AN INTERVENTION FRAMEWORK BASED ON A COMPLEMENTARY THEORY OF ORGANIZATIONAL DECLINE

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ABSTRACT

This paper has developed an intervention framework based a complementary theory of organization decline. Any management intervention effort is normally based on a certain theory of organizational decline i.e. a theory that explains the causes for failure of organizations. Four major theories of organisational decline were identified in the literature, reviewed and integrated into one, presumably more superior, theory of organisational decline. They included the natural selection theory, the resource-based theory, the theory of misperception of feedback and the contingency theory. The new theory was then used to guide the design of an intervention framework. The framework was then used to produce and evaluate an intervention in one manufacturing firm based in South Africa. The results support the efficacy of the integrated theory and it is concluded that in order to ensure that intervention efforts produce successful results, the underlying framework of such efforts must be based on a relatively adequate theory of organizational decline. It is also concluded that the complementary theory of organizational is relatively more adequate compared to the four theories of decline that are discussed in the paper.

Keywords: Management Interventions, Organizational decline and theory of organizational decline

INTRODUCTION

The attrition rate of companies in the last three decades or so has been alarmingly high for instance, Micklethwalt and Wooldridge (1997) report that only around a third of America's 500 leading companies in 1970 still exist today. They state that even the best companies, terrified that they will end up in this ever more crowded corporate graveyard, are forever reorganising themselves. But, the kind of re–organization these writers have in mind largely depends on the nature of assumptions held by the respective companies regarding the causes of organisational decline. In this paper, the term "organisational decline" denotes cutback in the size of an organisation's workforce, profits, budget, clients and so forth (Lenblebici and Shah, 2004). According to Whetten (1980), in such a situation, the organisation's command over environmental resources has been reduced as a result of either decreased competitive advantage leading to a decrease in market share or decreased environment munificence i.e. the total market has shrunk.

There appears to be four theories of organisational decline that can be identified in the literature. The main objective of these theories is to provide explanations on the causes for organisational decline. The theories include the natural selection theory (Aldrich, 1979; Whetten, 1980), the resource-based theory (Grant et. al, 1994; Wernerfelt, 1984; Collis and Montgomery, 1995), misperception of feedback (Hall, 1976; Morecraft, 1985; Masuch, 1985; Sterman, 1989; Sterman *et al*, 1994) and the contingency theory (Anand and Khanna, 2000).

Today management intervention efforts and their respective frameworks are normally based on one of these theories. For instance, the system dynamics framework (Senge, 1990a; Sterman *et al*, 1994; Repenning, 1996) tends to be based on the theory of misperceptions of feedback whilst Porters framework for strategy formulation (Porter, 1980) appears to be guided by the natural selection theory.

The objective of this paper is to show that each of the abovementioned four theories of organisational decline provides useful but different insights on what makes organisations fail as well as on the kind of approach to be adopted to avert such decline. The objective is also to develop an integrated or complementary theory of organisational decline based on the four major theories mentioned above. Such a theory is identified and adopted to guide the design of an intervention framework. The application of this framework in one company is also discussed.

Theories of organisational decline

The natural selection theory

According to the natural selection theory, organizations decline because they do not posses the relevant organizational forms i.e. forms that the environment adopts as selection criteria. Aldrich (1979) explains how organizations that survive or decline are selected. He identifies three stages namely, variation, selection and retention. He states that the three stages constitute a general model of organizational change, which explains how organizational forms are created, survive or fail, and are diffused throughout the population. Organizational forms are the elements selected by the environment and include specific goals, organizational boundaries, activities, values and norms, structures, etc.

The natural selection theory would therefore argue that intervention should take the form of adaptation. But, it has been shown that organisations need to adapt to their environments as well as be generative (Senge 1990b). Other writers have also criticised the natural selection theory for instance, Morgan (1986), Van de Ven (1979). Critics argue that the theory grants too much power to the environment and overlooks the fact that organizations sometimes influence their environments. Hence, an intervention framework that is based on this theory would tend to be adaptive and not generative and thus, is unlikely to be effective. However, the theory has a lot to offer particularly its emphasis on the importance of the environment.

The resource-based theory

By a resource is meant anything which could be thought of as strength or an asset of any organization (Kootz and Weihrich, 2004). According to this broad definition resources can be tangible or intangible. According to Collis and Montgomery (1995), the resource based theory emphasises the importance of demanded core competencies, skills and collective learning as roots of competitive advantage. This theory has been supported by a number of writers for instance, Grant et. al, 1994 write that

> 'The case for making the resources and competencies of the firm the foundation for its long term strategy rests upon two premises: first, internal resources and competencies provide the basic direction for a firm's strategy, second, resources and competencies are the primary source of profit for the firm.'

The resource based theory would argue that organizations decline because either they posses resources that are not in demand, or own resources that are not scarce or do not own such resources (Collis *et al*, 1995; Grant *et al*, 1994). Intervention under this theory would comprise searching for resources that are in demand, scarce and appropriate by the organization. Hence, unlike the natural selection theory which puts the environment at the forefront, the resource-based theory tends to put resources at the centre in making organizational decline intelligible as well as identifying the kind of actions needed to prevent such a decline.

The theory of misperceptions of feedback

The theory of misperceptions of feedback holds that organizations decline because of cognitive and other bounds on human rationality, often producing undesirable side effects (Moorhead and Griffin, 1995). Bounded rationality is a property of decision making that reflects people's cognitive limitations. Individuals managing organizations act with some degree of good intention such as improving productivity, reduction of costs, improving profit, etc., yet the sum total of their interactions is often at variance with their intentions leading to serious consequences as far as the well being of the organization is concerned. Masuch (1985) holds that the action perspective, taken to its logical conclusion, implies that many structural sub optimalities of organizations, such as under performance, stagnation, or decay, are caused by vicious circles. He writes that

> The emerging picture begins to resemble a vicious circle. By trying to avoid undesired outcomes, human actors actually create these outcomes. And, by continuing their activities, they continue to reproduce those undesired outcomes. Understanding the logic of vicious circles should therefore increase the understanding of undesired organizational behaviour (as well as the behaviour of other social systems) and possibly help to improve it. (Masuch, 1985).

According to Masuch (1985), a vicious circle occurs as a result of misperceptions of feedback. He argues that organizations of somewhat longer standing usually posses considerable reserve buffers, slack, emergency procedures, and the like to weather the storms of organizational life. However, their deviation counteracting capacity is not unlimited. If a number of deviation counteracting loops break down at the same time or if the pressure becomes too great, this capacity may be exhausted. And, once a critical threshold is passed, one vicious circle gets its chance and triggers other circles.

Sterman *et al* (1994) have shown that implementation of intervention projects such as Total Quality Management programmes (TQM) can result into misperceptions of feedback. This is because when TQM is implemented, improvement in manufacturing processes is relatively quicker than in new product development process, marketing or any other management processes. This is caused by the fact that the levels of organisational and technical complexity of new product development process, marketing or any other management processes are comparatively higher than the complexity of manufacturing processes (Schneiderman, 1988, Sterman *et al*, 1994; Repenning, 1996). The difference in the rate of improvement between manufacturing processes and management processes leads to unanticipated side effects that result into financial stresses. Reporting on what happened at Analog Devices, Sterman *et al* (1994) observed:

> Improvement was faster in operations and slower in R&D, marketing, distribution, and management. TQM created excess capacity and disrupted the historic relationship between direct and indirect costs, a relationship embedded in organisational norms for price setting. Because unit production costs fell faster than indirect costs, the traditional markup was no longer adequate, leading to lower operating income, lower stock prices, financial stress, and ultimately layoffs.

In the context of management intervention, it seems misperceptions of feedback can be prevented by first, taking a total process approach and second, through the use of cognitive maps (Eden *et al* 1983; Eden and Ackerman;1992) to structure and explore the consequences of actions on intended objectives.

The total process approach requires treating business processes i.e. management and manufacturing processes as one process. This implies that an organization will be made up of two major processes i.e. the existing product process and the new product development process. These two will have the same level of technical and organizational complexity and hence, prevent the kind of misperceptions of feedback identified by Sterman *et al* (1994) and Repenning (1996). Cognitive mapping is crucial particularly when intervention efforts that involve restructuring or right sizing (or any other efforts that are accompanied by a decline of employee morale) are to be implemented. It has been shown that a decline in employee morale affects negatively the success of other intervention projects that are being implemented in conjunction with restructuring or right sizing (Benjamin and Podolny, 1999).

Though the theory of misperceptions of feedback tends to be too voluntary in that it downplays the influence of environmental factors on organizational decline, it has a lot to offer. For instance, the theory appears to provide some answers to the dilemma the natural selection theory is facing. According to the natural selection theory, organizations decline because we do not have the ability to prevent them from doing so. The theory of misperceptions of feedback would argue that lack of ability to prevent decline is caused by our inability to explore unanticipated side effects of our actions. In terms of the kind of intervention needed the theory of misperceptions of feedback would propose the use of cognitive mapping to uncover any unanticipated side effects of our actions.

The contingency theory

The contingency theory holds that organizations are open systems that need careful management to satisfy and balance internal needs and to adapt to environmental circumstances (Morgan, 1986). The essential premise of the contingency theory is that effectiveness, broadly defined as organizational adaptation and survival, depends on the appropriate matching of environmental factors with internal organizational variables. Internal organisational variables include organisational design, organizational processes, organizational culture, etc. The theory therefore seems to be a hybrid of the natural selection theory and the resource based theory.

According to the contingency theory, organizations decline because they fail to create a fit between organizational variables and environmental factors. In particular, organizations decline because of their failure to identify the relevant environmental factors or their failure to identify organizational variables that match the existing environmental factors. Hence, according to this theory, organizations can survive and grow so long as they are able to create such a fit between what they have and what the environment requires. Though the theory has a lot to offer, it overlooks the fact that though a fit can be created between the organizational variables and environmental factors, still organizations may decline due to misperceptions of feedback.

Towards a complementary theory of organizational decline

Although the theories of organizational decline discussed above are perceived to be rivals in making organizational decline intelligible, in actual fact these theories may be perceived to complement each other. This is because taken individually the theories do not address adequately the sources of organizational failure. Taken together however, the theories are the raw material for a consolidated list of sources of organizational decline. Such a list is based on the premise that each theory has a role to play in explaining organizational decline. For instance, the natural selection theory brings to the list the importance of environmental factors in explaining organizational decline. However, although environmental factors are necessary, yet they are not sufficient to capture all sources of organizational decline. The resource based theory of the firm highlights the importance of both tangible and intangible resources on organizational decline. The latter is normally a consequence of the nature of organizational variables such as organizational design, organizational processes, organizational culture, etc. Hence, the resource based theory emphasises the importance of organizational variables in explaining organizational decline.

The contingency theory which seems to be a hybrid of the natural selection and the resource based theory, brings in two other issues. First, it highlights the importance of both the organizational variables and environmental factors in explaining organizational decline. Second, it underscores the need to create a fit between the environmental criteria and organizational variables if organizational decline is to be understood and hence, averted. Again, the natural selection theory, the resource based theory and contingency theory cannot explain adequately organizational decline.

The misperception of feedback hold that although we may act with good intention to create a management response, yet our acts can be the main cause of organizational decline. Hence, we need to combine all four theories of organizations decline because:

- They overlook the importance of environmental factors;
- They ignore the role of organizational variables;
- They do not create a fit between the environmental factors and the organizational variables; and

- They do not explore and prevent misperceptions of feedback that results in a bid to avert decline.

Merging the four theories into one broadens the scope of intervention efforts to be taken in averting organizational decline. It is believed that the broader the scope, the higher the chance of effective prevention of organizational decline.

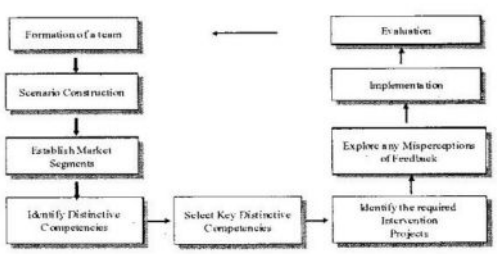
An intervention framework based on a complementary theory of organizational decline

An intervention framework that is based on a comprehensive theory of decline is shown in figure 1. The framework which appears to be continuous in nature is made up of nine stages.

Formation of a cross – functional team

In this stage the organization must form a team that cuts across all functional departments. It is this team which undertakes the remaining stages of the framework.

Figure 1. An intervention framework based on a complementary theory of organizational decline



Scenario construction

A scenario is a coherent and consistent story of how a given industry will be in a given period of time into the future. It covers issues related to competition, demand, economic trends, trade unions, regulatory bodies, etc. In the context of a complementary theory of organizational decline, scenario construction focuses on the importance of environmental factors in establishing the kind of intervention needed to avert decline. The mechanics of scenario construction is not discussed here because of lack of space otherwise those interested can , consult the work of Schoemaker (1992; 1995).

Establish market segments

Market segments are battle fields which the organisation is or might be competing in. Market segments signify the nature of customers to be served. They may include for instance, retailers, wholesalers or individual customers, local or international. In the context of a complementary theory of organizational decline, this stage may be perceived to underscore the importance of environmental factors.

Identify distinctive competencies

In this stage, distinctive competencies required in a given scenario – market segment sector are identified and recorded. A distinctive competency is a capacity for a team of resources to perform some task or activity. Distinctive competencies are information based *processes* or *activities* that are firm specific and are developed over time through complex interactions among the organization's tangible resources and other organizational variables. In the context of a complementary theory of organizational decline, this stage underscores the role of organizational variables in averting decline.

Select key distinctive competencies

Key distinctive competencies are distinctive competencies that feature most in the various scenario – market segment sectors. Again, this stage may be perceived to underscore the importance of key organizational variables that are required to prevent organizational decline.

Identify the required intervention projects

In this stage the team should establish the gap between what the organization has and what it ought to have in terms of the key distinctive competencies. Two possibilities may emerge here i.e. there might be some key distinctive competencies that the organization lacks or the organization might posses all the key distinctive competencies. If the organization does not have some of the key competencies, then intervention efforts should focus on how to develop them. Otherwise such efforts should centre on how to apply them. In either case the exercise should lead to the kind of intervention projects the organization should adopt so as to develop or use the identified key distinctive competencies. In the context of a complementary theory of organizational decline, this stage may be perceived to help identify actions that can create a fit between the environmental factors and organizational variables.

Explore any misperceptions of feedback

In this stage the team is advised to adopt a total process approach complemented by a cognitive map. A cognitive map is a cause and effect diagram which shows the consequences on corporate objectives of implementing a given intervention project.

Implementation

In this stage, the identified intervention projects are implemented.

Evaluation

The effect of the implemented intervention projects on the performance of the organization is evaluated to see if there is any improvement. The bottom line here is of course the corporate objectives.

Application

The above framework was applied to one division of a large manufacturing company that produces motor vehicle components in South Africa.

Implementation of the framework started with a formation of a team. The team was made up of a group of middle managers working in various departments of the division. Eight middle managers were involved in the implementation of the framework. Adopting an approach proposed by Schoemaker (1992; 1995), the team constructed four scenarios namely, very optimistic, optimistic, pessimistic and very pessimistic scenario. The time frame used was three years into the future and the corporate objectives were productivity, profitability, market share and quality of work life of employees. The scenarios read as follows.

Very optimistic scenario. In this scenario there would be a high penetration to international markets worldwide. The relationship between management and trade unions will also be good.

Optimistic scenario. In this scenario the price of raw material would continue to decline and there would be a moderate penetration to international markets particularly those in South America.

Pessimistic scenario. In this scenario unemployment rate in the country would continue to increase affecting negatively the purchasing power of potential customers. The quality of raw materials from suppliers would also continue to be poor. There would be no significant penetration to international markets.

A very pessimistic scenario. In this scenario the demand of motor vehicles from local customers would continue to decrease. Absenteeism will continue to increase paving a way for a bad relationship between the trade unions and management. Competition from other local manufacturers will also continue to increase.

After scenarios were constructed the team proceeded to establish market segments i.e. the third stage in the framework. The team identified two categories of customer i.e. local customers and international customers. In the identification of distinctive competencies, the team used the question: *If this scenario turns out to be true as far as this competing segment is concerned, what competencies are needed so that the corporate objectives can still be attained?* The team identified a number of competencies and recorded them as shown in the cells of table 1.

Table 1. Identified distinctive competencies

Competing segments	Very optimistic Scenario	Optimistic scenario	Pessimistic Scenario	Very pessimistic scenario
• *International customers*	• High production efficiency • High machine availability • High conformance quality • High skilled workforce	• High production efficiency • High machine availability • High conformance quality	• Effective purchasing procedures • High production efficiency • Effective marketing	• Effective marketing • Effective R&D • Improve trade union and management relations
• *Local customers*	• High conformance quality	• High conformance quality • High production efficiency • High machine availability	• Effective purchasing procedures • Effective marketing • Effective R&D • High conformance quality	• Effective R&D • Effective marketing • Improve relations between trade union and management

The team then selected these competencies which appear many times in the table as key distinctive competencies. These were:-

- High conformance quality
- High production efficiency
- Effective marketing
- High machine availability
- Effective R&D.

In the identification of the required intervention projects the team established the gap between what the division has and what it ought to have in terms of the above key competencies. The team then identified intervention projects that can help bridge such a gap i.e. projects that can create/utilise the required/existing key competencies. The following intervention projects were identified.

High conformance quality. The best intervention project to help reduce scrap rates was found to be Total Quality Management (TQM) and Just In Time (JIT).

High production efficiency. It was argued that production efficiency can be achieved through the implementation of Total Quality Management, Total Productive Maintenance and Just In Time (JIT).

High machine availability. It was argued that a Total Productive Maintenance can help improve machine availability.

Effective marketing. It was established that it was necessary to implement a project titled: "Improvement of marketing practices".

Effective R&D. A project titled "Improvement of new product development effectiveness" was proposed by the team.

To explore and prevent misperceptions of feedback the team adopted a total process approach and used a cognitive map to check if there were any undesirable effects caused by these projects on corporate objectives. The team found out that no single project is detrimental to corporate objectives. The projects are currently under implementation and will later be evaluated to see if the division's performance in terms of corporate objectives have been improved.

CONCLUSION

In this paper it is argued that in order to ensure that intervention efforts produce successful results, the underlying framework of such efforts must be based on a relatively adequate theory of organizational decline. The paper has also argued that a complementary theory of organizational is relatively adequate compared to the four theories of decline that are discussed in the paper. Finally, a management intervention framework that is based on a complementary theory of organizational decline has been developed and applied to produce intervention in a certain manufacturing division based in South Africa.

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