

Strategic Organizational Development, Growing Pains and Corporate Financial Performance: An Empirical Test

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In a previous paper, Flamholtz (1995) proposed a framework for strategic organizational development. This framework included an organizational effectiveness model (the six factor pyramid of organizational success), and a life cycle model (seven key stages of organizational growth, which uses revenues as a surrogate measure of organizational size. In this framework, strategic organizational development equilibrium occurs when there is a fit between the organization's strategic development of the six key building blocks of organizational success and its size or stage of development. When this fit does not occur, the organization will experience a variety of 'organizational growing pains.' These growing pains are symptoms of organizational distress and an indication of the need to change, if the organization wants to continue to operate successfully. The ultimate criterion of organizational success is the ability to continue to operate profitably, and therefore the ultimate measure of organizational success is financial performance.

The current paper builds upon this previous framework and presents an empirical test of the hypothesized relationship between 'organizational growing pains' and corporate financial performance. It also provides evidence that there appear to be certain threshold levels of growing pains which might be used to predict which organizations will be profitable versus those which are likely to be unprofitable. Although there has been research to test the overall relationship between the organiza-

tional effectiveness model and financial performance (Flamholtz and Aksehirli, 2000; Flamholtz and Hua, 2002), there has been no previous empirical research on the relationship between growing pains and financial performance, as reported in the present study. Another question of interest in this study is: are there benchmark levels of growing pains which might be used to predict which organizations will be profitable versus those which are likely to be unprofitable? The hypothesized relationship between growing pains and performance in previous literature has been conceptual in nature; in contrast, this study presents some very specific 'benchmarks' for growing pains in relation to successful organizational financial performance.

The current paper reports the results of a test of the hypothesized relationship between growing pains and financial performance within a US manufacturing firm, using a set of 15 relatively comparable divisions. Each division's growing pains was measured by a questionnaire (Appendix A). This score and these measures of financial performance ('EBIT') were used in a regression analysis to test the predictive validity of the hypothesized relationship. The results of the analysis suggest that there is a statistically significant relationship between growing pains and financial performance.

An analysis of the relationship between specific growing pains scores and financial performance was also conducted to determine benchmark levels

of 'safe' versus 'unsafe' growing pains. The results suggest that there appears to be a maximum level of growing pains beyond which organizational financial health is at risk. These findings have potentially significant implications for management theory and practice.

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Background

This paper builds upon previous research on strategic organizational development and financial performance (Flamholtz, 1995; Flamholtz and Aksehirli, 2000; Flamholtz and Hua, 2002).

Our basic premise is that when an organization grows it will almost inevitably experience a classic set of 'growing pains.' These growing pains are 'symptoms' that something has gone wrong in the process of strategic organizational development, and an 'early warning' of significant future problems. More specifically, strategic organizational development equilibrium occurs when there is a fit between the development of the six key building blocks of organizational success and the organization's size or stage of development (Flamholtz, 1995). When this fit does not occur, the organization will experience a variety of 'organizational growing pains.'

As we shall see below, organizational growing pains can directly influence financial performance or the so-called 'bottom line.' As a result, management needs: (1) to understand the nature and causes of growing pains, (2) to have a method of measuring them, and (3) a template to assess their severity. Our intent is to provide this set of managerial tools below. We shall also present the results of an empirical study designed to: (1) test the hypothesized relationship between 'organizational growing pains' and corporate financial performance, and (2) to provide evidence that there appear to be certain threshold levels of growing pains which might be used to predict which organizations will be profitable versus those which are likely to be unprofitable.

First, we will describe the ten classic or most common 'growing pains,' which we have identified in our work and research with organizations (Flamholtz, 1995; Flamholtz and Randle, 2000). Next we will explain the causes of growing pains in organizations. Then, we shall present an empirical test of the predictive relationship between growing pains and financial performance in a medium-sized company with several divisions. We will also show how growing pains can be used as leading indicators of future organizational performance, and especially organizational distress. Specifically, we shall provide evidence that there appear to be certain threshold levels of growing pains which might be used to predict which

organizations will be profitable versus those which are likely to be unprofitable. Finally, we will suggest the implications of this study for managers and future research.

The Theoretical Framework: Classic Growing Pains

Based upon our experience in working with a wide variety of organizations, we have identified ten classic symptoms of organizational growing pains (Flamholtz, 1995) and Flamholtz and Randle (2000). These growing pains, which are summarized in Table 4, Appendix A and described below, were derived from observations and assessments conducted with a wide variety of organizations (different sizes and industries).

1. People feel that 'there are not enough hours in the day'.
2. People spend too much time 'putting out fires.'
3. People are not aware of what other people are doing.
4. People lack understanding about where the firm is headed.
5. There are too few good managers.
6. People feel that 'I have to do it myself if I want to get it done correctly.'
7. Most people feel that 'our meetings are a waste of time.'
8. When plans are made, there is very little follow-up, so things just don't get done.
9. Some people feel insecure about their place in the firm.
10. The organization continues to grow in sales but not in profits.

People Feel That There Are Not Enough Hours In The Day

People feel they can work 24 hours a day, seven days a week and still not get all the required work done. When employees believe that they are being endlessly overworked morale problems can occur. People may simply decide they can no longer operate under these conditions and may leave the organization. This will result in significant turnover costs and replacement costs related to recruiting, selecting, and training new people.

People Spend Too Much Time 'Putting Out Fires'

This means that people are faced with an almost endless series of crises or 'fires.' Examples of 'putting out fires' problems are easy to find. 'Fires' or crises were so prevalent at one \$50 million manufacturing company in the US, that thirty-three managers began to

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