

Engineering Management BMEVITMMB03

BME Faculty of Electrical Engineering and Informatics MSc EE and IT Majors
Economic & human themes

LIFE CYCLE AND TRANSFORMATION OF ORGANIZATIONS

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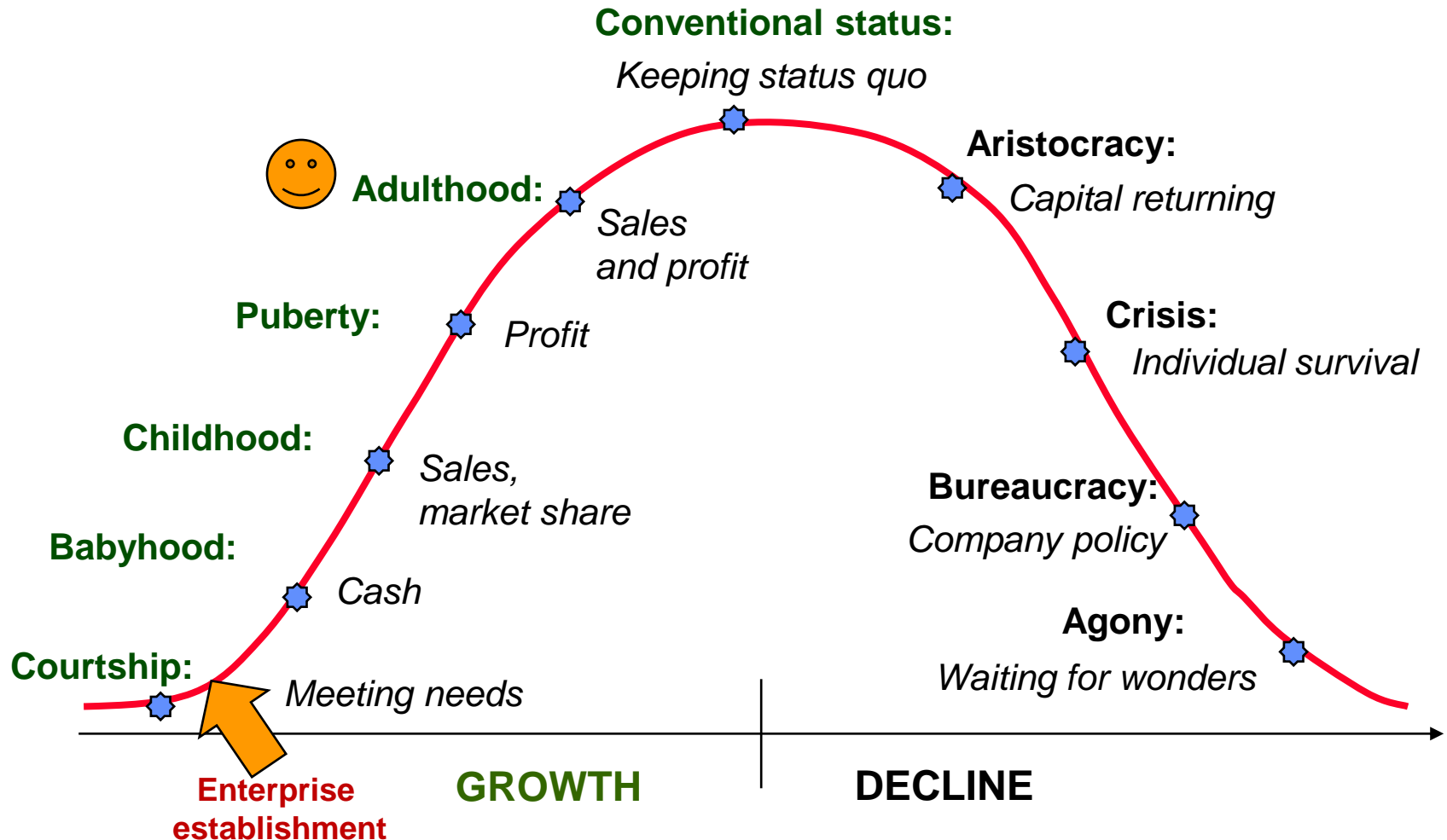
CHARACTERISTIC MANAGERIAL SITUATIONS

Relationship of organizational state and management

1. **Enterprise, firm establishment**
 2. **Building of organization/firm**
 3. **Consolidated operation**
General exercise of most of the managerial roles
 4. **Development, change, adaptation**
Response to the environmental (techn., market, regulatory) challenges
 5. **Increase of firm**
Golden age, dynamic period of the firm's life cycle
 6. ***Establishment of new enterprise***
Outsourcing of internal activities, catching new possibilities
 7. ***Acquisition, merging***
 8. ***Transformation, reorganization***
 9. **Crisis handling**
 10. **Winding up the business activity**
- 

LYFE CYCLE OF ORGANIZATIONS

Primary objectives along the life cycle



[Ichak ADIZES: Lyfe cycles of Enterprises]

PERIODS OF LIFE CYCLE

- 1. Courtship:** emergence of commitments to establish an organization
- 2. Babyhood :** transition from the idea to the realization (collecting capital!)
- 3. Childhood:** catching the possibilities, fast increase
- 4. Puberty:** transition from the entrepreneurial approach to the professional management
- 5. Adulthood:** built-up functions and organizational culture, perspectives, creativity, efforts for results, but consciousness, managability, planning ability, excellent performance, growth (golden age)
- 6. Conventional status:** the company is strong, but entrepreneurial attitude, flexibility is decreasing
- 7. Aristocracy period:** formality, mediocrity, decadence, short term targets are preferred
- 8. Crisis:** witch-hunt, internal conflicts due to the lack of results
- 9. Bureaucracy period:** disorganization, isolation from the environment
- 10. Agony:** no commitment to the organization, who sustain alive, winding up, liquidation of the firm

GROWING FIRMS

- Success derived *from taking risk*
- Why and what shall we do..
- Everything is permitted, what is definitely not prohibited
- Problems are considered *opportunities*
- *Functions are preferred*
- Power at *marketing* within the firm
- Responsibility and authority in *harmony*
- Management of the firm directs the organization and its dynamics
- **Changing management is able to change the operation and attitude of the firm (due to dynamics)**

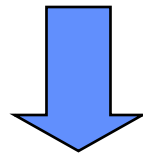
DECLINING FIRMS

- ...*from avoiding risk*...
- How shall we do or who did it ...
- Everything is prohibited, except what is definitely permitted
- Opportunities are considered *problems*
- *Form is preferred*
- ...at *administrative* areas..
- ...*blurred*...
- Inertia of the organization drags the management
- **Only if the management system is changed (targets, processes)**

***Life cycle position of firm is determined by the culture of the firm,
the **quality of decision making and efficiency of execution*****

The role of management for the success of the firm:

A) Qualitative decision making → democracy
B) Efficient execution → dictatorship } is needed!



In general they are incompatible, lead to *conflicts*, to potentially destructive power.

The task of management is to set bounds to conflicts and *form conflicts constructive*, pointing forward.

How, by which way?

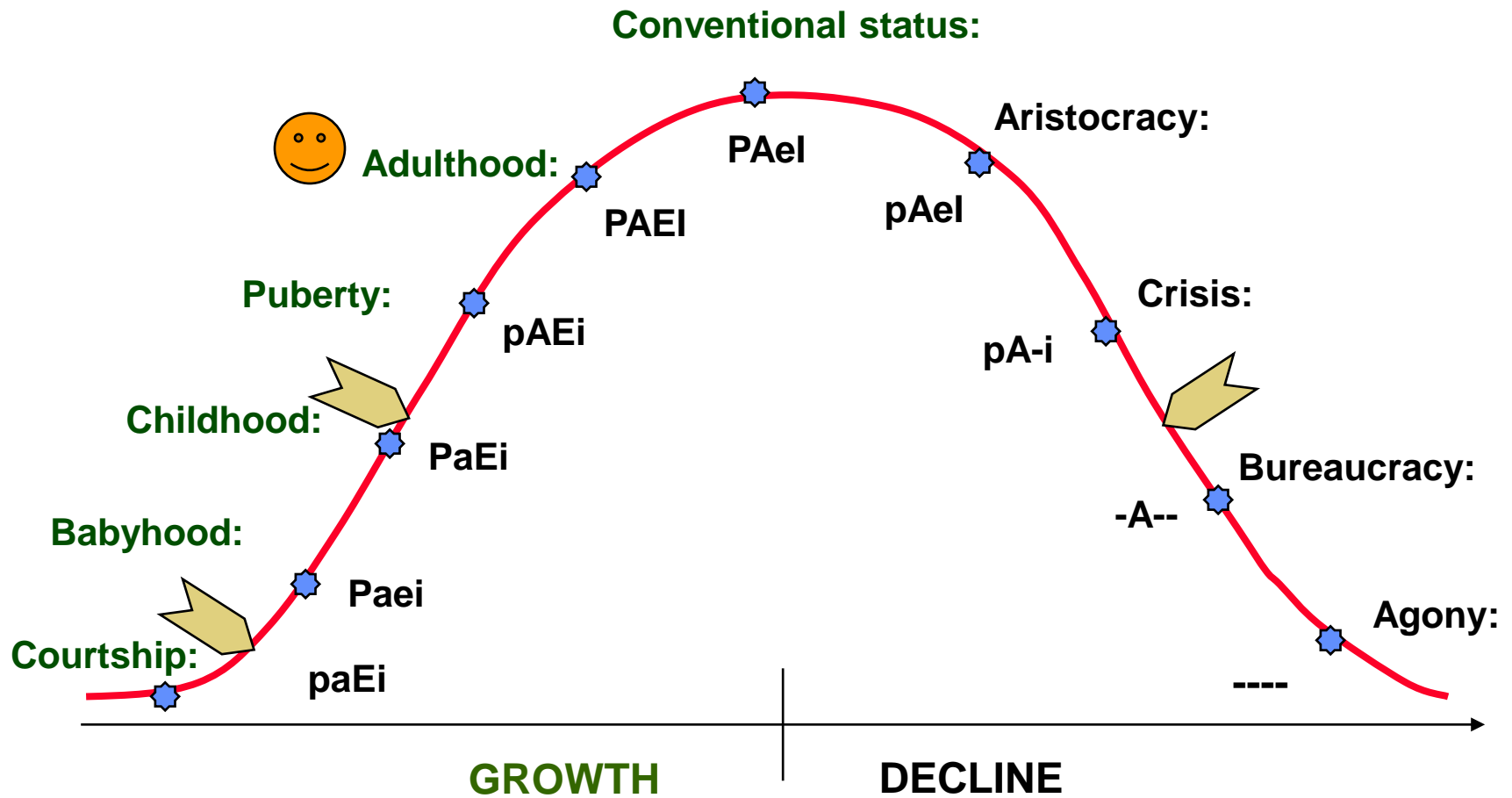
A) QUALITY OF DECISION MAKING

Aim of decisions: advancing the success of the firm

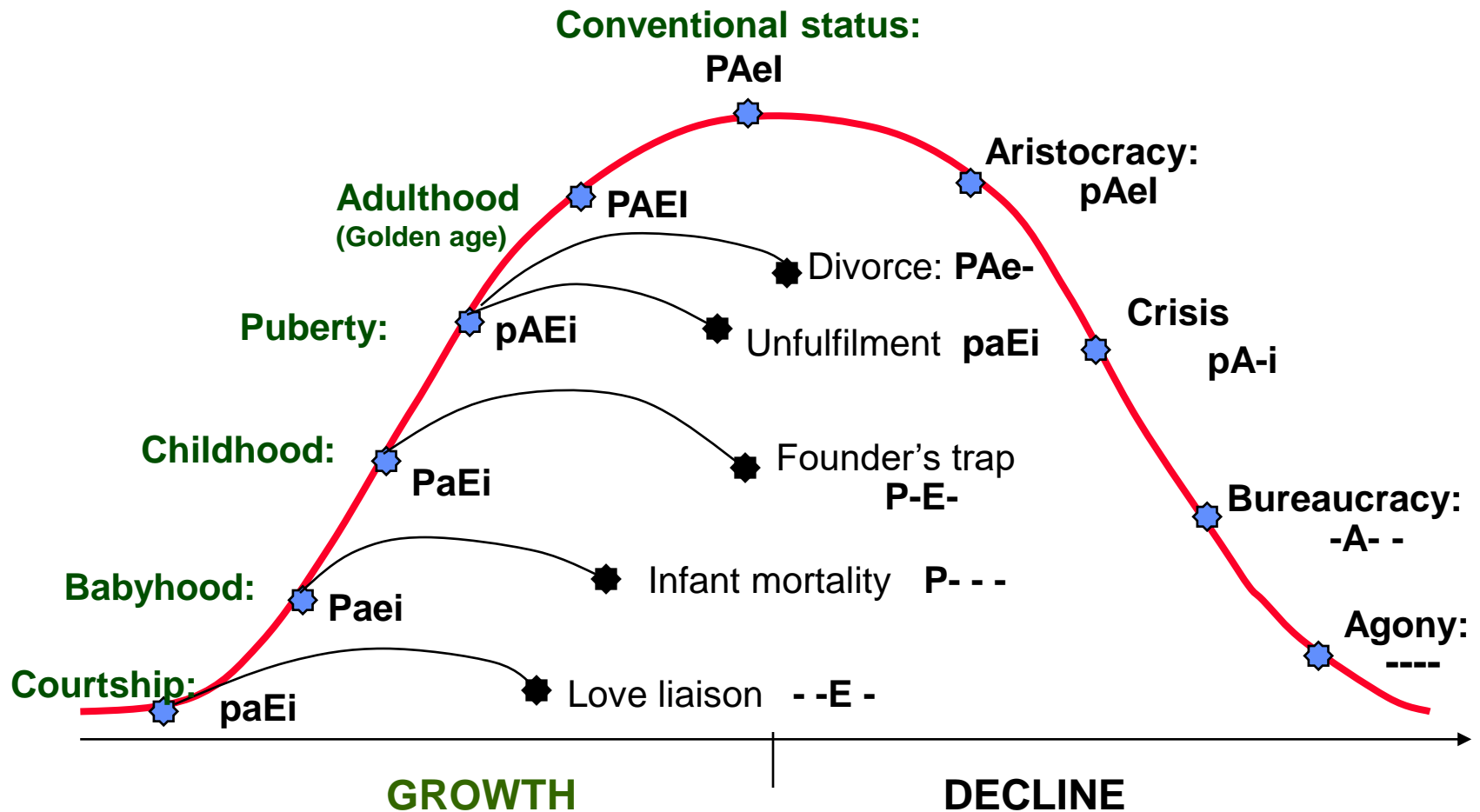
| SUCCESS-FULNESS | Effectiveness | Efficiency |
|---------------------------|--|---|
| Short-time, at present | P Performance <i>PRODUCTIVE</i> (meeting demands and functions) | A Systematization <i>ADMINISTRATIVE</i> (organize, regulate) |
| Long-time, in future | E Proactivity <i>ENTREPRENEURIAL</i> (foresight + venture) | I Cooperation <i>INTEGRATIVE</i> (team building) |

DECISION MAKING CULTURE OF A FIRM: Evolution of the *PAEI* roles

Task of the management: to lead the firm into the adulthood and keep it there



Cases of organizational evolution of the firms



To make good decisions PAEI is needed together



Single person rarely meets the PAEI roles perfectly.

Extreme attitudes: Pure P : achiever

Pure A: bureaucrat

Pure E: „fire-raiser”

Pure I: „super follower”



Therefore management team, manager partners are required
to form management team, e.g. Paei + pAei + paEI



Difference of opinions, disagreement is emerged from the differences of the attitude.



If **there is mutual appreciation** team members **learn** from each other during the conflict,
the new knowledge leads to better decision than before the conflict.

If they do not appreciate each other then the conflict is negative, destructive.

B) EFFICIENCY OF EXECUTION OF DECISIONS

Sources of managerial power:

- **Authority (A)**
right to make decisions
(based on authorization)
- **Influence (I)**
tools of rewards/penalties
(due to position, relations)
- **Prestige (P)**
conviction ability
(based on attitude,
profession, appreciation)

Together:

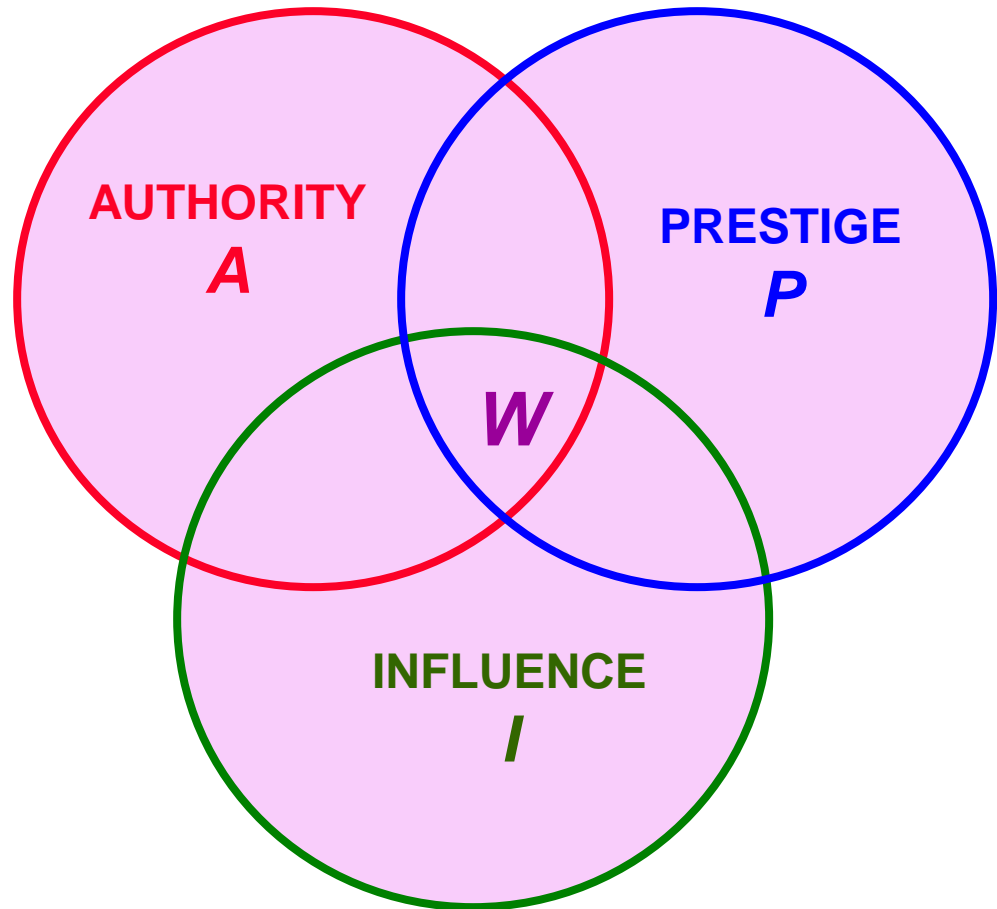
volume of managerial power:

$$V = A \cup P \cup I$$

Coalesced API=CAPI,

the real, efficient power:

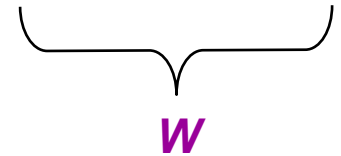
$$W = A \cap P \cap I$$



Components of managerial power:

V = pure A, P and I + component pairs of A, P and I + coalesced API

authority & prestige,
prestige & influence
authority & influence

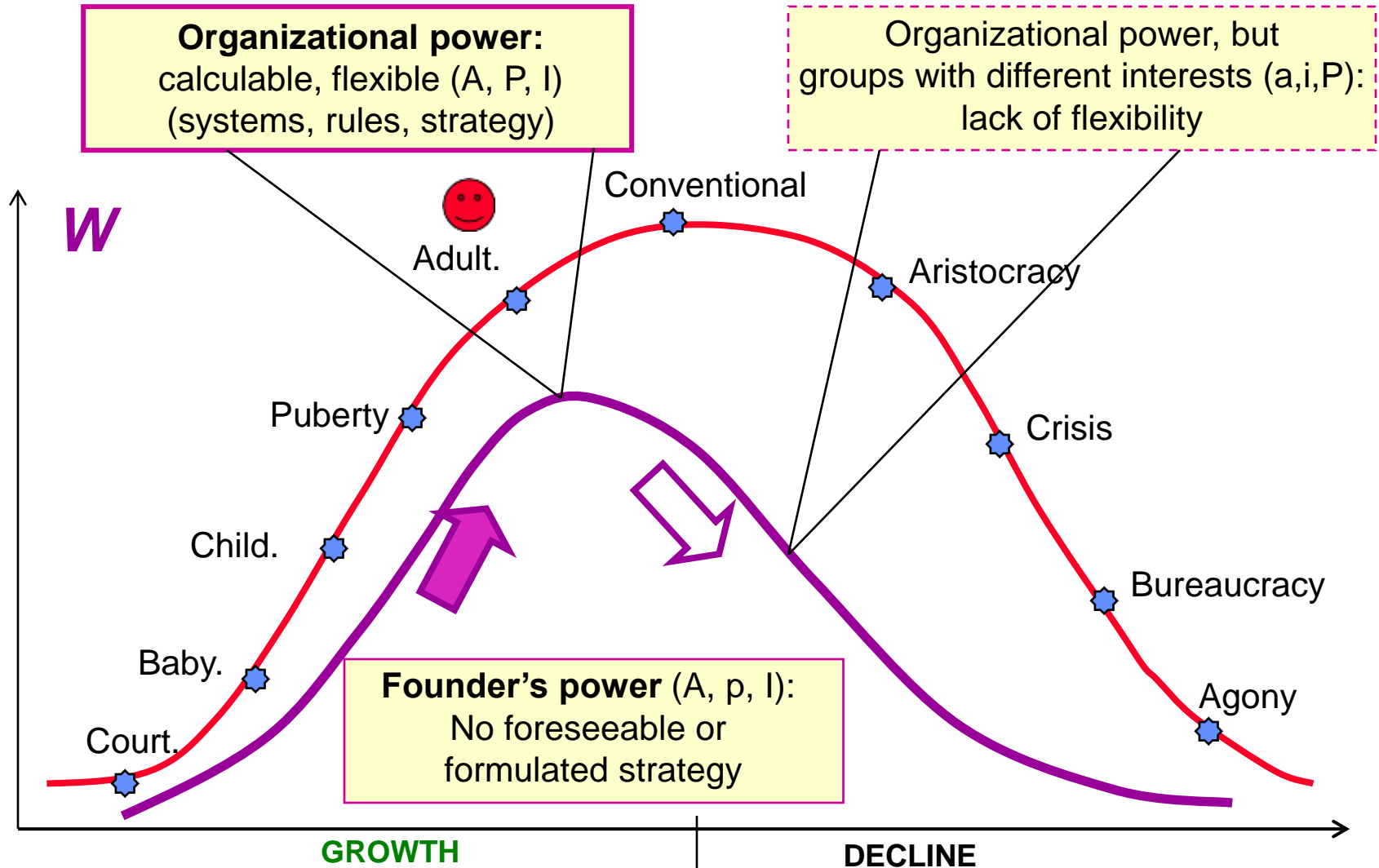


The components of the power (A, P, I) are **changing during the life cycle of the firm**, their union defines **V, the volume, range of the power of the management**, however

***THE STRENGTH, EFFICIENCY OF THE MANAGEMENT,
THE REAL POWER***

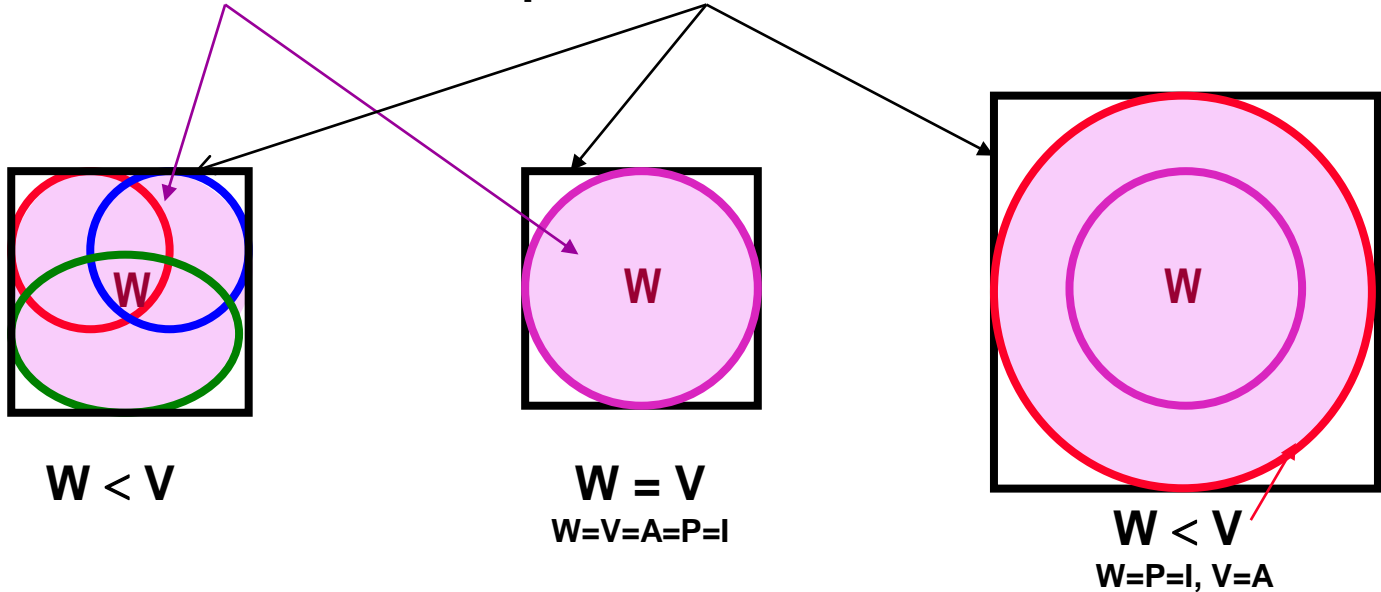
to direct and foresight the attitude of the organization
defined by **W, the coalesced API**.

Shaping *W* during the life-cycle:



Interdependence of responsibility (R), power volume (V) and real power (W)

If **V** is near or equal to **R**:



A part of task is performed by authority, an other part by influence, a third part by prestige, however a small part of the responsibility is fully controlled:
Management needs a lot of „mental/internal energy“

Real power is on almost the entire area of responsibility:
 successful manager with *minimum mental/internal energy*.

After a promotion R and A are increased, and if W is not changing then real power is reduced to a smaller part of responsibility.

To efficient execution of decisions W, coalesced API is needed



In general a single person has no W on the entire area of R



A group of people can already dispose the necessary W

e.g. A is from the management, I is from the founder, P is from key-persons



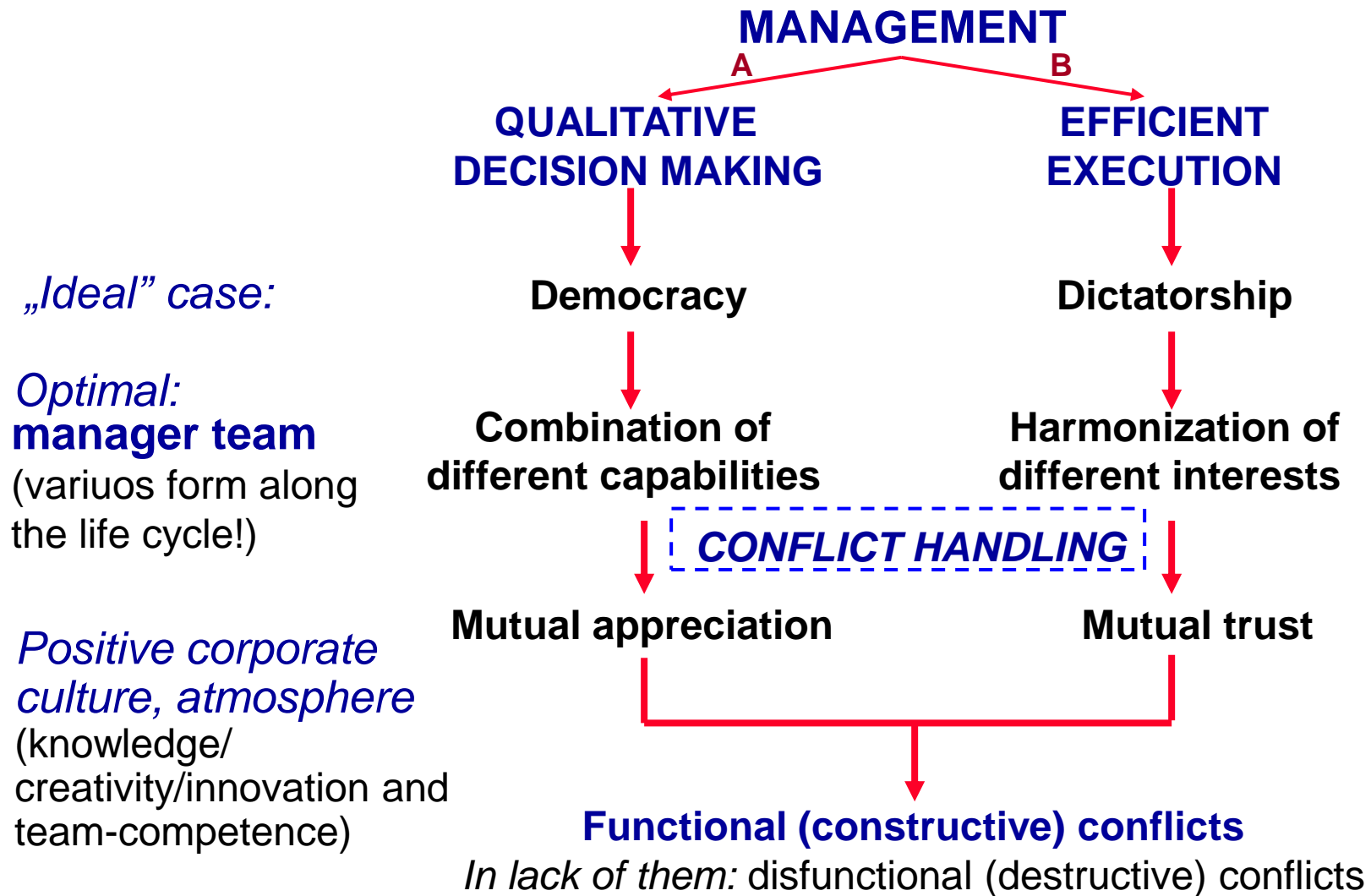
Difference of opinions, disagreement is emerged **from the difference of interests**, which can not be brought to agreement in short term.



If **mutual trust** is among the people constituting W,
i.e. they rely on that they obtain **profit from the long term success**,
then the short term conflicts can be bridged.

If they do not rely on each other then short term conflicts dominate their behaviour,
what hinder the efficiency of the execution.

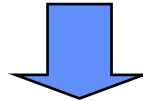
Summary: Life cycle position of firm is determined by the culture of the firm, the **quality of decision making and the efficiency of execution:**



TRANSFORMATION OF ORGANIZATIONS

Direction and management of changes

Basic concept: Quickly changing, globalized world
Increasing uncertainty, but more possibilities
Rivalry of competition is further enhanced
Competitiveness of the firms are increasing



Adaptive corporate culture

- **Agility:** openness to the changes, making changes
- **Teamwork** on the top instead of single-person (individual) management
- **Direction:** capability to shape and communicate vision
- **Delegation:** enhanced authority for a wider group of employees
- **Rationalization** of relations and communications by e-ways
- **Life long learning**

[J. P. Kotter: Direction of changes]

COMPARISON OF ORGANIZATIONS

20th century
21st century

Managerial roles, structure

| | |
|---|--|
| <p>Burocratic, several level structure</p> <p>Top-level management does operative/daily management, too</p> <p>Complex internal technical proc-s</p> | <p>Nonburocratic, few level structure</p> <p>Top-level management directs, operative management is done at lower level in man. hierarchy</p> <p>Customer-oriented internal proc-s</p> |
|---|--|

Managerial tools, systems

| | |
|---|---|
| <p>IT/ICT systems support top-level management</p> | <p>IT/ICT systems support the whole management hierarchy</p> |
|---|---|

Organizational culture

| | |
|--|---|
| <p>Centralized</p> <p>Looks inside</p> <p>Slow decision making</p> <p>Avoids/does not take risk</p> <p>Divided by partial interests</p> | <p>Decentralized</p> <p>Looks outside</p> <p>Fast decision making</p> <p>Identifies/takes/manages risk</p> <p>Driven by mutual interests</p> |
|--|---|

CORPORATE TRANSFORMATION

to enhance competitiveness

Typical methods:

- **change of strategic direction:**
(technology, product, customer group, vision, priorities, ...)
- **radical rearrangement/reengineering of principal processes**
- **profile cleaning, slimming down, outsourcing**
- **reshape organization structure** (e.g. enhance customer-orientation)
- **introduction of quality development programs**
- **corporate merging, -acquisition, -sale** (change owner structure)
- **change of corporate culture** (consequence)

Radical change, reform, transformation:

- **not easily executed** (failure possibilities)
- **multi-step process**
- **strategic management prevails against day-to-day management in a successful transformation**

STEPS OF TRANSFORMATION

from managerial tasks' point of view

1. Demonstration of the *pressing necessity* of the change
2. Establishment of the *team* to direct the change
3. *Elaboration* of vision and strategy
4. *Communication* of the vision of transformation
5. *(Re)Shaping organization*, managerial culture to vision
6. Achievement of *rapid success*
7. *Consolidation of results*, attainment of further changes
8. Stabilization of new solutions in the *corporate culture*

Steps 1...4: Preparation (to break up the rigid state)

Steps 5...7: Execution (parallel projects)

Step 8: Supplementary work

More steps can be executed at the same time, but steps can not be jumped over or go further without solid base

1. Demonstration of the *pressing necessity* of the change

☞ **Position review:** identification and analysis of potential crisis, threats and opportunities, chances, respectively

☞ **Arouse threat/opportunity feeling:** to attain interest, willing to do, i.e. collect strength to the changes.

The sources of self-satisfaction must be eliminated.

The trap of self-satisfaction: e.g.: lack of spectacular crisis, low performance requirements, narrow focus organization, optimistic top managerial statements

2. Establishment of the *team* to direct the change

☞ **Finding suitable people and composition:**

- strong power based on position (authority)
- leadership (!) and managerial capabilities (influence)
- multi-sided knowledge (prestige)
- together: creditability, reputation to colleagues

☞ **Preparation of the team for common work:**
creation of mutual trust, elaboration of common objectives

3. *Elaboration of vision and strategy*

☞ Elaboration of motivating and activating vision:

- vision-able: it sketches up the direction of change emotionally
- attractive (to employees, owners, customers...)
- realistic, feasibility feeling
- transparent, communicative (clear directives provided)
- robust (change tolerant), but allows initiations

☞ Designing implementation of vision:

- Planning scenario and strategic actions

4. *Communication of the vision of the transformation*

☞ Several channels, communication forms

- Simple expressions:
 applying analogies, examples
- Open explanation of the obvious contradictions
- Possibility to exchange opinion
- Repetition

☞ Personal examples of top managers

5. (Re)Shaping organization, managerial culture to vision

- 👉 **BREAKTHROUGH:** eliminate organizational obstacles, reforming information, decision-preparation, personal, etc. systems, *shaping to vision*, provision of necessary training. (In general employees are not willing to support, if there are organizational obstacles, lack of information or professional knowledge or inappropriate allocation of resources, disapproval from the middle-level managers, etc.)
- 👉 Encouragement of employees to take risk, actions
- 👉 Caring of captious, fault-finding key persons

6. Achievement of *rapid success*

- 👉 Planning and executing spectacular, clearly positive short term results in close relation to the changes, e.g. performance improvement, essential reduction of product development period, successful acquisition.
- 👉 Public appreciation of persons achieving success
Role: justification of changes, refining vision, undermining cinics, activization of neutral persons

7. Consolidation of results, attainment of further changes

- 👉 Based on the consolidated trust, elimination of reminders of the managerial structure and systems, not compatible to the vision of transformation
- 👉 Recruitment, promotion and further education of persons appropriate to the implementation of vision
- 👉 Strengthening the process: with new projects/actions, further collaborators, expansion to additional areas.

8. Stabilization of new solutions in the *corporate culture*

- 👉 Presentation of relationship among the new solutions, new attitude and organizational success: new solutions are built deeply into the corp. culture since their applicability and benefit are justified over the older solutions
- 👉 Further training of managers
- 👉 Change of key persons if necessary, selection of managers to strengthen the new corporate attitude

TYPICAL MISTAKES IN THE EXECUTION OF THE TRANSFORMATION

- 1. Oversatisfaction, insufficient level of threat feelings**
- 2. Lack of establishment of managing team of appropriate power**
- 3. Underestimation of the strength of vision**
- 4. Weaker communication of vision than necessary**
- 5. Resignation to opposition of key persons**
- 6. Missing short term results**
- 7. Premature announcement of victory**
- 8. Changes are not built into the corporate culture**