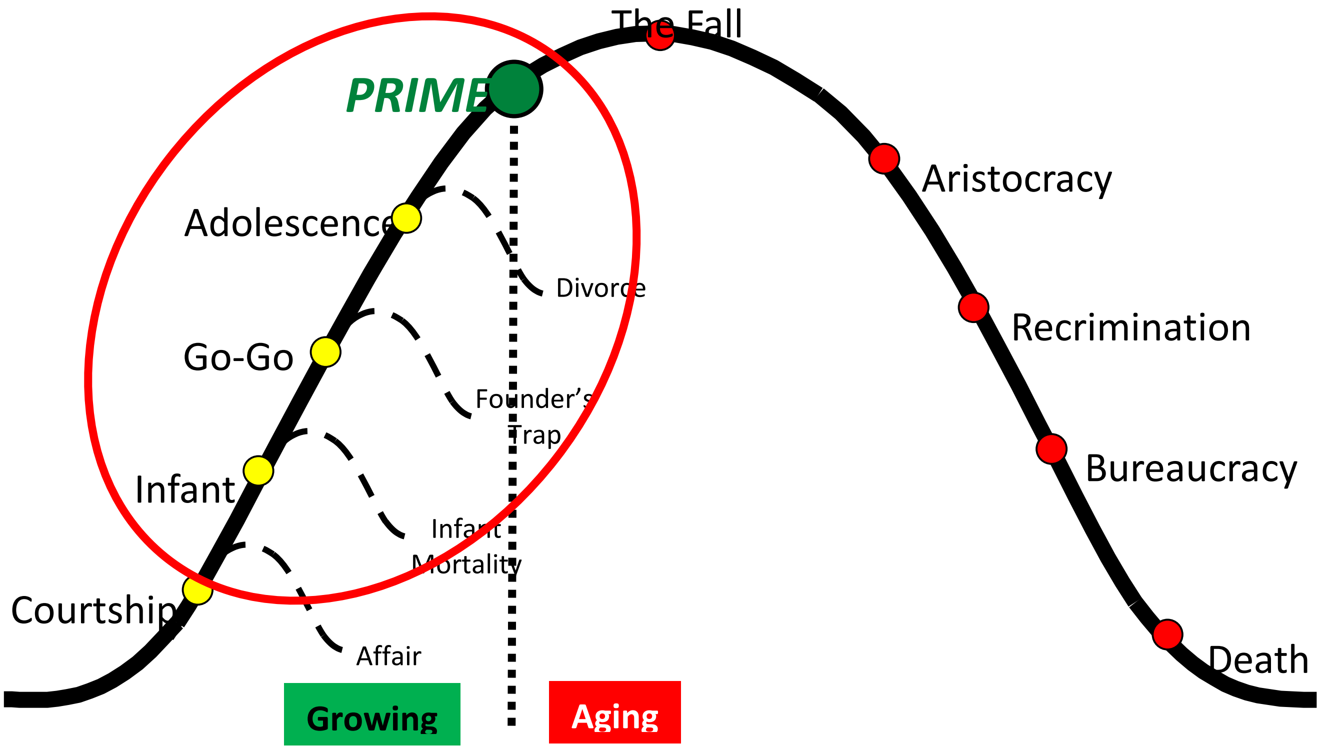


The 10 Stages of the Organization Lifecycle

From: Managing Corporate Lifecycles by Dr. Ichak Adizes (Prentice Hall, Englewood Cliffs, NJ:)

Understanding and Treating Growing Organizations

For More Information, Please Contact
Global Headquarters ● 1212 Mark Avenue, Carpinteria, CA 93013 ●
www.adizes.com

The Power of the Organization Lifecycle

At the foundation of effective management for any organization is the fundamental principle that as organizations grow and age they progress through a series of predictable stages known as the Organization Lifecycle. Like humans, the evolution of every organization proceeds in distinct stages. Companies go through the terrible-twos, being a teenage, and the prime of life.

Each lifecycle stage presents a predictable set of unique challenges (life lessons) that must be overcome to progress to the next stage. How well or poorly leadership develops the capabilities needed to address those challenges determines the success or failure of the enterprise. If leadership is not able to do this, the organization gets stuck. Problems that can't be resolved become abnormal, retard the healthy development of the company, and lead to premature aging.

Leading successful lifecycle transitions is not easy or obvious. The same methods that produce success in one stage will create failure in the next. Knowing what to do and what not do to navigate the challenges of each lifecycle stage is therefore need-to-know information for every CEO, C-Level Executive, Board Member and Investor, as well as up and coming leaders who aspire to hold those positions in the future.

The organization lifecycle is one of those truths that once learned, fundamentally shifts how leaders lead; personally and organizationally. When an entire management team understands the lifecycle, they share eight insights that are critical to the long term success of their enterprise:

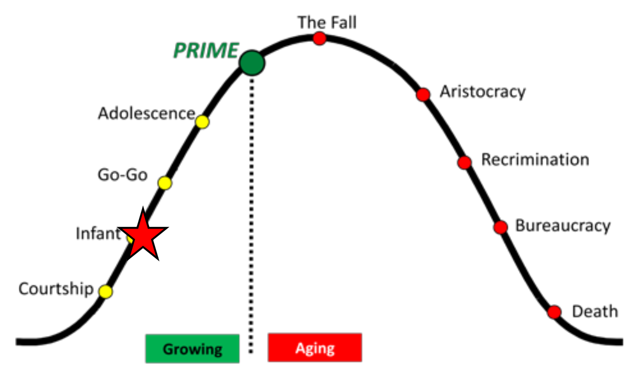
1. Prime is the place to be. It is the only stage where a company is be able to dominate its markets, sustain a position of leadership, and enjoy above average growth and profitability. The first challenge is to get to Prime; the second challenge is to stay there. Unless leadership takes proactive steps to stay in Prime, aging will automatically occur.
2. Problems are desirable. Many managers have an immediate and negative reaction to the idea that their organization has "problems". The Lifecycle teaches that the opposite is true. The lifecycle invites leaders who believe that "good managers" are those whose organizations have no problems, to rethink that perspective because the only stage where an organization has no problems is Death.
3. Many problems are not unique. The lifecycle also teaches that most of the issues a company faces are not unique to the organization; they are common to all organizations in a particular lifecycle stage.
4. Some problems are normal and others are abnormal. Like acne, normal problems require little attention because the organization will grow out of them. Focus on resolving abnormal issues because they will inhibit healthy development.
5. Successful leadership is different in each stage. Just like it makes no sense to parent a 6 year old the same way as a 21 year old, successfully leading a Go-Go organization requires a very different approach than one in Adolescence. Management style, goals, strategies, structures, metrics, and rewards must differ markedly from one stage to the next. Leaders who understand what is required can accelerate the journey to Prime.

6. Future problems are predictable. When a management team knows their current lifecycle stage, they also know what's coming next. Anticipating key challenges ahead of time allows the organization to move faster. It also helps everyone attack those problems instead of attacking each other.
7. Aging can be prevented or reversed. Unlike humans, organizations can stop the aging process and remain perpetually youthful. The 7 factors that cause aging can be diagnosed, and steps can be taken to prevent or reverse aging in youthful or mature enterprises.
8. The future success of the enterprise can be predicted based on the management team's ability to work well together and solve bigger and tougher problems in the future.

This white paper focuses on leading organizations on the growing side of the lifecycle curve. The aging side of the lifecycle is covered in a separate document.

The Infant Stage

Infancy begins the moment risk has been undertaken and the Founder quits her job, signs the loan documents, or borrows $50K from friends and family.



The Infant Lifecycle Stage

Instantly the priority of an Infant organization switches from ideas to action. The time for talking in Courtship is over; it is time to get to work and produce real results. By necessity Infant organizations are action-oriented and opportunity-driven.

As with any baby, Infant organizations need two things to survive: 1) milk and 2) the unconditional love of their parents (Founder(s). Like newborn babies that need to be fed every two hours, most Infant organizations consume large amounts of food (cash) with very little to show for it (sales). Cash for Infants come from external sources (investors and bankers) and internally generated sales. Infants that are not properly capitalized from external sources create the cash they need by chasing any and all sales opportunities uncovered. This approach to funding can create problems if the company is repetitively forced into accepting work that distracts them developing their core business. Sometimes it turns out that this "distraction" is really the right core business.

Sales are useful for cash generation purposes, but their real value to the Infant organization is the market's validation of their new product or service. Ideas from demanding beta test customers are needed by the Infant to complete the development of their innovative new products or services. Failing to land key reference accounts is an abnormal problem that will quickly lead to cash starvation, lack of continued interest from financial backers, and the emotional collapse of the Founder.

Infant organizations need the unconditional love of their Founders because they are ugly. Performance in Infant organizations is inconsistent. Moving from one crisis to the next is normal behavior, as it is with any baby learning to crawl and walk. The Founder and all employees constantly test the limits of their endurance for work, stress and confusion. Founders start companies for reasons that go far beyond money. The employees of Infant organizations are attracted to this mission. Their loyalty to the team often extends beyond the struggling Infant's ability to pay them. Everyone ends up working seven days a week and sleeping under their desks because work is a labor of love. The lack of this level of hyperactivity is often the sign of an Infant in trouble.

When you don't know what you're doing, it is difficult to delegate, so most Infant Founders are unable to spread the work effort for critical tasks. Because Infant organizations lack systems and processes, this lack of delegation is actually an important control for the Infant organization. The only way a Founder can control proper outcomes is to do the work themselves. Once a task becomes routine, it can them be handed off to others. Being a one-person show makes the Infant organization highly dependent on its Founder. If the Founder is injured or killed, the company often dies too.

Typical Problems of Infancy

Normal Problems of Infancy	Abnormal problems of Infancy
– Customers experience problems with the product or service.	– Product or service is rushed into the market before it is ready and fatally crashes.
– Struggle to complete product or service.	– Caught up an "excess perfection" syndrome making endless product improvements without market validation.
– Chasing sales to generate cash that are not related to core business.	– Unable to close reference accounts and obtain key footholds in marketplace.
– Initial product or service concept fails and is replaced by another.	– Unable to respond to product failure and develop more successful approach.
– Few procedures, rules, policies, or systems.	– Rigid set procedures, rules, policies and systems.
– Founder and others make mistakes.	– Repeating same mistakes over and over.
– Moving from one crisis to the next.	– Trying to fix everything.
– Hands-on leaders deeply involved in day-to-day sales and operations.	– Leaders out of touch with day-to-day reality.
– Lack of depth; only 1 deep everywhere	– Can't attract needed talent in key positions.
– 1-person show. No delegation.	– Control spread over too many people.
– Fast decision-making, some details missed.	– Slow decisions, paralysis by over-analysis.
– Benevolent dictatorship.	– Dictatorship. Founder not listening; arrogant.

– Investors look over the shoulder of the Founder and management team.	– Unsupportive investors and board.
– Founder's commitment tested.	– Founder's control is taken away.
– Work life put stress on family and home life.	– Non-supportive spouse and family.
– Negative cash flow.	– Unsustainable negative cash flow.
– Under or over capitalized.	– Funds wasted on non-mission critical expenditures such as marketing, equipment and facilities.

Pathologies of Infant Organizations: Infant Mortality

Infant mortality occurs if the company is unable to continue to fund its negative cash flow, makes a mistake that results in an irreparable damage in the marketplace, or if the Founder loses their love and commitment to their baby. A prolonged Infancy can also create mortality if the Founders decide to hang it up after years of struggle with little to show for all their hard work and suffering.

Prescription for Infant Success

Companies in their Infancy require a strong arm to keep them on course. What is needed is a Founder that can galvanize and unite the superhuman efforts of its employees by providing clarity, certainty and security in the face of overwhelming uncertainty and murkiness. Infant organizations do not progress swiftly without leadership that is strong, decisive and fair.

Infant companies need more sales, more production, more improvements, more effort, and more focus. Everyone in an infant company must be action oriented and driven by an unquenchable thirst for results. The Founder must lead by example and be involved in the minute details because they often know more about their products, markets, and customers than anybody else. Infancy is not a time to work on decentralization of authority or consensus decision-making. It is crucial that the Founder makes every major decision and signs every check until the company stabilizes itself with repeat sales to key accounts, positive cash flow, and increasing demand. The Infant needs autocratic, centralized decision-making, however, this same leadership style will inhibit the healthy development of a Go-Go company.

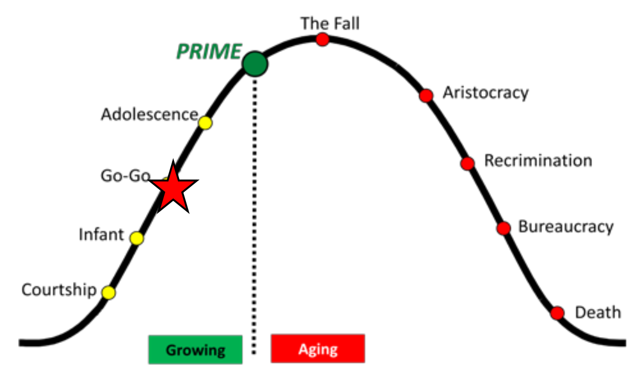
Infant organizations can also benefit from judicious use of outside experts that are capable of accomplishing crucial tasks such as selling to key customers, raising capital or recruiting key talent. Staffing the board with friends and relatives is a good idea only if they can also take on meaningful work. Founders who give away too much equity in their Infant companies often live to regret their generosity when they get to Adolescence and lose control or find their ownership positions severely diluted. Founders who give early stage employees elevated titles that are far beyond the employee's true capabilities in lieu of monetary compensation; also generally learn to regret these decisions.

Well-intended investors and advisors may counsel Infant organizations to spend more time planning, analyzing and predicting their financial needs, improving sales forecasting and projecting staffing requirements. While it is important for a Go-Go organization to develop these skills, attempts to transform an Infant organization into a more structured and predictable organization are premature and often harmful.

When an Infant company finally establishes its products or services with key "reference" accounts in the marketplace and begins to enjoy strong demand, consistent sales growth and a healthy cash flow from sales, the organization transitions into the Go-Go stage of its lifecycle.

The Go-Go Stage

A Go-Go organization is a company that has a successful product or service, rapidly growing sales, and strong cash flow. The company is not only surviving, it's flourishing. Key customers are raving about the products or services and ordering more. Go-Go companies are like toddlers in the "terrible twos". They can move quickly and have no fear so everything is interesting. Fueled by their success, Go-Go's feel they can succeed at anything that comes their way. Accordingly, they try to eat everything they touch. On Friday night the founder of a Go-Go retail shoe business goes away for the weekend. On Monday morning, he walks into the office and announces, "I just bought a shopping center". This does not surprise the employees. It has happened before. The success of the Go-Go is the realization of the Founder's dreams, and if one dream can be realized, why not other dreams too? "What we did for shoes we can do for a whole shopping center".



The Go-Go Lifecycle Stage

This arrogance is a major asset of the Go-Go, but when taken to an extreme, it is also how they get into trouble. Go-Gos are prone to rapid diversification and spreading themselves too thin. They have so many irons in the fire they cannot possible give the necessary attention to each one. They make decisions and commitments they should never have made, and they get involved in ventures that they know very little about. Go-Go's inevitably get burned and lose more money overnight on a shopping center, than they made in a whole year selling shoes.

Go-Go Characteristics

<u>Sales Drive the Ship.</u> The Go-Go company is sales driven and has an insatiable appetite for growth. More is better. Every opportunity uncovered in the marketplace must be pursued. This sales orientation is addictive. The company is opportunity-driven rather than opportunity-driving. It reacts rather than proacts to opportunities. In the rush to close the deal, agreements are sometimes signed before the company really understands if it can do the work. When profit measurement systems are later put in place, it often turns out that the Go-Go company increased sales by accepting new business that was unprofitable. Uncontrolled growth can become an abnormal problem

that will jeopardize the continued development of the company. On the other hand, a premature focus on profitability can inhibit the long-term potential of the company.

Everything is a priority. Go-Gos spread themselves too thin and tackle too many frontiers at once. At the same time, strategically important tasks that are not urgent often get deferred to pursue the latest "hot" new project or other urgent but not strategically important day-to-day work.

Crisis by Management. Go-Go leaders often don't listen to criticism or warnings about difficulties of implementation. They do not listen because their single-mindedness is what made them successful in the Infancy stage. To make matters worse, the entrepreneurial types who lead Go-Gos often have difficulty articulating their ideas clearly. One listens and wonders, "What in the world does he want me to do?" The few who can interpret the Founder's ideas become critically important insiders and trusted confidants.

Management is Often Ineffective (and Frustrated). With their deep involvement in the day-to-day work of the company, Go-Go leaders often have little time to manage. Work is hastily assigned with scant attention to detail. When pressed for clearer assignments, the response is often "you figure it out; I don't need to be involved in those details". As a result, well-meaning, hard working employees enthusiastically pursue their uncertain assignments, often making mistakes and errors. Some Founders view these screw-ups as further evidence that "if I want something done right I have to do it myself". They tend to fix these problems by taking personal control. If perpetuated, this inability to effectively delegate will plunge the Go-Go into a premature aging syndrome known as the Founder's Trap.

Information and Accounting Systems Are Weak. The limited systems that commonly exist in a Go-Go only support the basic needs of production/operations, customer service and accounting. Accounting typically has its hands full just trying to properly account for revenue, expenses and cash flow. Useful cost accounting and accurate reporting of individual product profitability is a distant dream. Management reports are often published so late that they are of little use for day-to-day operations. The best information is often word–of-mouth.

Infrastructure is a House of Cards. As the company continues to succeed, work processes, procedures and systems expand accordingly. The development of this infrastructure usually occurs in response to emerging opportunities or unexpected problems, rather than according to a long-term plan. As things become more complex, it takes longer to fix mistakes and some fixes create new problems because of unexpected side effects. Addicted to growth, the company cannot or will not slow down and take time to properly design and implement the systems and infrastructure need to properly support the business. Instead, they make do by enhancing or patching what is already in place. Miraculously, things still work, but just barely. Success increases the load on this house of cards. Instead of just hoping for a miracle, the people in charge of the infrastructure now begin to rely on that miracle.

The Company Is Organized Around People and Projects. Responsibilities are assigned based on who can do the work on a project-by-project basis. New tasks often conflict with previous assignments. If there is an organization chart, it is primarily for the benefit of investors and the board. It probably does not accurately reflect the way work really gets done in the organization. The "real" organization chart looks like a piece of paper a chicken has walked on. Dotted lines, straight lines, and broken lines run in every direction. If you ask a Go-Go employee, or even an executive, "To whom do you report?" You usually get a complex and confusing answer. "I mostly report to Sam, but sometimes I report to Lee. However, whenever there is a quality problem, I report to Jane." Come to think of it, I report to Al as well."

A Love/Hate Relationship Exists Between the Company and the Founder. When disaster does strike a Go-Go and it loses more money in a week than it made in the previous year, the typical reaction to such calamities is to implement controls. The frustrated founder angrily pronounces, "We need to get organized, we need better controls." The Go-Go then creates rules and policies, but the Founder is the first to violate them. Go-Go Founder's also tend to struggle with delegation and decentralization. Workable decentralization requires an effective control system. In the absence of such a system, Founder's attempt to delegate by establishing rules such as, "Before you make any big decisions come ask me first; and don't make any decisions I wouldn't make." This approach usually fails which causes the frustrated Founder to retake the reins of control. The relationship between Founders and their Go-Go companies is like a yo-yo; "You are in charge. No, I am in charge". The founder needs to escape day-to-day details so that they can focus on the big picture, so they delegate authority and take off to chase new business. What happens when they return? They inevitably find something that displeases them and all hell breaks loose. In a matter of hours the founder has re-centralized power, only to again disappear. After several repetitions of this cycle nobody knows what to do, or not do, and everyone grows increasingly anxious. When the Founder makes their next appearance, the accusations and frustrations begin anew. With repetition, subordinates are unwilling or unable to act decisively and paralysis reigns. Employees often have deep feeling of affection and respect for the Founder, but at the same time he is driving them crazy and they wish she would change. For their part Founders feel betrayed and unfulfilled. They want to handoff the details, but they feel they can't since no one has demonstrated the ability to replace them. Entrepreneurial leaders are often a bit paranoid so even if there is a capable replacement, they may fear that this new leader will hijack the company and steal their dreams.

Employees Are Frustrated. In the face of an overwhelming workload, unclear responsibilities, and fuzzy goals, Go-Go employees find it difficult to be productive. New people are hired and thrown into their jobs with little training or preparation. Physical space and proper equipment can be scarce because growth is difficult to predict. Promotions can occur on the spur of the moment. Later in Adolescence it often turns out that people promoted into senior management positions during Go-Go do not have the skills and experience needed to succeed in that position when the company gets larger, creating additional havoc. Good people who are fed-up often leave Go-Gos for other opportunities that appear to be better managed.

A Major Crisis Happens. Inevitably disaster strikes the Go-Go. Success finally put enough load on the system that a fairly catastrophic disaster happens that threatens the loyalty of major clients or jeopardizes the entire business. When disaster does strike, no one takes responsibility. With weak control systems, accountability is very unclear. Nobody (not even the Founder) owns the decision that created the disaster. Everyone claims inadequate information, lack of authority, and feels they are the victims of decisions made by other people. Fingers point in all directions. This lack of accountability frustrates Go-Go leaders. They feel betrayed. No one warned them of the tricky dangers ahead. Everyone just watched them fail. No one survives unscathed.

Typical Go-Go Problems

"Normal" Go-Go Problems	"Abnormal" Go-Go Problems
Self-confidence, eagerness.	Blind arrogance.
Everything is a priority?	Everything IS a priority!
Sales more important than profits.	Premature emphasis on profitability.
Some sales accepted that we cannot deliver.	Continued pursuit of non-core or unprofitable business.
Lack of focus.	Consistently going in too many directions at once.
Inconsistent quality	Consistent inability to deliver quality.
Unclear communications.	No one but the founder knows what is going on.
Unannounced, unruly, and unproductive meetings.	No meetings or consistently unproductive meetings.
Insufficient cost controls, adhoc budgeting.	No cost controls, no budgeting.
Ineffective management from key leaders.	Key leaders avoid managing in favor of doing.
Founder indispensable.	Founder unwilling or unable to hire people who are better than him.
Leadership is frustrated.	Increasingly remote leadership.
No consistent human resources management.	Consistently poor recruiting, training and compensation practices.
Confusion in roles and responsibilities.	Leadership cannot or will not delegate effectively.
Employees are frustrated.	Key people are leaving.
Company subject to criticism.	Company subject to legal action.
Infrastructure and systems are is a house of cards.	Collapsing infrastructure and failing systems.
Hope for miracles.	Reliance on miracles.
A major crisis occurs.	The crisis maims the company in the marketplace or kills it.

Pathologies of Go-Go; the Founder's Trap or Family Trap

The Founder's Trap occurs when a later stage Go-Go company is unable to relieve itself from its dependency on the Founder. The company is trapped by the capabilities and limitations of the bottleneck that is its Founder. This can occur because the organization is unable to develop the capabilities needed to replace the unique skills of the Founder. The slide into the Trap can also occur because the Founder herself is either unwilling or unable to delegate effectively and decentralize control. The Founder insists on staying actively involved in decision making and daily management of the company, even when it is clear that they must step aside and let more competent and capable executives outside the ownership group assume these roles. If a company is caught in a Founders Trap it usually means that when the founder dies, the company dies.

The Family Trap occurs in business owned by a family where control remains in the hands of family members because the family is unwilling or unable to place its trust in outsiders. In the Family Trap, leadership is determined on the basis of bloodlines rather than competence and experience. In these situations, the company fails to see the need to separate ownership from management. Companies caught in a Family Trap are particularly vulnerable when control is transferred to an incompetent family member.

Prescription for Go-Go Success

Most Go-Go organizations fiercely embrace the proposition that innovation, novel strategies, speed, and flexibility are their keys to success. Everyone loves to discuss new directions the company should take. However, these same people find discussions about controls, discipline, and structure to be both threatening and alien to them. Flexibility is crucial for the success of a Go-Go, but adding structure and control is crucial for the transition to Adolescence. Putting structure into a Go-Go stage company begins with a conversion of the attitudes and behaviors of the Founder and key managers of the company. Usually this change in attitude only occurs after the company grows beyond its capability to effectively support that growth and there are serious problems. By trial and error, Go-Go leaders eventually learn that without proper structure, systems and discipline, products or services fail, supplies do not arrive on time, inventory gets out of control, costs cannot be easily controlled, customer support is haphazard, and profits are illusive.

Go-Gos spread themselves too thin, tackling too many frontiers at once. Reining in activities and getting the enterprise to focus is important for a Go-Go. Identifying the organization's priorities is not as important as identifying what is NOT a priority. The company must also develop the discipline to marshal its resources and ignore issues that are not a strategic priority.

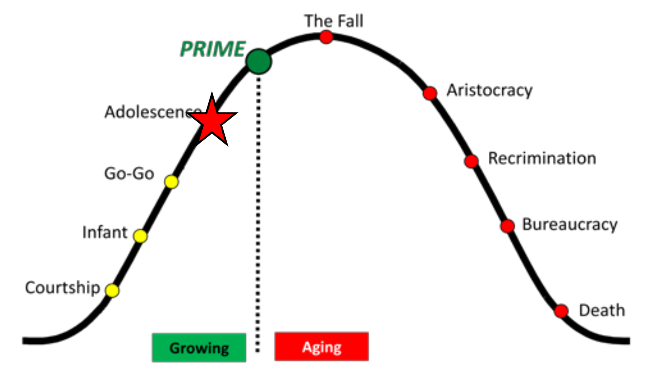
Go-Go's need continuous restructuring. They are like children who keep outgrowing their clothes. Many Go-Go leaders however, attribute little importance to structure, managerial processes or systems. Instead they believe success will come from deals, acquisitions, joint ventures, strategic alliances and sales, sales and more sales. Organizational structures, roles, responsibilities, budgets and rewards all require attention to detail, discipline and self-restraint. These qualities are quite alien to the entrepreneur who knows that his success came directly from ignoring boundaries and being fast, flexible and bold.

Developing the skills, systems, trust and respect needed to support delegation and eventually decentralization is a crucial task for a Go-Go. The process starts with delegation from the Founder, which involves transferring responsibility for important tasks down into organization and creating the commitment needed to achieve the desired results. In the beginning of this process, Founders are often as incompetent at delegating, as their subordinates appear to be at making decisions. Delegation support systems must be put in place before this important transition can occur. Forcing this transition before it can be effectively supported will foster mistrust and animosity between the Founder and the senior management team, and exacerbate the Founder's Trap pathology.

Delegating to a team of people, rather than to a single individual, works best. The development of effective teamwork among the senior management group becomes critical in Adolescence, so it is a good time to begin forging a strong team during Go-Go. When delegation is successful, the Founder and the management team can tackle decentralization, which is a much more challenging transition that involves transferring the responsibility for strategic decision making from the Founder to other key managers.

For a Go-Go Founder and their management team become thoroughly committed to proper systems and controls, real decentralization, and a more professional approach to management, the transition to Adolescence begins.

The Adolescent Stage



The Go-Go Lifecycle Stage

During Adolescence the company is reborn. This second birth is an emotional time where the company finds a life apart from that provided by its Founder(s). This critical transition is much like the rebirth a teenager goes through to establish independence from their parents.

An early stage Adolescent company teeters on the brink of success and disaster. So long as the company does well, investors and the Board regard the Founder as a genius with a golden touch. However, when the infrastructure collapses, sales slow down, costs mushroom, or profits decline, the finger pointing begins in earnest. The Founder, accustomed to the magic of adoration in Go-Go, is instantly transformed into a goat that is instantly no longer up to the task of leadership.

Adolescence is an especially stormy time characterized by internal conflicts and turf wars. At times it can seem like everyone is at odds with everything. Sales fall short or exceed production's estimates, quality is not up to customer expectations, and old timers plot against the new hires. Emotions are volatile and organizational morale traces a jagged line: ecstasy in one quarter, depression and dejection in another. People are busy tracking the real and imagined injustices they have suffered which they nurse with great care. The Founder's safe conduct through this tempest is by no means guaranteed. If these conflicts are not resolved, Adolescent companies can find themselves in premature aging that can lead to pathologies called Divorce.

Why is the transition from Go-Go to Adolescence so difficult? There are three principal challenges:

1. Decentralization of authority.
2. Change in leadership from entrepreneurship to professional management.
3. Fundamental shifts in the goals that drive performance.

Decentralization of Authority

In moving to Adolescence, a Go-Go must transform itself from an absolute monarchy to a constitutional monarchy. It is rare that a king voluntarily yields his absolute powers. Such changes are usually accompanied by revolutions. The revolution erupts not just because the king loves power and does not want to relinquish it, but also because the he has developed behaviors that are no longer relevant and he has trouble changing his behavior to fit the new environment.

Founders generally know that they need help managing their Adolescent organizations. They and their families are painfully aware that there are not enough hours in the day for them to keep running their organization as a one-person show. They want to decentralize, but fear loss of control and/or major mistakes. It is also often true that the people already in-place lack some of the skills and experience needed to succeed with their decentralized responsibilities. One careful step at a time, the leaders of Adolescent organizations must learn to develop their people and decentralize control. Often Founders dole out new levels of responsibility only to re-centralize authority at the first sign of trouble. This tendency can quickly become abnormal if the behavior persists despite having capable employees.

Change in Leadership-From Entrepreneurship to Professional Management

Most Founders struggle to make this difficult leadership transition. In despair, they often bring in professional managers from the outside to take over the responsibility for decentralization so they can return to work they enjoy. Struggling Founders who do not do this voluntarily may find themselves pressured to bring in a replacement that is better suited to the new leadership role. If the Founder still owns enough stock, they can survive by getting promoted to CEO and Chairman, while a more professional manager comes in to run the company. Founders sometimes bring in new leaders only to sabotage the new regime by refusing to relinquish meaningful control. It also does not work for the Founder to turn their back on the company and abdicate control.

Bringing in a professional manager changes the leadership of the company. The new manager must be a real leader, not another gofer brought in to carry out the Founder's instructions. Their job is to take over from the Founder and drive the company to become more thoughtful and less intuitive in the way it manages itself. The Adolescent company must become opportunity-driving rather than opportunity-driven. The new leader’s most critical job is to ensure that the processes, procedures, policies, structures, systems, goals and compensation needed to support long-term growth and allow effective decentralization are put in place. This new leadership requires a careful touch. An over emphasis on control can bring the Adolescent organization to its knees and stagnate growth. The organization must learn how to balance control while continuing to nourish its entrepreneurial spirit.

The new leader says "No! No! No!" to a company used to hearing only "Go! Go! Go!" from its Founder. It doesn't take long for the Founder and everyone else to discover that the new "hired guns" are not like them. The common reaction from a Founder is “This guy is not like me.” “If I had run the company the way he does, we never would have gotten this far." Such logic can start a revolving-door syndrome where the professional managers get fired because they "don't fit in." The Founder searches and searches for "someone like me," who at the same time “can do the things I cannot do”. They are looking for in vain for someone that does not exist: a pilot who can fly a submarine. What they must realize is that for this critical transition, Adolescent companies don't need leaders like their Founders; they need leaders that are different and can complement the Founder’s style.

When the new “professional” managers come in they usually inherit a situation that is chaotic and disorganized. Everyone and his brother reports to the Founder for one reason or another. The compensation system is a patchwork of special deals. Important processes, procedures and policies are poorly documented. In the absence of documentation, key information exists in the brains of the people that have been with the company the longest. These old-timers therefore have substantial power. Into this environment, enters the new manager charged with "professionalizing" the organization. Their efforts to introduce change are seen as direct attacks on the existing seats of power. New incentive systems that remove personal bias in favor of objective rewards based strictly on performance arouse opposition from the old-timers who risk losing their special deals. In defense, the old power structure bypasses the new chain of command, going directly to the Founder to complain about the new bosses; "They are ruining morale." "She doesn't understand how this company works." "He is going to destroy this company." And the ultimate blow: "He doesn't do it as well as you do." The new managers face opposition everywhere they turn. Whom does the Founder support? Probably not the new guys. Instead, they stick with the old-timers who carry the same scars and are loyal to the Founder. If this happens, the new guys are forced to resort to bringing in their own supporters to outflank the "old boys". Sides are chosen and guerrilla wars prevail. The culture becomes "we-they". Often, the board of directors gets caught in the middle.

These power struggles are exacerbated by the behavior of the Founder who is the first to violate the new policies and procedures. The old-timers watch this game. When the Founder sets the example with the first violation, they assume that all the new rules are subject to violation. Guess who gets called on the carpet to explain why the new budgets, rules, and policies are not being followed? Of course it's the professional manager. Such treatment is enough to cause the new leaders to develop a strong persecution complex, as well as intense dislike for the Founder and his buddies. The professional manager sees herself in a no-win situation and begins to wonder why she accepted the job in the first place. She feels impotent, exhausted, disliked, and completely unrecognized for her contributions.

In some companies, the opposite leadership situation exists. The Founder, the Board and most key employees agree that a transfer of leadership is absolutely necessary. The new leaders come in and immediately take over complete control. The Founder is forced to abdicate the throne and is relegated to the back seat. Because Adolescent companies usually have no systematic way to make decisions or make course corrections, this can lead to a dangerous situation where the new managers go on shopping sprees: buying new people, hardware, software, and consultants all in the name of "professionalizing" the organization. While some controls are undoubtedly needed, the revenues of the Adolescent may not support such profligate spending. If this happens, the Founders feel the pain of having their company hijacked and headed for disaster. They are prevented from getting involved and forced to just sit in the back seat and watch their company get ruined.

Fundamental Shifts in Goals

A further complication is the need to transition to a new set of goals. In early Adolescence, company goals as well as the management information and compensation systems all generally reinforce the Go-Go's emphasis on growth and sales. In Adolescence, the company must change from the Go-Go's "more-is-better" goal to "better-is-more". Profitability emerges as the most important goal for the organization. Instead of working harder, the Adolescent company must learn to work smarter. Growth and new sales are desired only to the extent that they also drive higher profitability. Adolescent companies can end up reducing revenues for a period of time as the company pulls back from low margin business.

This significant switch in goals must be implemented through a complete overhaul of the organizational structure, management information, resource allocation and reward systems. This overhaul looks easy on paper, but in reality it is very difficult. Almost everyone in an Adolescent company wants the business to run more smoothly, but they do not see the problem as their own department. "My department's fine. Go work on sales; that's where the problems are."

Typical Problems of Adolescence

Normal Problems of Adolescence	Abnormal Problems of Adolescence
– We-They infighting between newcomers and old timers.	– Permanent loss of trust or respect.
– Heated conflicts. Low morale.	– Loss of key personnel.
– Temporary loss of vision and confusion of goals.	– Internal issues cause consistent loss of market focus.
– Founder struggles to change leadership style.	– Unchanging, dysfunctional leadership style.
– Founder's acceptance of organizational sovereignty.	– Founder's removal.
– Yo-yo delegation of authority.	– Founder's refusal to change, or delegate control to others better suited to the task.
– Insufficient delegation and decentralization.	– Inability to decentralize to others
– Incentive systems rewarding wrong behavior.	– Inability to migrate compensation to profit-based system.
– Board of directors' attempt to exert controls.	– Board's dismissal of the entrepreneurial leader.
– Love-hate relationship between the organization and its leadership.	– Organizational paralysis during endless power shifts.
– Entrepreneuring roles monopolized by Founder.	– Profit responsibility delegated without capability to properly manage it.
– Infrastructure constantly under reconstruction.	– Imposition of excessive and expensive controls.
– Goals and incentives not profit-based.	– Excessive salaries to retain employees.
– Rising profits, flat sales.	– Rising profits, falling sales
– Reduced emphasis on sales.	– Reduced investment in R & D and product development.

Pathologies of Adolescence: Divorce or Premature Aging

The pain of raising an organization in Adolescence is very real and often prolonged. The major changes needed in decentralization, leadership, goals and incentives collectively results in conflict, with a capital "C". This Conflict exists between;

- Old-timers and newcomers.
- Founders, the new Professional Manager(s), and the Board.
- Founders and their long time employees.
- What is best for the company versus what some individuals see is best for themselves personally.

To deal with this conflict, the energy that used to be focused externally is now turned almost totally inward and is consumed by endless turf wars and in fighting. Both management and employees gravitate into factions for, and factions against, almost every important project, system, or person. Over time this pain will result in unwanted turnover;

- "It's not fun anymore."
- "We've forgotten why we're here. We're only fighting."
- "I wish I was back working with clients and products."

Adolescent pathologies occur when the fighting gets so bad that one party suffers irreparable damage to their trust and respect and can no longer effectively serve the company. The other parties finally decide that the only way to move forward is to eliminate the opposition. The most painful pathologies occur when the breakups involve family—spouses, parents, children, and other relatives. When the lawyers are called in, close families break up, and people stop talking to each other.

If the Founder regains control, they sack the professional managers. This is called a Divorce and generally causes the company to slip back into the Go-Go stage and Founder's Trap. If the more powerful, better-organized faction turns out to be the Professional Managers (often in alliance with the board of directors), the Founder is squeezed out. When the Founder and the other entrepreneurs leave and the numbers people take over, the company usually becomes more efficient, but less effective. After awhile, growth stalls and the company degrades into a prematurely aged Aristocracy. The optimal solution is for both parties to resolve their differences and work together. Intervention by an external consultant to precipitate this reconciliation process is often needed.

Prescription for Adolescent Success

To succeed in Infancy and Go-Go, companies must remain flexible and ready to change direction and grasp emerging opportunities at a moment's notice. To succeed in Adolescence, companies must improve their controls. The "house-of-cards" infrastructure must be replaced with a scalable solution that can support the current and future growth of the company. The challenge is to implement these controls in a way that does not smother the entrepreneurial spirit. This is a delicate balancing act because too much flexibility will also prevent the Adolescent company from reaching Prime.

To help ensure rapid and healthy transitions through Adolescence, many Founders elect to bring in a "professional" manager. When is the right time to pass the baton? Do it when the company is doing well, don't wait until things turn for the worse. For the transition in leadership to be most effective, Founders must be prepared to invest substantial time. To do it right takes time and lots of thinking and talking away from the firing line. To be most effective the process must also follow this sequence of events.

1. The Founder together with the COO and other senior executives define the company mission and strategy. Strategy is a company's game plan for winning; the team must map out the moves the business must make to outwit the competition, captivate customers and increase long-term shareholder value. The process must inspire all, guide the actions of the executive team, and mobilize employees. Up to this point, only the Founder understands the company's mission. If he has bothered to write it down, it probably exists as cryptic notes on the back of an envelope. To succeed, the rest of the Adolescent organization needs to understand and share that dream.
2. Throughout the Infant and Go-Go stage, most Founders monopolize the Entrepreneuring and Integrating functions in the company including marketing, new product development, business development, capitalization, and the recruiting of key employees. In the Adolescent stage, the organization must institutionalize these functions and relieve itself from over-dependency on the Founder. The next step is therefore to systematically and methodically design a structure organized around functions instead of people. Designing the right structure will have a major impact on how well or poorly the Adolescent company can implement its new mission and strategy. It is also crucial that a company "constitution" be created that institutionalizes the governance functions for the company and clearly articulates the roles, responsibilities and decision making authorities of the Board, the Senior Management Team and any other decision making bodies.
3. Accountability reporting is the next topic to be addressed. Financial and non-financial reports have to be congruent with the responsibilities of the new structure and this information needs to be delivered in a format that is useful to managers and the Founder.
4. The team designs the incentive systems that cause teams and people to behave in a manner consistent with the organization's new mission, goals and accountabilities.
5. Next is the tricky task of building the Founder's trust and respect for the new structure and the ability of the people to properly execute their responsibilities. The best approach is to stand-up an Executive Committee (EC) composed of top management with the new President as the Chairman. The founder is invited to all meetings of this group. If the following rules are followed he will rarely feel the need to attend.
    - The agenda is submitted to the Founder at least 48 hours prior to the meeting. Items not on the agenda cannot be discussed.
    - The Founder has the right to veto any item that they do not want discussed.
    - All members must agree with EC decisions. If the EC cannot agree, the decision must go to the Founder.
    - EC meeting must be submitted to the Founder no later than 48 hours after the meeting. The Founder has 48 hours to veto any decision made by the EC. Decisions not vetoed are final by default.

This approach works well for a number of reasons. While the Founder may initially attend meetings of the EC they quickly realize that the team decision making process is working. In the meantime the Founder feels that they can be "in control" without attending meetings. Since the EC is anxious to keep the Founder at arm's length they will strive to reach consensus. The benefits of having an EC are obvious. A complimentary team that makes decisions together will make better decisions than the Founder could make alone.

The initial goal of the EC is to generate some quick successes that clearly demonstrate their ability to make good decisions to the Founder and the Board. An effective EC will help the Founder realize they can relinquish some reins of control. At the same time, these successes show the employees that they are not dependent on the Founder.

6. To speed up the development of their infrastructure, many Adolescent companies opt to automate their processes, procedures and controls. Although automation can be great, it can also get the Adolescent company into more trouble if the effort is focused on automating *what is*, instead of *what should be*. Many times, Adolescent company's head down the wrong automation path that simply allows them to make mistakes faster. If this happens it will institutionalize the wrong power structure and make it more difficult to achieve the goals of the future. Poorly designed systems can also make it very difficult to change the Adolescent organizational structure. Like a badly set broken arm, automation needs to be broken again before it can be fixed properly.

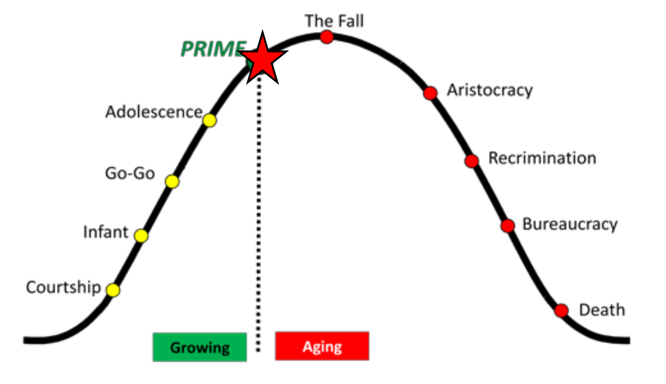
When a company has institutionalized its leadership and entrepreneurial activities and is no longer dependent on its Founder for success, and it has successfully built the infrastructure it needs to support current and projected growth, it enters Prime.

Prime – The Place to Be

Prime is not at the top of the lifecycle curve. This is because the curve depicts the vitality of an organization. In Prime, the vitality is at a maximum. After Prime, momentum starts to diminish. The trajectory of the company is still up, by the rocket is starting to fall.

PRIME is the only stage of the lifecycle where a company is be able to dominate its markets, sustain a position of leadership, and enjoy above average growth and profitability.

A company first challenge is to get to Prime, its second challenge is to stay there. Unless leadership takes the deliberate and proactive steps needed to stay in Prime, aging will automatically occur.



The Go-Go Lifecycle Stage

About Adizes

Our mission is to change how management is practiced and taught. Since 1971 we have pursued this calling, transforming the world one organization at a time.

We believe there is a better way to manage. We believe that way is a systematic, highly collaborative, common-sense approach that deeply engages the hearts and minds of employees at all levels, harnesses conflict constructively, and builds a strong and pervasive culture of mutual trust and mutual respect. Adizes provides leaders with the tools, resources, and support to develop this kind of management in any organization.

We know from over 40 years of experience with clients in 73 countries that range from the Global 100 to middle market companies, start-ups, and governments that our approach to management builds healthy, high-performing, self-managing organizations. Organizations that have the capability to successfully tackle any challenge, consistently WOW customers, attract and retain exceptional talent, generate superior financial returns, and become dominant competitors.

What We Do for Our Clients

We work with clients in two ways; 1) we teach them the principles and practices of Adizes, and 2) we work side-by-side and guide them to transform the management of their organizations through Adizes.

We guide CEOs and their leadership teams to navigate lifecycle challenges and reach PRIME – the only stage where a company is able to enjoy market leading growth and profitability. We are particularly adept helping Go-Go and Adolescent companies make lifecycle transitions. We have also had great success rejuvenating aging organizations. The challenges we help our clients address include;

- Accelerate profitability, growth, and market share.
- Build and strengthen management.
- Revitalize underperforming organizations and management teams.
- Succession execution and transition to new leaders and owners.
- Transition to professional management and avoiding Founder's Trap.
- Harness conflicts between founders, owners, board members, partners, and family members.
- Integrate clashing corporate cultures.

The Adizes Institute is ranked as one of the top leadership development consulting organizations in the United States by the Leadership Excellence Journal.