, many, often, high probability...) is indicative of low precision. It is also possible to be too precise and can detract from credibility.

Sufficiency: To be persuasive an author must present sufficient evidence. Sometimes evidence is not sufficient for example if a conclusion was drawn from only studying 3 people.

Representativeness: The evidence being provided must be representative, for example, if somebody was making a claim about

government cutbacks and the evidence came only from students, it is not representative of the population. Must have a variety of sources.

Authoritative: When people have special training and professional credentials, or considerable experience in a particular area we call them authoritative and pay attention to the evidence they provide.

Clarity: The significance of the evidence should be clearly stated. A common failing is that authors provide information as evidence but are not explicit about what it describes.

Reality & value assumptions

Underlying assumption is usually the gap between the claim and the evidence. Meaning when you give a claim, then the evidence, is there a really big gap. Sometimes you have to use more phrases to link your claim to the evidence without just putting it in the text (example p. 38-39)

Implicit or explicit principles that form the bases of our beliefs & reasoning

Even when the evidence is of good quality, accurate, precise, clearly expressed, sufficient... the argument is not acceptable if the underlying assumptions are questionable.

2 types of assumption

Reality assumption is when someone makes an assumption based on past experience, conversations, things we read or saw on television.

Challenging reality assumption is to evaluate the accuracy

Value assumption is our ideas, are standards of right and wrong. Values learnt from parent's teachers, classmates, religion (ex: teacher should

respect students). **Challenging value assumptions** is if you do not share the same values, you will disagree, however if you do share the same values, you will not contest it.