

Strategic Organizational Development and the Bottom Line: Further Empirical Evidence

ERIC FLAMHOLTZ, *University of California at Los Angeles*

WEI HUA, *University of California at Los Angeles*

This paper provides an empirical test of a holistic model of organizational success. It builds upon previous work by Flamholtz (1995) and Flamholtz and Aksehirli (2000) to develop a model of organizational success and failure. The initial model of Flamholtz (1995) proposed that there are six key factors or 'strategic building blocks' of successful organizations, and the six key variables must be designed as a holistic system, which has been termed 'The Pyramid of Organizational Development.' Subsequently, Flamholtz and Aksehirli (2000) proposed a link between the organizational development model and the financial success of organizations. They analyzed financial and non-financial information relevant to the hypothesized model for eight pairs of companies in different industries, and found a statistically significant relationship.

This current paper builds upon the previous research and provides additional empirical evidence of the hypothesized link between the organizational development model and financial performance. However, this paper reports the results of a test within a *single* firm, using a set of fifteen relatively comparable divisions. A related research question concerned the thresholds of strategic organizational development for profitability of individual companies or operating units.

Each division was evaluated in terms of the six key strategic building blocks. Scores were assigned to

indicate the degree of each division's 'strategic organizational development.' This score and measures of financial performance ('EBIT') were used in a regression analysis to test the predictive validity of the framework.

The results of the regression analysis suggest that there is a statistically significant relationship between the development of the six critical success factors and overall financial success of organizations. An analysis of the data on the relation between 'average pyramid score and EBIT' for each of the individual divisions was also conducted to determine threshold levels of 'strategic organizational development' and profitability. Accordingly, this research provides further empirical support for the hypothesized relationship between the Pyramid of Organizational Development model and the financial success of organizations. © 2002 Published by Elsevier Science Ltd.

Keywords: Organizational development, Bottom line, Strategic building blocks, Financial success

Background

In a previous paper, Flamholtz (1995) proposed a six-factor framework to understand and plan the successful growth of firms at different stages of growth as well as to explain organizational success and fail-

ure. The framework has subsequently been elaborated further and used to discuss case histories of success and failure of a wide variety of organizations (Flamholtz and Randle, 1998). In addition, another previous paper (Flamholtz and Aksehirli, 2000) has provided some preliminary empirical evidence of the hypothesized relationship between the proposed organizational success model and financial performance. To test this hypothesized relationship, they analyzed financial and non-financial information relevant to the hypothesized model for eight matched pairs of companies in different industries.

The current paper aims to build upon the previous theoretical and empirical work and provide additional empirical evidence on the predictive validity of the proposed holistic framework in the analysis of firms' success and failure. Although there is, as discussed in Flamholtz (1995), ample evidence of the relevance and validity of the individual variables included in the framework, previous empirical research on the framework as a whole has been limited (see Randle, 1990; Flamholtz and Aksehirli, 2000).

Specifically, this article draws upon the Pyramid of Organizational Development framework (Flamholtz, 1995; Flamholtz and Randle, 1998; Flamholtz and Aksehirli, 2000) and reports the results of an empirical test of the hypothesized relationship regarding financial success and the degree of development of six key variables (or 'strategic building blocks') included in the organizational development pyramid within a *single* firm.

The next section provides a review of the key aspects of the framework relevant to this research. The third section will explain the research hypothesis and research design used in the empirical assessment of the framework. That section also includes a description of the company used to test the framework. Results of the test are presented in the fourth section. Finally, the conclusions of the analysis and the implications of these conclusions for management and researchers will be considered in the final section.

The Theoretical Framework

The theoretical framework underlying this article that was previously presented (Flamholtz, 1995) is reviewed briefly below. A more extensive discussion can be found in Flamholtz (1995) or Flamholtz and Randle (1998).

The initial premise or hypothesis underlying the framework is that organizations must perform certain tasks to be successful at each stage of their growth. The six key tasks or dimensions, all of which have been supported by previous research, are:

- ❖ Identification and definition of a viable market niche (Aldrich, 1979; Brittain and Freeman, 1980; Freeman and Hannan, 1983),
- ❖ Development of products or services for the chosen market niche (Burns and Stalker, 1961; Midgley, 1981)
- ❖ Acquisition and development of resources required to operate the firm (Pfeffer and Salancik, 1978; Brittain and Freeman, 1980; Carroll and Yangchung, 1986),
- ❖ Development of day-to-day operational systems (Starbuck, 1965),
- ❖ Development of the management systems necessary for the long-term functioning of the organization (Child and Keiser, 1981; Tushman *et al.*, 1985)
- ❖ Development of the organizational culture that management feels necessary to guide the firm (Peters and Waterman, 1982; Walton, 1986).

A second premise or hypothesis is that each of these tasks must be performed in a stepwise fashion in order to build a successful organization, and, taken together, they comprise six 'key strategic building blocks' of successful organizations. Each of these key tasks or strategic building blocks will be discussed in detail below.

Identification of Market Segment and Niche

The first challenge for a new venture in organizational survival or success is to identify a market need for a marketable service or product. The chances of organizational success are enhanced to the extent that the firm is successful in this step (Flamholtz, 1995).

The challenge is not merely in identifying the market but also, if possible, to capture a 'market niche,' a relatively protected place that would give the company sustainable competitive advantages. Failing to define a niche or mistakenly abandoning the historical niche can cause an organization to experience difficulties and even failure. The process of identifying the market involves the development of a strategic market plan to identify potential customers and their needs and the creation of a competitive strategy (Flamholtz, 1995).

Development of Products and Services

The second challenge or strategic building block involves the development of products and/or services. This process can also be called 'productization,' which refers to the process of analyzing the needs of customers in the target market, designing the product and developing the ability to produce it (Flamholtz and Randle, 2000). For a production firm this stage involves the design and manufacturing phases, whereas for a service firm, this stage involves forming a system for providing services to the customers (Flamholtz and Randle, 2000).

The success at this stage is highly related to the previous critical task, proper definition of the market niche (Flamholtz, 1995). Unless a firm fully understands the needs of the market, it cannot satisfy those needs in productization.

Acquiring Resources

Success in identifying a market niche and productization will create increased demand for a firm's products or services. Consequently, the resources of the firm will be spread very thin (Flamholtz, 1995). The organization will require additional physical, financial and human resources. This is the point at which the entrepreneurs should start thinking about the long-term vitality of the firm and procure all the necessary resources to survive the pressure of current and future increase in demands (Flamholtz and Randle, 2000).

Development of Operational Systems

The fourth critical task is the development of basic day-to-day operational systems, which include accounting, billing, collection, advertising, personnel recruiting and training, sales, production, delivery and related systems (Flamholtz, 1995). Entrepreneurial companies tend to quickly outgrow the administrative systems available to operate them. Therefore, it is necessary to develop sufficient operational systems, on time, to build a successful organization. In contrast, large established companies might have developed overly complicated operational systems. In this case, the success of the organization depends on the re-engineering of operational systems (Flamholtz, 1995).

Development of Management Systems

The fifth step is to develop the management systems, which is essential for the long-term viability of the firm (Flamholtz and Randle, 2000). Management systems include systems for planning, organization, management development and control. Planning systems involve planning for the overall development of the organization and the development of scheduling and budgeting operations. It includes strategic planning, operational planning and contingency planning (Flamholtz, 1995). The mere existence of planning activities does not indicate that the firm has a planning system. A planning system ensures that planning activities are strategic and ongoing.

Organizational structure involves the ways in which people are organized and activities are coordinated. As with the planning activities success depends, not on the mere existence of a structure but on the match between the structure and business strategy (Flamholtz, 1995).

The process of planned development of the current and future managers is a Management Development System. Control systems are the set of processes (budgeting, goal setting) and mechanisms (performance appraisal) that would encourage behavior that would help in achieving organizational objectives (Flamholtz, 1995).

Developing Corporate Culture

Just as people have personalities, organizations have cultures, which are composed of shared values, beliefs and norms. Shared values refer to the importance the organization attaches to the aspects of product quality, customer service, and treatment of employees. Beliefs are the ideas that the people in the organization hold about themselves and the firm. Lastly, the norms are the unwritten rules that guide interactions and behavior (Flamholtz, 1995).

The Model as a Whole

Taken together, these six tasks or strategic building blocks lead to a hierarchical model of organizational development, as seen in Figure 1. Similar hierarchical views are present in the previous literature. Woodward discussed a similar relation between market niche and product, and structure and culture. In addition, Chandler's (1962) book, *Strategy and Structure*, suggests that a firm's structure follows from its long-term strategy.

It should be noted that the pyramid shape does not imply that the key tasks are carried out independently. All six tasks are vital for the health of the firm, and must occur simultaneously. However, the relative emphasis on each task or level of the Pyramid will vary according to the organization's stage of growth (Flamholtz, 1995). The top four levels of the pyramid, which form the 'infrastructure' of the firm, are less susceptible to imitation (Flamholtz, 1995), and, accordingly, provide the basis for long term sustainable competitive advantage. Thus, although competition between firms takes place at all levels, long-term sustainable advantage is primarily found at the top three levels.

The emphasis that should be given to each task differs depending on the size of the firm. Organizations experience developmental problems if their infrastructure is not consistent with their size. The parallel relationship with size and organizational structure leads to an organizational life cycle model that complements the Organizational Development Pyramid (Flamholtz, 1995), as shown in Figure 2.

As seen in Figure 2, each stage of growth is viewed as having a set of critical developmental tasks. For example, the critical tasks at Stage I are markets and

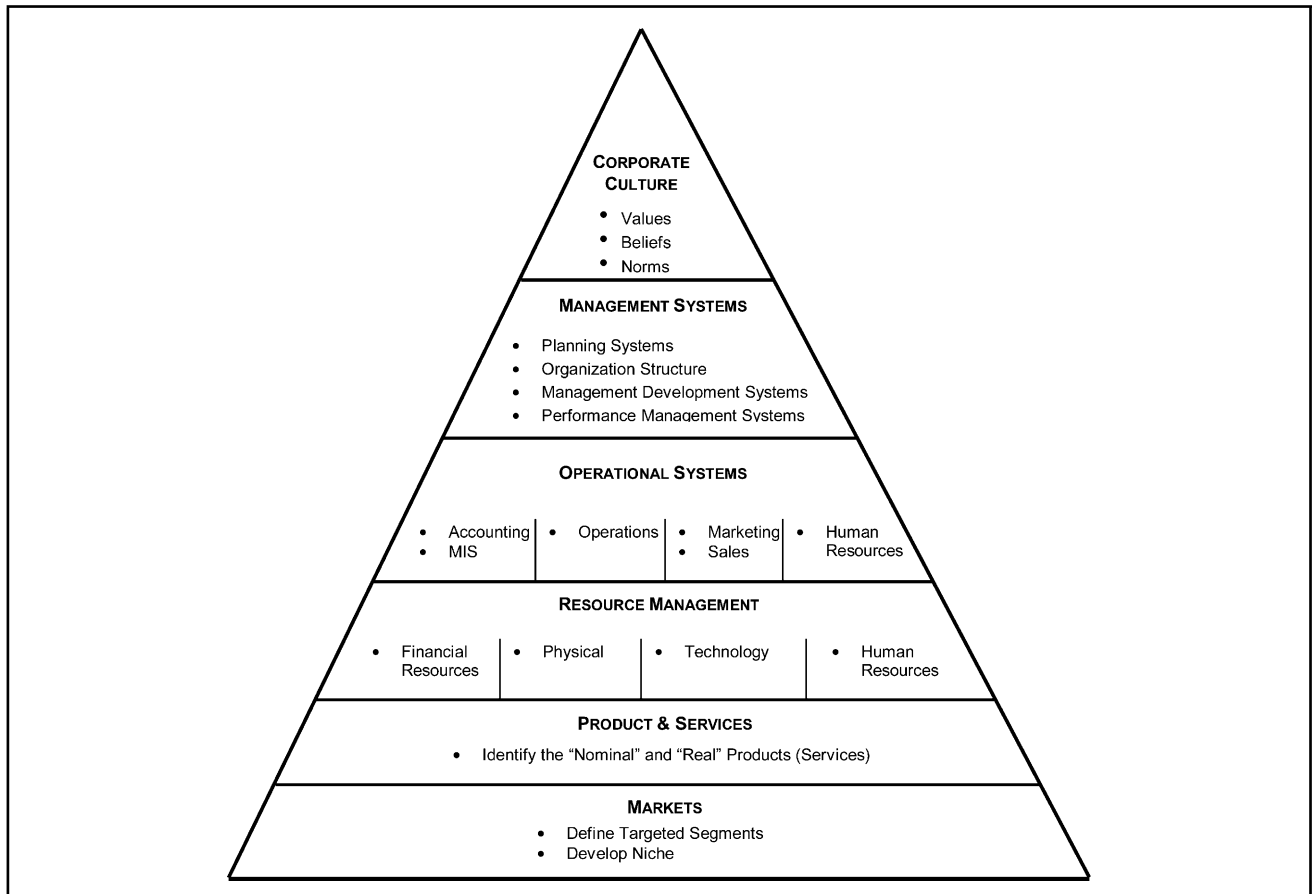


Figure 1 Pyramid of Organizational Development: The Six Key Building Blocks of Successful Organizations

Stage	Description	Critical Development Areas	Approximate Organizational Size (in sales)*	
			Manufacturing Firms	Service Firms
I.	New venture	Markets and products	Less than \$1 million	Less than \$0.3 million
II.	Expansion	Resources and operational systems	\$1 - \$10 million	\$0.3 - \$3.3 million
III.	Professionalization	Management systems	\$10 - \$100 million	\$3.3 - \$33 million
IV.	Consolidation	Corporate culture	\$100 - \$500 million	\$33 - \$167 million

* U.S. Dollars

Figure 2 Stages of Growth

products, while at Stage III the critical task is the development of management systems.

Implications of the Theoretical Framework

The theoretical framework presented above has a number of implications for management and research. These are presented below:

1. The six key strategic building blocks or tasks of organizational development are hypothesized to influence or explain overall organizational success. This means that the six key variables are expected

- to have an impact on the financial performance or 'so-called bottom line' of organizations.
2. The six key variables are expected to 'work together' to explain overall organizational success. Although the six variables have all been identified in the research literature as significant factors in organizational success, the holistic pyramid model is based upon the notion that, to achieve optimal performance, they all must be designed as a whole. This means that they are hypothesized to have more impact as a whole than individually.
3. Each of the six key variables are thought to be more important at different stages of growth: markets and products at Stage I, resources and oper-

ational systems at Stage II, management systems at Stage III, and culture at Stage IV.

In brief, there are a number of implications or hypotheses implied by the organizational success model previously developed.

Research Design

This section describes the overall research design, outlines the research hypotheses, explains the data collection procedure, and discusses the measurement or operationalization of the variables. A description of the research site and a discussion of statistical methods are also included in this section.

Research Hypothesis

Drawing on the framework described in the previous section, the present study involves an empirical examination of the relation between success in six critical tasks of the organizational development pyramid and the financial success of the organizations.

The following hypothesis is used to assess this:

H1: The success of a company in managing the six key tasks of the organizational development pyramid framework positively affects the financial performance of the enterprise.

Related Research Question

Another question concerned the thresholds of strategic organizational development for profitability of individual companies or operating units. Specifically, we wanted to identify potential 'benchmarks' of organizational development to serve as guideposts for developing the six key strategic building blocks. Stated differently: What are the levels of strategic organizational development required for profitability and superior profitability in companies? This was intended as an exploratory issue rather than as a test of a hypothesis.

Research Strategy

This study was conducted as part of a program of action research on a medium-sized industrial enterprise operating in the United States. The company was engaged in an organizational development program designed to enhance overall organizational effectiveness, and, consequently, financial performance. As a result, it was possible to assess the impact of a company's strategic organizational development on its financial performance as a by-product of the ongoing organizational development program.

Research Site Description: 'Banner Corporation'

The research site (for which we shall use the pseudonym, 'Banner Corporation') is a US-based, medium-sized industrial enterprise. Banner represents the classic 'old economy.' The company is a parts manufacturer for industrial, truck and other automotive businesses. It is a supplier of parts for such companies as Ford Motor Company, Navistar, and Dana Corporation.

Reasons for the Study

The company was formed primarily through acquisitions in a classic 'roll up' strategy, a strategy of industry consolidation through acquisitions. It consisted of several different 'divisions,' each of which had been stand-alone entrepreneurial companies, with revenues ranging from about \$25 million annually to about \$100 million. At the time of this study, the divisions totaled about \$700 million in annual revenue. These divisions consisted of a set of reasonably related technologies, such as foundries and forges. The foundries ranged from processing capacity for 'grey iron' to 'ductile iron' to 'lost foam' to other similar technologies. The nature of the business of such entities is 'job order manufacturing.'

The similarities between the divisions present a relatively unique opportunity for comparison. The company had been formed from a set of stand-alone companies. Each of the 15 individual companies, or 'divisions,' as they were termed, operated in various parts of the United States. They all had revenues between \$25 million and \$100 million (Stage III, as seen in Figure 2), and 14 were between \$25 million and \$50 million.

The company was engaged in making a fundamental change in corporate strategy. Specifically, the 'old' strategy had been to consolidate a fragmented industry and allow the individual companies (divisions) to operate autonomously, with a few corporate policies and systems. The 'new' strategy was to leverage the company's critical mass and use its combined resources to serve large clients, such as Ford, Navistar, Dana, etc. This required a cooperative effort among the divisions of sales and order fulfilment.

Research Question

The general research question addressed here is: is there a relationship between the degree of strategic organizational development (as represented by the six variable model) and the financial performance of an organization?

Methodology

This section describes the method for the research. First, we shall describe the action project at the company. Then we will discuss how the research was conducted as part of that project.

The first step in this phase was to train the senior management team (including the CEO, CFO, Senior Group VPs, VP of Human Resources, and selected others) in the organizational success model (Flamholtz, 1995; Flamholtz and Aksehirli, 2000). The model is shown in Figure 1. This model was being used by the company as part of its strategic planning process.

The next step was to have the members of the senior management team ($n = 10$) assess the degree of strategic organizational development for the six key variables for each division. To assess this, these variables were assessed on a Likert Scale. Specifically, the ten senior executives of the company were asked to rate each division on each of the six key strategic building blocks (markets, products, etc.) using a five-point Likert scale. The results of this assessment were used to construct an 'average pyramid development score.' The scores range from 1.83 to 4.08, where 1.0 is the lowest possible score and 5.0 is the highest possible score, as shown in Figure 3.

To measure financial performance or the 'bottom line' for each division we used divisional 'EBIT'

(earnings before interest, and taxes), a classic measure of financial performance and the one that Banner Corporation also uses to assess its own divisional performance, for fifteen divisions. This data is also shown for each division in Figure 3.

Hypothesis Testing

The data on the average degree of organizational development was used as an input to the research to address the question concerning the impact of the degree of organizational development on the financial performance, or 'bottom line,' of organizations as described below. To assess this issue, we compared divisional strategic organizational development scores (as explained below) with divisional 'EBIT' (earnings before interest, and taxes), a classic measure of financial performance and the one that Banner Corporation also uses to assess its own divisional performance, for fifteen divisions. Specifically, we ran a regression between: (1) the degree to which each division was perceived as being developed in terms of the six key strategic building blocks as a whole (i.e. 'the average pyramid development score') and (2) EBIT. Stated differently, the hypothesis is that the highest performing divisions are those that are the most developed in terms of the pyramid, whereas the lowest performing divisions (financially) are those that are least developed in terms of the six key strategic building blocks.

Division	Pyramid Score	EBIT
1	4.08	10.27
2	4.00	15.23
3	3.67	11.89
4	3.50	14.31
5	3.38	11.13
6	3.00	8.47
7	2.83	7.25
8	2.83	4.75
9	2.83	-2.24
10	2.67	-1.77
11	2.50	6.24
12	2.33	3.11
13	2.33	-11.17
14	2.20	2.41
15	1.83	0.87

Figure 3 Average Pyramid Development Score and EBIT for All Divisions

Results

The data derived and used in this comparison is shown in a graph in Figure 4. The x-axis shows the 'average divisional strategic organizational development.' This is a measure of the degree of strategic development of each of the divisions in terms of the six key strategic building blocks of successful organizations, as measured by a five point Likert scale. It is an average of the scores for each of the six components of the pyramid of organizational development. The y-axis presents EBIT values for the various divisions. Accordingly, Figure 4 shows the relation between the degree of organizational development of the fifteen divisions and EBIT for all divisions.

The regression equation describing the relationship among variables in Figure 4 is: $y(\text{EBIT}) = -17.14 + 7.77 \times \text{Pyramid Score}$. Adjusted R^2 is 0.55, and is statistically significant at the 0.0003 level. This means that approximately 55 per cent of EBIT is explained by the six variables comprising the Pyramid of Organizational Development. There is a 99.97 per cent probability that this result could not occur by chance alone. This result provides strong support for the hypothesis of a relationship between the degree of strategic organizational development and the financial performance of organizations.

Additional Findings: Benchmarking Levels of Strategic Organizational Development

In addition to the overall results of this research concerning the relationship between the strategic organizational development of companies, as measured in terms of their development of the Pyramid of Organizational Development, there are some other poten-

tially significant findings. We also performed an analysis of the data on the relation between 'average pyramid score and EBIT' for each of the individual divisions to determine threshold levels of 'strategic organizational development' and profitability.¹ It will be recalled that each division is essentially an independent operating company. This analysis involves ranking the divisions by their pyramid score and examining the related EBIT to determine the minimum level of strategic organizational development required for different levels of profitability. This analysis is shown in Figure 3.

As seen in Figure 3, all of the six divisions with strategic organizational development scores greater than 3.0 were profitable. In contrast, for the nine divisions with strategic organizational development scores less than 3.0, six were profitable and three were 'unprofitable' (i.e. negative EBIT). Tentatively, this suggests that there is 100 per cent probability of profitability for organizations with pyramid scores greater than 3.0. Similarly, it also suggests that there is a 33 per cent chance of unprofitability for organizations with pyramid scores less than 3.0.

While a level of development of 3.0 seems to be the threshold for being profitable, most organizations want to achieve superior financial performance. In the present case of Banner Corporation, management defines superior performance to be at least 10 per cent EBIT. As seen in Figure 3, a score of at least 3.3 seems to be required to achieve at least a 10 per cent EBIT, the threshold of superior financial performance in this type of business.

Figure 5 presents summaries of the average pyramid scores and related average EBIT for the 15 divisions clustered by thirds: the top third (divisions 1-5), the

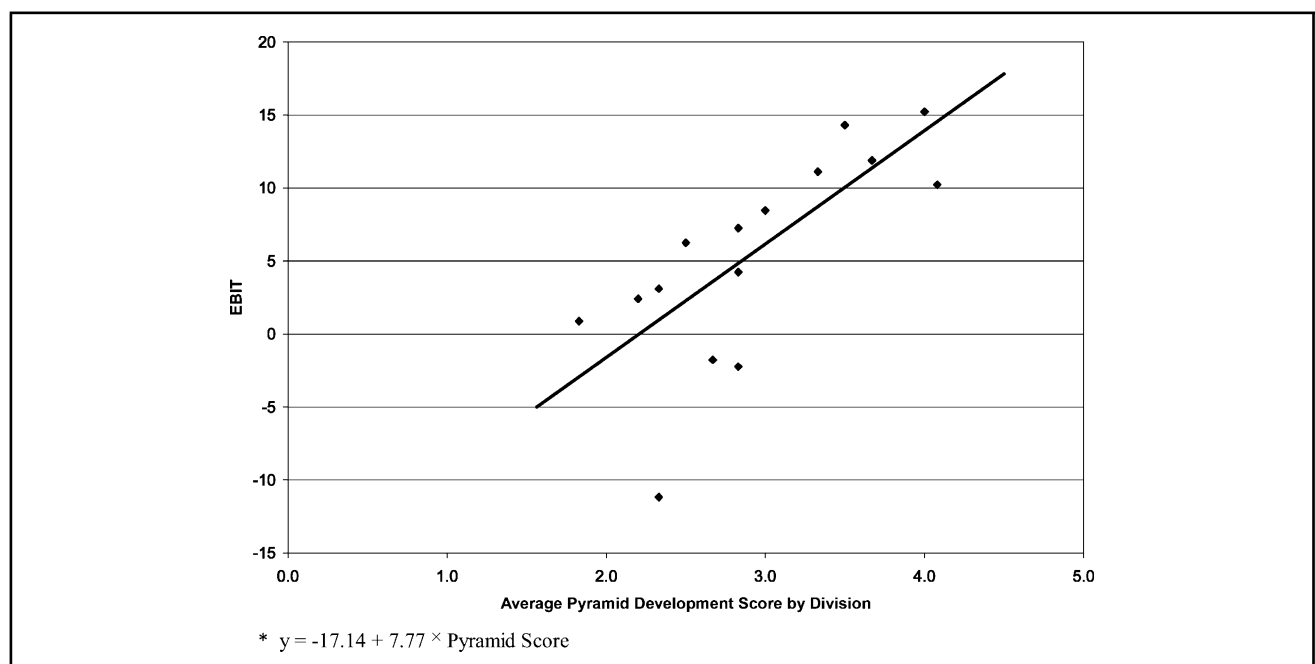


Figure 4 Divisional Average Pyramid Development versus EBIT.

Divisions	Pyramid		EBIT	
	Average	Range	Average	Range
1 - 5	3.73	3.38 – 4.08	12.57	10.27 – 15.23
6 – 10	2.83	2.67 – 3.00	3.29	-2.24 – 8.47
11 - 15	2.24	1.83 – 2.50	0.29	-11.17 – 6.24

Figure 5 Average Pyramid Development versus Average EBIT for Three Sets of Divisions

middle third (6–10), and the bottom third (11–15). As seen in Figure 5, the average pyramid score of the top one-third divisions is 3.73, and the related average EBIT is 12.6 per cent. As the average pyramid score decreases so does the average EBIT. The middle third has an average pyramid score of 2.83, with a related EBIT of 3.29. The lowest one-third of divisions had an average pyramid score of 2.24, with a related average EBIT of 0.29%.

It should be noted that these findings make intuitive sense in terms of the measurement scale used (a classic Likert scale). Specifically, to achieve at least a level of three the pyramid variables must all be developed at least 'to some extent.' While it is possible for an organization to have one overwhelming competitive advantage that can account for profitability, this is not likely to be the case in the type of sample of companies used in this research because all were in the same industry, of relatively comparable size, and were units of the same parent company. This made Banner Corporation a particularly good research site for comparability of data.

These findings are presented as exploratory indications of possible significant relationships rather than tests of hypotheses, but they may be subject to future hypothesis testing as well. If valid, this can be very useful information to management. It can also be useful to auditors and possibly even to investors.

Conclusions, Implications, and Future Research

The data derived from this study provide further empirical support that the proposed model of strategic organizational development does have an impact on financial performance. This has important implications for management theory and practice. It is one thing to assert that organizational development is a significant factor of organizational success and quite another to be able to demonstrate that the effective management of these variables can enhance profitability.

Implications for Management

We believe that managers ought to be using the Pyramid of Organizational Development framework as a 'lens' for planning the strategic development of organizations. This means that it should be used in strategic planning as a focus for organizational development. This is supported by the principal research findings from this study as well as from prior research (Flamholtz and Aksehirli, 2000).

In addition, our findings concerning the minimum levels of organizational development in relation to divisional or operating company profitability are, at a minimum, suggestive of threshold levels of required organizational development. While they are not quite yet ready to be used as definitive data, they are sufficiently suggestive as preliminary guidelines for organizational analysis and development.

Our belief is that this data can be used by managers as minimum guidelines to benchmark their company's strategic organizational development.

Future Research

From an academic perspective, the results reported here are preliminary but quite promising. It would be valuable for future research to replicate the current study. However, this will require a research site comparable to the Banner Corporation. The research site does not require a whole industry, only the existence of a large number of relatively comparable divisions. Nevertheless, this is difficult to do in practice.

Two specific types of research would be valuable: (1) a replication of the test of the principal hypothesis concerning the relationship between the pyramid and overall financial performance, and (2) replication of the findings on the thresholds of pyramid scores required by individual companies for profitability and superior financial performance.

Conclusion

This study has provided a relatively rare opportunity to assess the impact of organizational development on financial performance in the context of a single company. The results provide additional empirical support for previous theoretical and empirical work on the six-factor model of organizational success. In addition, the results also suggest some 'benchmarking' levels of strategic organizational development required to achieve profitability and superior financial performance.

While the results are not completely definitive, they do provide statistically significant evidence of the impact of organizational development on the 'bottom line.'

Acknowledgement

The authors gratefully acknowledge that the research reported in this paper was partly supported by the Harold Price Center for Entrepreneurial Studies in the Anderson School at UCLA.

Note

1. Statistically, from the regression equation $EBIT = -17.14 + 7.77 \times \text{Pyramid Score}$, we can let $EBIT = 0$, and the threshold Pyramid Score is 2.21. In other words, given a population of firms with continuous Pyramid Scores, any firm with a score greater than 2.21 will yield a positive EBIT (being profitable), while any firm with a score less than 2.21 will yield a negative EBIT (being unprofitable). The discussion in this section is limited to the branches from the sample we have for this study.

References

- Aldrich, I. (1979) Organizational passages: diagnosing and treating life cycle problems in organizations. *Organizational Dynamics* **Summer**, 3–24.
- Brittain, J.W. and Freeman, J. (1980) Organizational proliferation and density-dependent selection. In *The Organizational Life Cycle Issues in the Creation, Transformation, and Decline of Organizations*, eds J.R. Kimberly and R.H. Miles, pp. 291–338. Jossey-Bass, San Francisco.
- Burns, T. and Stalker, G.M. (1961). *The Management of Innovation*. Tavistock, London.
- Caroll, G.R. and Yangchung, P.H. (1986) Organizational task and institutional environments in ecological perspective: findings from the local newspaper industry. *American Journal of Sociology* **91**, 838–873.
- Chandler, A.D. (1962). *Strategy and Structure: Chapters in the History of the Industrial Enterprise*. MIT Press, Cambridge.
- Child, J. and Keiser, A. (1981) Development of organizations over time. In *Handbook of Organizations: Adapting Organizations to their Environments*, eds P.C. Nystrom and W.H. Starbuck, pp. 28–64. Oxford University Press, New York.
- Cook, T.D. and Campbell, D.T. (1979). *Quasi-experimentation: Design and Analysis Issues for Field Settings*. Houghton Mifflin Company, Boston, MA.
- Flamholtz, E. (1995) Managing organizational transitions: implications for corporate and human resource management. *European Management Journal* **13**(1), 39–51.
- Flamholtz, E.G. and Aksehirli, Z. (2000) Organizational success and failure, an empirical test of a holistic model. *European Management Journal* **14**(5), 488–498.
- Flamholtz, E. and Randle, Y. (1998). *Changing the Game: Organizational Transformations of the First, Second, and Third Kinds*. Oxford University Press, New York.
- Flamholtz, E. and Randle, Y. (2000). *Growing Pains: Transitioning from and Entrepreneurship to a Professionally Managed Firm (new rev. ed.)*. Jossey-Bass, San Francisco.
- Freeman, J. and Hannan, M.T. (1983) Niche width and the dynamics of organizational populations. *American Journal of Sociology* **88**, 1116–1145.
- Midgley, D.F. (1981) Toward a theory of the product life cycle: explaining diversity. *Journal of Marketing* **45**, 109–115.
- Peters, T.J. and Waterman, R.H. (1982). *In Search of Excellence*. Harper and Row, New York.
- Pfeffer, J. and Salancik, G.R. (1978). *The External Control of Organizations: A Resource Dependence Perspective*. Harper and Row, New York.
- Quinn, R.E. and Cameron, K. (1983) Organizational life cycle and shifting criteria for effectiveness: some preliminary evidence. *Management Science* **29**(1), 33–51.
- Randle, Y. (1990) Towards an ecological life cycle model of organizational success and failure. Unpublished Ph.D. dissertation, UCLA.
- Siegel, S. (1956). *Nonparametric Statistics for the Behavioral Sciences*. McGraw-Hill, New York.
- Starbuck, W. (1965) Organizational growth and development. In *Handbook of Organizations*, ed. J.G. March, pp. 451–533. Rand McNally, Chicago.
- Tushman, M.L., Virany, B. and Romanelli, E. (1985) Executive succession, strategic reorientation, and organization evolution: the minicomputer industry as a case in point. *Technology in Society* **7**, 297–313.
- Walton, R.E. (1986) A vision-led approach to management restructuring. *Organizational Dynamics* **Spring**, 9–16.



ERIC FLAMHOLTZ, Anderson Graduate School of Management, University of California at Los Angeles, 405 Hilgard Avenue, Los Angeles, California 90024-1418, USA. E-mail: ef@mgtsystems.com

Dr Eric Flamholtz is Professor of Management at UCLA. He is also President of the Management Systems

Consulting Corporation which he founded in 1978. A prolific author, his most recent book is *How to Make the Transition from an Entrepreneurial to a Professionally-Managed Firm* (Jossey-Bass, 2000), co-authored with Yvonne Randle. He is currently working on another book dealing with strategy and executive leadership.



WEI HUA, Anderson Graduate School of Management, University of California at Los Angeles, 405 Hilgard Avenue, Los Angeles, California 90024-1418, USA. E-mail: wei.hua@anderson.ucla.edu

Wei Hua is a doctoral candidate of organizational behavior and human resource management at

UCLA. Her research interests include organizational demography, trust and organizational culture.