

Organizational Design Change and Transformation
Prof. Susmita Mukhopadhyay
Vinod Gupta School of Management
Indian Institute of Technology, Kharagpur

Module - 10
Lecture - 47
Organizational Decline and Death

Welcome back to the discussions on Organizational Design Change and Transformation. We are on module 10 lecture 47, in this lecture we will be discussing about organizational decline and death. If you remember in the last session where we were discussing the organizational life cycle stages, we discussed about the stage of decline and death.

And in also like whenever we were discussing about the Grainer's model of growth stages towards the last while we were discussing about organizational collaboration, we were discussing also about organizational failure. And in that session, we told you like we will be discussing about death and decline in like in more details. In because in one session it is not possible you know like to cover or to do you know like justice to all the important stages of growth and or the life cycle.

So, in that session we told you like we are going to discuss separately on decline stages and death stages or to understand the after collaboration if there is a crisis and people are not able to collaborate properly with the stakeholders in the environment. And also the inter external and internal environment, why it leads to failures.

And of course, failure is a signal like which talks about like the alarm is there like organization maybe has entered into the decline and death stage. And we will know this stages in a better way to understand how maybe we are able to come out of these stages. So, let us proceed with the discussion of the organizational decline and the death stages; so, let us see what is there in this today's discussion.

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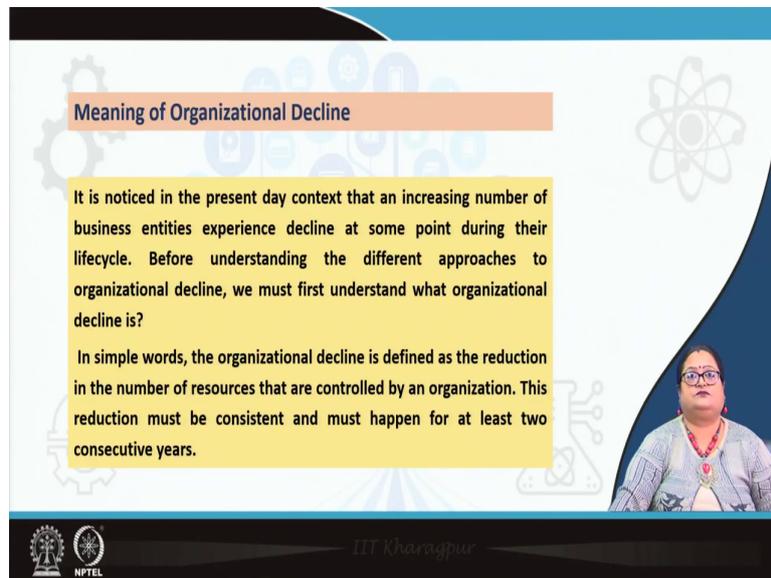
CONCEPTS COVERED

- The meaning of organizational decline,
- Why organizational decline happened, general, internal and external cause,
- Models of organizational decline, organizational challenges and organizational decline,
- Process of organizational decline,
- Organizational death, death spiral,
- How to avoid organizational death spiral, and survival strategies

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So, the concepts covered today are on the meaning of organizational decline, why organizational decline happened, general, internal and external cause. The models of organizational decline, organizational challenges and organizational decline, processes of organizational decline, organizational death, death spiral and of course. At the end how to avoid organizational death spiral and go for the survival strategies; so, let us begin.

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Meaning of Organizational Decline

It is noticed in the present day context that an increasing number of business entities experience decline at some point during their lifecycle. Before understanding the different approaches to organizational decline, we must first understand what organizational decline is?

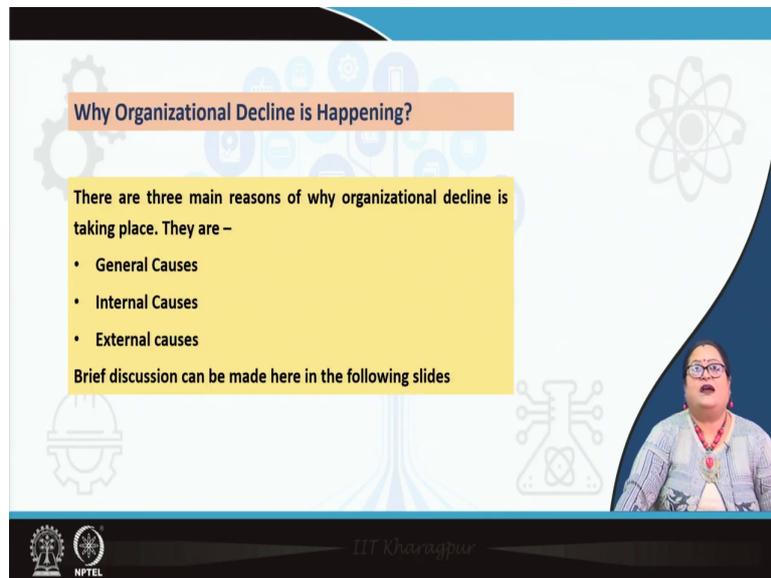
In simple words, the organizational decline is defined as the reduction in the number of resources that are controlled by an organization. This reduction must be consistent and must happen for at least two consecutive years.

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Now, what is the meaning of organizational decline? So, it is noticed in the present day context that an increasing number of business entities experience decline at some point during their life cycle. Before understanding the different approaches to organizational decline, we must first understand what organizational decline is.

In very simple words it is defined as the reduction in the number of resources that are controlled by an organization. This reduction must be consistent and must happen for at least two consecutive years.

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Why Organizational Decline is Happening?

There are three main reasons of why organizational decline is taking place. They are –

- General Causes
- Internal Causes
- External causes

Brief discussion can be made here in the following slides

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Why organizational decline is happening? There are three main reasons of why organizational decline is taking place. They are general causes, internal causes, external causes, a brief discussion on this will make us understand it in better way.

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General Causes of Organization Decline

Declining in the organization

- I. Blaming people or finding a scapegoat to expose;
- II. Blaming the bureaucracy or the argument that organizations are built on red tape or some lack clear vision and goals; and
- III. The need for power or arguing that key executives are more interested in advancing their own agenda/turf rather than the interests of their organizations

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Now, what are the general causes of organizational decline? It is like blaming people or finding a scapegoat to expose, blaming the bureaucracy or the argument that the organizations are built on red tape or some lack clear vision and goals. And the need for power or arguing that key executives are more interested in advancing their own agenda or turf rather than the interest of the organization, these are the general causes of organizational decline.

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Internal Causes of Organization Decline

- **Rigidity within the Organization**
Like human being, organizations are also like creatures. It is therefore, just like living creatures, they must constantly grow and evolve. The failure to do so is called rigidity and is one of the leading causes of organizational decline.
- **Lack of Innovation**
Since change is the main cause of the organizational decline, it is obvious that innovation is the best strategy to face this challenge. However, the problem with innovation is that it is a difficult process. Innovation often requires trial and error.

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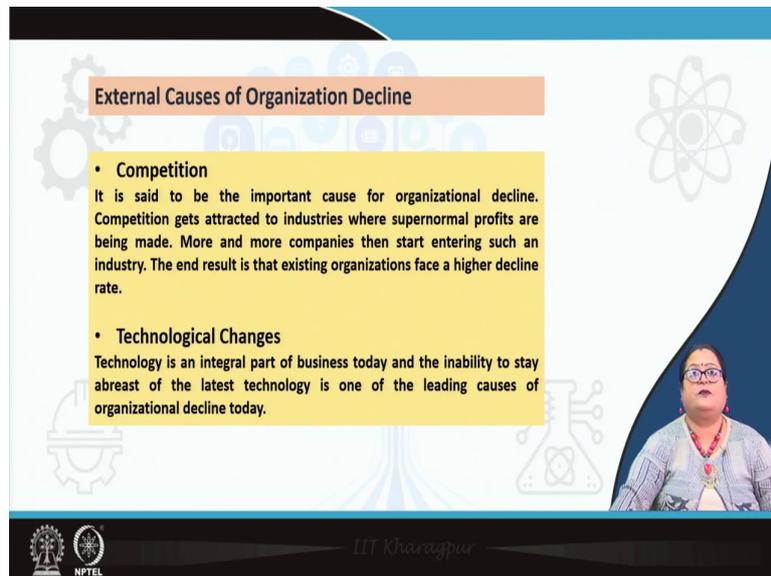
Internal causes of organizational decline, rigidity within the Organization. Like human being organizations are also like creatures. It as we told when we initiated the discussion on organizations; it is therefore, just like living creatures they must constantly grow and evolve. The failure to do so is called rigidity and is one of the leading causes of organizational decline.

Lack of innovation, since change is the main cause of organizational decline it is obvious that the innovation is the best strategy to face this challenge. However, the problem with innovation is that it is a difficult process, innovation often requires a some trial and error and in doing that you need to be resilient.

So, we will discuss more on organizational resilience in the next few discussions, but we need to understand in order to go for innovation through this trial and error process it requires

calmness. It requires perseverance, it requires resilience, because you will face barriers, you will face failures and you need to overcome it.

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External Causes of Organization Decline

- **Competition**
It is said to be the important cause for organizational decline. Competition gets attracted to industries where supernormal profits are being made. More and more companies then start entering such an industry. The end result is that existing organizations face a higher decline rate.
- **Technological Changes**
Technology is an integral part of business today and the inability to stay abreast of the latest technology is one of the leading causes of organizational decline today.

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What are the external causes of organizational decline? Competition, it is said to be the important cause of organizational decline. Competition gets attracted to industries where supernormal profits are being met. More and more companies then start entering such an industry.

The end result is that the existing organizations face a higher decline rate. Technological changes, technology is an integral part of business today and inability to stay abreast of the latest technology is one of the leading causes of organizational decline today.

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External Causes of Organization Decline

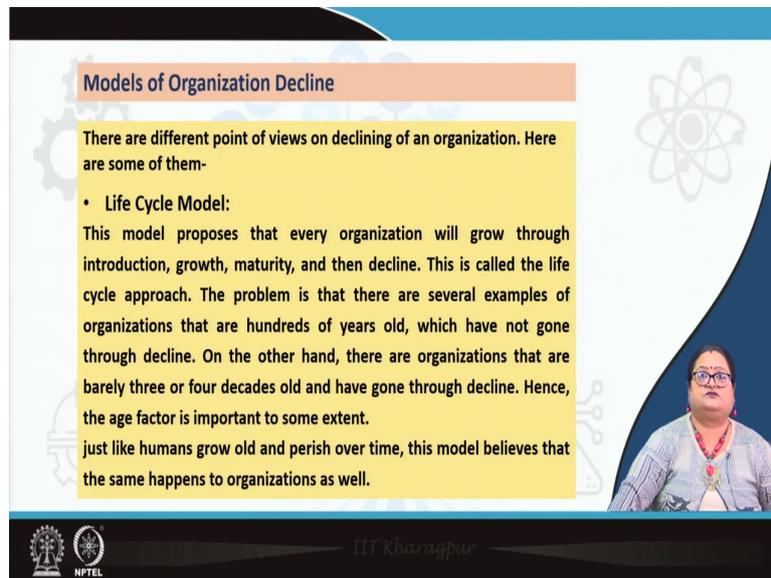
- **Regulatory Changes**
Regulatory changes have become the third important source of organizational decay in the modern world. This is because regulatory changes have the power to restrict the domain in which the products can be sold. The word domain can be used to refer to either geographical or demographic boundaries. For instance, the trade war between China and the United States is causing damage to a lot of private organizations.

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Regulatory changes, we were talking of the legitimacy of the organizations, it depends to some extent also on the regulatory changes what are the changes happening in the regulations. Regulatory changes have become the third important source of organizational decay in the modern world. It is because regulatory changes have the power to restrict the domain in which the products can be sold.

The word domain can be used to refer to either geographical or demographic boundaries. For instance, the trade war between China and the United States is causing damage to a lot of private organizations.

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Models of Organization Decline

There are different point of views on declining of an organization. Here are some of them-

- **Life Cycle Model:**
This model proposes that every organization will grow through introduction, growth, maturity, and then decline. This is called the life cycle approach. The problem is that there are several examples of organizations that are hundreds of years old, which have not gone through decline. On the other hand, there are organizations that are barely three or four decades old and have gone through decline. Hence, the age factor is important to some extent.
just like humans grow old and perish over time, this model believes that the same happens to organizations as well.

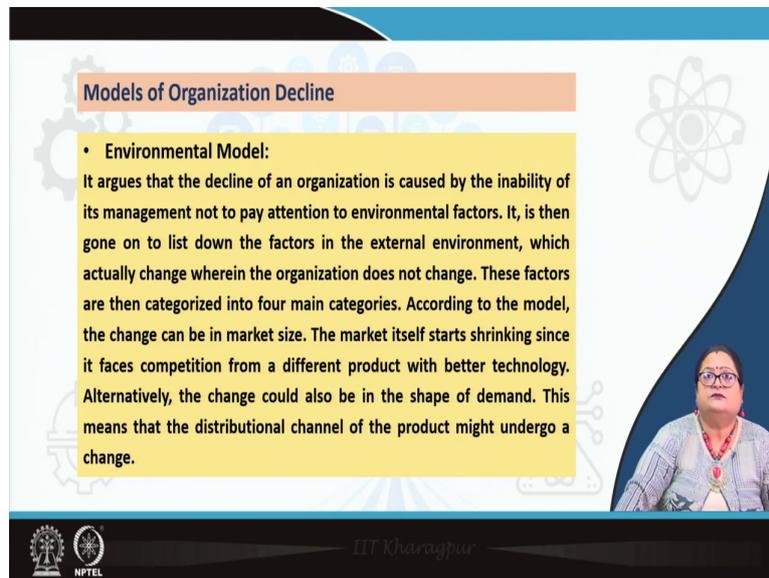
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Now, we will discuss some of the models of organizational decline. As we understand there are different ways of viewing the decline of organizations; so, here we are discussing some of them. First is the life cycle model, this model proposes that every organization will grow through introduction, growth, maturity and then decline, this is called the life cycle approach.

The problem is that there are several examples of organizations that are hundreds of years old, which have not gone through decline. On the other hand, there are organizations that are barely three to four decades old and have gone through decline. Hence, the age factor is important, but it is to some extent which is important. Just like human beings grow old and perish, this model believes that the same happened to the organizations as well.

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Models of Organization Decline

- **Environmental Model:**
It argues that the decline of an organization is caused by the inability of its management not to pay attention to environmental factors. It, is then gone on to list down the factors in the external environment, which actually change wherein the organization does not change. These factors are then categorized into four main categories. According to the model, the change can be in market size. The market itself starts shrinking since it faces competition from a different product with better technology. Alternatively, the change could also be in the shape of demand. This means that the distributional channel of the product might undergo a change.

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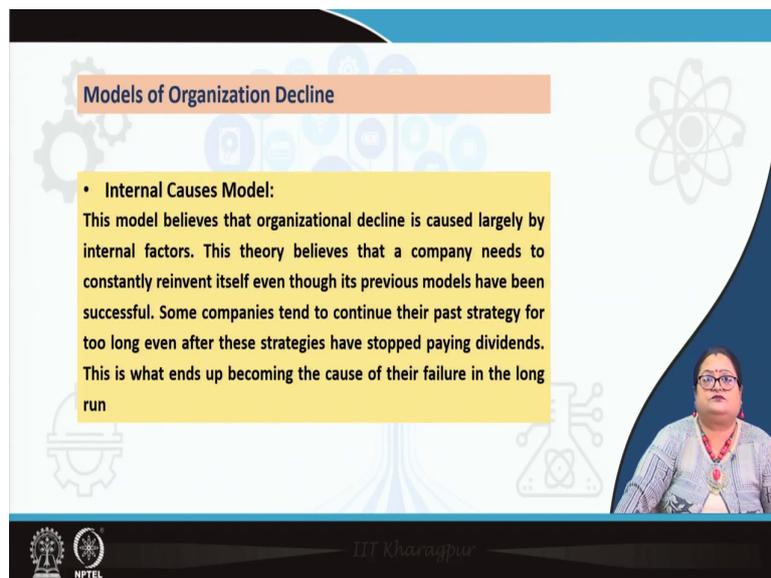
The next model is the environmental model; it argues that the decline of an organization is caused by the inability of its management not to pay attention to environmental factors. As you remember like in the last lecture also you were discussing like when you grow, you grow because you are able to scan the environment properly, you are aware of the environment, you understand the demands in the environment and you are able to prepare yourself well.

So, when your cognitive power of discretion, when your environmental scanning ability decreases means when you are not able to pay attention to the environmental factors properly. So, in that stage it is the start of your decline phase where like we can tell like your cognitive powers is starting to decrease. As in human beings we can tell as you grow old your like power to think, power to reason out like starts decreasing; so, here also and that is the signal that aging has started.

So, similarly whenever we are talking of this environmental model and the decline, organizational decline with respect to that; so, it is the inability of the management not to pay attention to environmental factors; so, it is then gone on. So, this model then list out the factors in the external environment which actually changes where in the organization does not change.

These factors are then categorized into four main categories. According to the model, the change can be in the market size, the market itself starts shrinking. Since it faces competition from a different product with a better technology, alternatively the change could also be in the shape of demand. This means that the distribution channel of the product might undergo a change.

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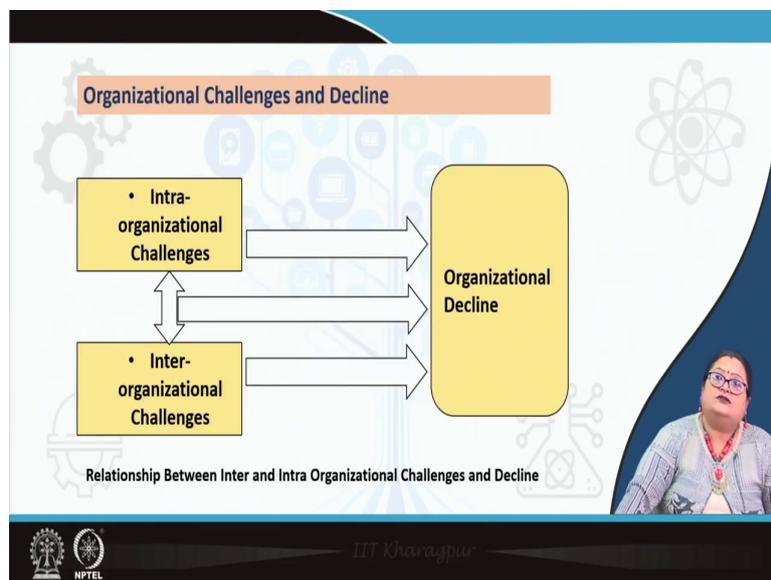
Models of Organization Decline

- **Internal Causes Model:**
This model believes that organizational decline is caused largely by internal factors. This theory believes that a company needs to constantly reinvent itself even though its previous models have been successful. Some companies tend to continue their past strategy for too long even after these strategies have stopped paying dividends. This is what ends up becoming the cause of their failure in the long run

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Internal causes model, this model believes that the organizational decline is caused mainly by internal factors. This theory believes that the company needs to constantly reinvent itself through its previous models have though its previous models have been successful. Some companies tend to continue their past strategy for too long even after this strategies have stopped paying dividends. This is what ends up becoming the cause of their failure in the long run.

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So, what we can see over here in this slide like there could be intra organizational challenges, there could be inter organizational challenges and together they can lead to organizational decline.

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Organizational Challenges and Decline

Intra-Organizational causes of decline:
The intra-organizational causes are connected with the phenomena like-

- Organizational inertia,
- Strategic leadership failure
- Poor organizational design
- Organizational strategic fitness
- Lack of innovation
- Maximizing rewards
- Dysfunctional bureaucratic culture

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Now, what are the intra organizational causes of decline? The intra organizational causes are connected with the phenomena like organizational inertia, strategic leadership failure, poor organizational design, organizational strategic fitness, lack of innovation, maximizing rewards, dysfunctional bureaucratic culture.

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Organizational Challenges and Decline

Inter-Organizational causes of decline:
The inter-organizational causes are connected with the phenomena like-

- Change in the environment
- Vulnerability in size and age
- Competition/acquisition of resources

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The inter organizational causes of decline or change in the environment, vulnerability, the size and age we were discussing about organizational size like going on increasing the size and how it can be detrimental to the growth. So, you find like it has been one of the causes of decline over here, competition and acquisition of resources.

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Process of Organizational Decline

Weitzel and Jonson (1989) suggested that there are five stages of organizational decline:

- Stage-1: Blinded
- Stage-2: Inaction
- Stage-3: Faulty action
- Stage-4: Crisis
- Stage-5: Dissolution

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Now, what is the process of decline? Weitzel and Jonson in 1989 suggested there are five stages of organizational decline. Stage one is blinded, two is inaction, stage three is faulty action, stage four is crisis and stage five is dissolution.

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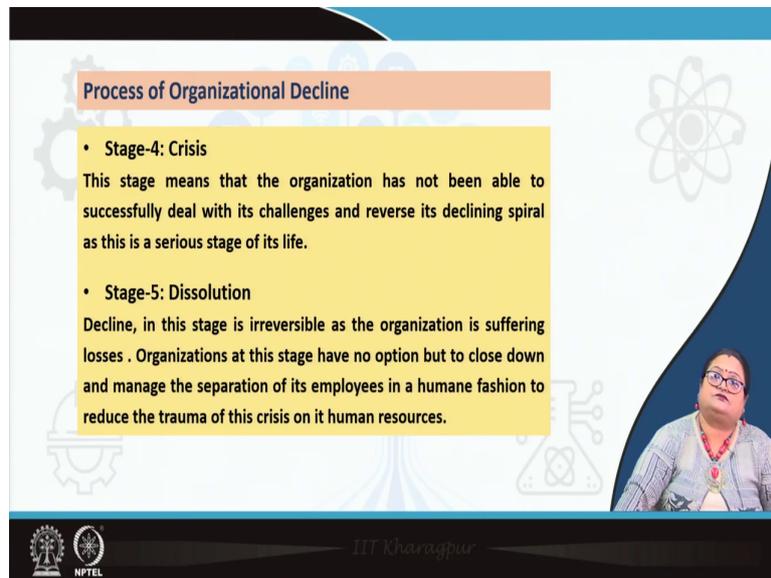
Process of Organizational Decline

- **Stage-1: Blinded**
In this stage, the organization is unable to recognize the internal or external challenges that threaten its long-term viability, as its leadership missed the warning signals of decline.
- **Stage-2: Inaction**
In instances of clear signs of declining results, top management takes little or no action to correct its declining path.
- **Stage-3: Faulty action**
The organization, in this stage is facing serious challenges and the signs of its poor performance are alarming

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Now, we will discuss each of these stages in details; the blinded stage, in this stage the organization is unable to recognize the internal or external challenges that threaten its long-term viability as its leadership missed the warning signals of decline. Stage two is inaction, in instances of clear signs of declining results, top management takes little or no action to correct its declining path. Stage three is faulty action, the organization in this stage is facing serious challenges and the signs of its poor performance are alarming.

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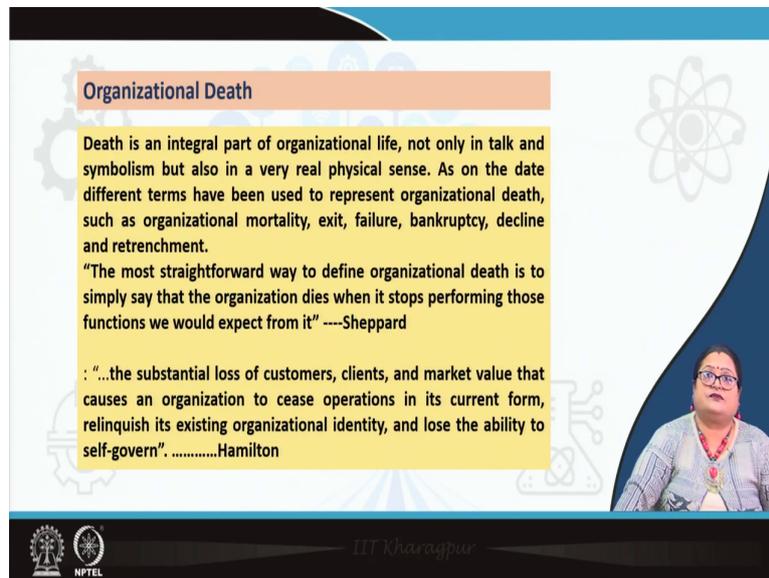
Process of Organizational Decline

- **Stage-4: Crisis**
This stage means that the organization has not been able to successfully deal with its challenges and reverse its declining spiral as this is a serious stage of its life.
- **Stage-5: Dissolution**
Decline, in this stage is irreversible as the organization is suffering losses . Organizations at this stage have no option but to close down and manage the separation of its employees in a humane fashion to reduce the trauma of this crisis on it human resources.

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Stage four is that of crisis, this stage means that the organization has not been able to successfully deal with its challenges and reverse its declining spiral and this is a serious stage of life. Stage five is dissolution; decline in this stage is irreversible as the organization is suffering losses. Organizations at this stage have no option, but to close them and manage the separation of its employees in a human fashion to reduce the trauma of this crisis on its human resources.

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Organizational Death

Death is an integral part of organizational life, not only in talk and symbolism but also in a very real physical sense. As on the date different terms have been used to represent organizational death, such as organizational mortality, exit, failure, bankruptcy, decline and retrenchment.

"The most straightforward way to define organizational death is to simply say that the organization dies when it stops performing those functions we would expect from it" ----Sheppard

: "...the substantial loss of customers, clients, and market value that causes an organization to cease operations in its current form, relinquish its existing organizational identity, and lose the ability to self-govern".Hamilton

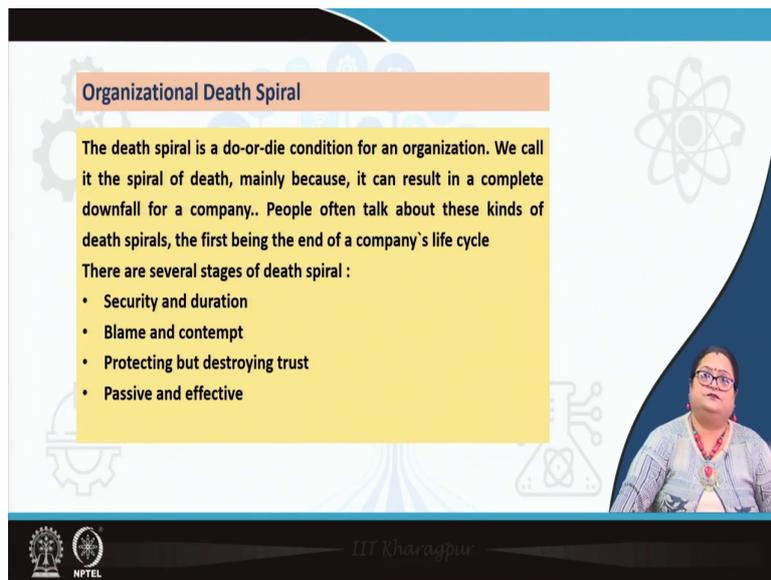
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So, that leads the stage five of dissolution leads to the stage of organizational death. Death is an integral part of an organizational life, not only in talk and symbolism, but also in a very real physical sense. As of the date of different terms have been used to represent organizational death, such as organizational mortality, exit, failure, bankruptcy, decline and retrenchment.

The most straightforward way to define organizational death is to simply say that the organization dies when it stops performing those functions that we expect from it. As we told you like if you remember in the first discussion also when it is not able to answer to the demands of the environment. When it is not able to give what the leave according to the expectations of its stakeholders when it stops performing those things what it is expected to perform then we understand it has reached a death stage.

The substantial loss of customers clients and market value that causes an organization to cease operations in its current form relinquishes existing organizational identity and lost the ability to self-govern is defined as the stage of death by Hamilton. The earlier definition was given by Sheffield.

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Organizational Death Spiral

The death spiral is a do-or-die condition for an organization. We call it the spiral of death, mainly because, it can result in a complete downfall for a company.. People often talk about these kinds of death spirals, the first being the end of a company's life cycle

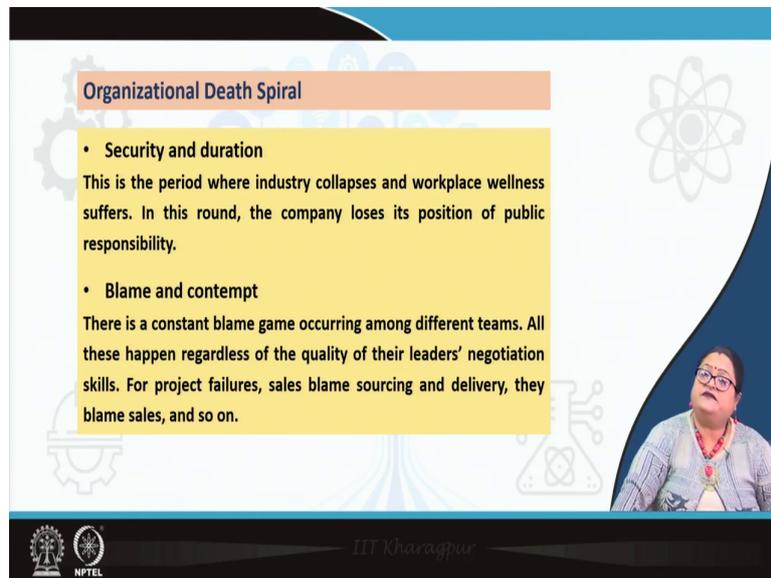
There are several stages of death spiral :

- Security and duration
- Blame and contempt
- Protecting but destroying trust
- Passive and effective

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The organizational death spiral it is a do or die condition for an organizations. We call it the spiral of death mainly because, it can result in a complete downfall of a company. People talk about these kinds of death spirals the first being the end of a company's life cycle. There are several stages of a death spiral security and duration blame and contempt protecting, but destroying trust passive and effective.

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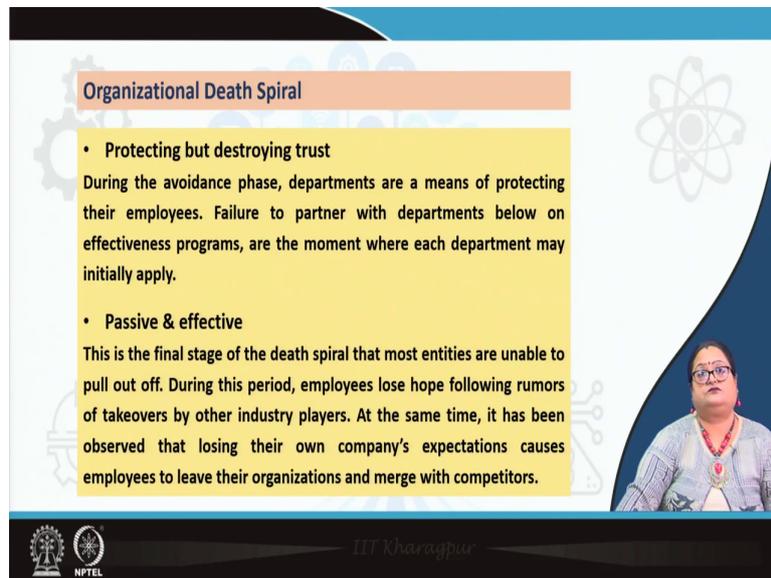
Organizational Death Spiral

- **Security and duration**
This is the period where industry collapses and workplace wellness suffers. In this round, the company loses its position of public responsibility.
- **Blame and contempt**
There is a constant blame game occurring among different teams. All these happen regardless of the quality of their leaders' negotiation skills. For project failures, sales blame sourcing and delivery, they blame sales, and so on.

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Security and duration we will discuss each of these stages now for the details for our better understanding security and duration. This is a period where industry collapses and workplace wellness suffers, in this round the company loses its position of public responsibility. Blame and contempt there is a constant blame game occurring among different teams. All these happen regardless of the quality of the leaders negotiation skills for project failures self-blame sourcing and delivery they blame sales and so on.

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Organizational Death Spiral

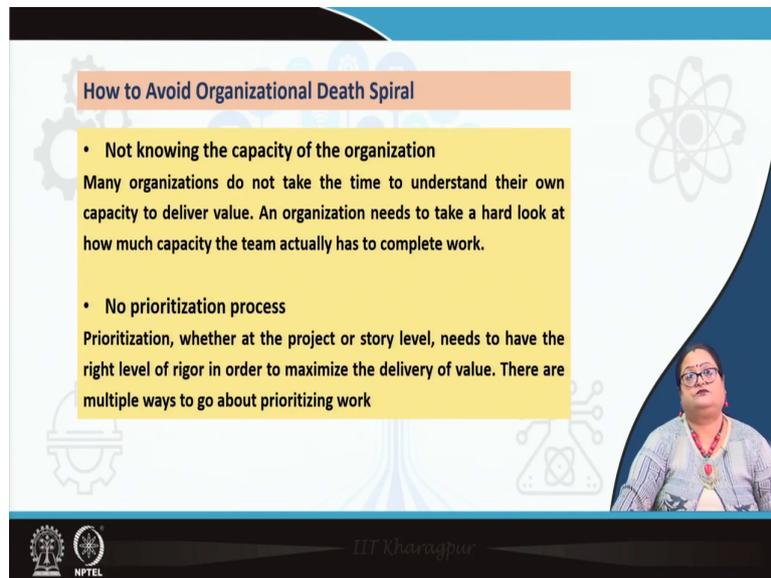
- **Protecting but destroying trust**
During the avoidance phase, departments are a means of protecting their employees. Failure to partner with departments below on effectiveness programs, are the moment where each department may initially apply.
- **Passive & effective**
This is the final stage of the death spiral that most entities are unable to pull out off. During this period, employees lose hope following rumors of takeovers by other industry players. At the same time, it has been observed that losing their own company's expectations causes employees to leave their organizations and merge with competitors.

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Protecting but destroying trust during the avoidance phase departments are a means of protecting their employees. Failure to partner with other departments below on effectiveness programs at the moment where each department may initially apply. Passive and effective, this is the final stage of death spiral that most entities are unable to pull out off.

During this period employees lose hope following rumors of takeovers by other industry players. At the same time, it has been observed that losing their own expectations company's expectations causes the employees to leave their organizations and merge with their competitors.

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How to Avoid Organizational Death Spiral

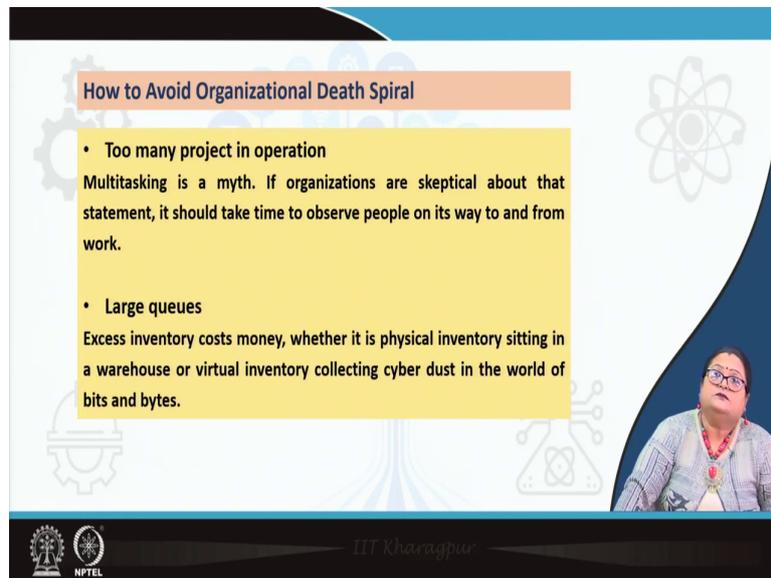
- **Not knowing the capacity of the organization**
Many organizations do not take the time to understand their own capacity to deliver value. An organization needs to take a hard look at how much capacity the team actually has to complete work.
- **No prioritization process**
Prioritization, whether at the project or story level, needs to have the right level of rigor in order to maximize the delivery of value. There are multiple ways to go about prioritizing work

The slide features a blue and white background with faint icons of a gear, a lightbulb, and a network diagram. A video inset in the bottom right corner shows a woman with glasses and a necklace speaking. The footer includes the IIT Kharagpur and NPTEL logos.

Now, how to avoid the organizational death spiral; so, we can understand that if we understand like what leads to the death spiral. So, one of the primary reason is not knowing the capacity of the organization, many organizations do not take time to understand their own capacity to deliver value.

An organization needs to take a hard look at how much capacity the team actually has to complete the work. No prioritization process, prioritization whether at the project or story level needs to have the right level or rigor in order to maximize the delivery of value. There are multiple ways about prioritizing work and that needs to be followed.

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How to Avoid Organizational Death Spiral

- **Too many project in operation**
Multitasking is a myth. If organizations are skeptical about that statement, it should take time to observe people on its way to and from work.
- **Large queues**
Excess inventory costs money, whether it is physical inventory sitting in a warehouse or virtual inventory collecting cyber dust in the world of bits and bytes.

The slide features a blue and white background with faint icons of gears, a person, and a network. A small video inset in the bottom right corner shows a woman with glasses and a necklace. The footer includes the IIT Kharagpur and NPTEL logos.

There are too many projects in hand like multitasking is a myth. If organizations are skeptical about that statement, it should take time to observe people on its way to and from work. Large queues; excess inventory costs money, whether it is a physical inventory sitting in a warehouse or virtual inventory collecting cyber dust in the world of bits and bytes. So, these are the things that we need to like check on like whether these are things are also there in our organization.

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How to Avoid Organizational Death Spiral

- **Large batch transfer**
Organizations should move small batches of work from the inception phase to the next in order to maximize throughput and minimize waste.
- **Delaying feedback**
One of the biggest causes of the death spiral is delaying feedback on the software currently under development. Traditional software development methods postpone feedback and introduce risk by delaying the start of the development process.

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Large batch transfer, organizations should move small batches of work from the inception phase to the next in order to maximize throughput and minimize waste. Delaying feedback one of the major reason of organizational death spiral is delaying feedback on the software correctly under development.

Or like, the we have taken example of software development over here or like or the traditional software development methods postpone feedback and introduce risk by delaying the start of the development process. So, this is an example from there, but delaying the feedback regarding any processes you know like it damages and it leads to because it does not give time for repair or you know like move on to the next development phase.

So, because you are not getting enough time to correct yourself and before that again the next challenge comes in.

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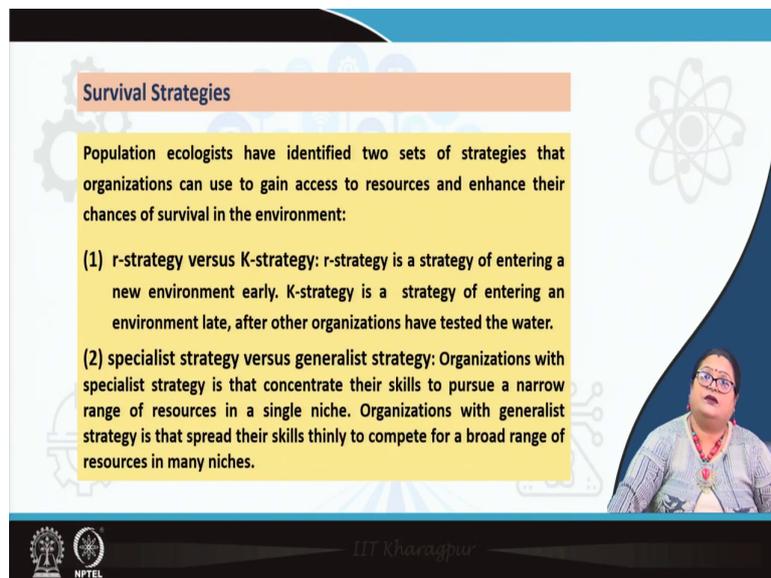
The slide features a title bar at the top with the text "How to Avoid Organizational Death Spiral". Below the title, a yellow box contains a bullet point: "• Improving organizational thought". Underneath this, the text reads: "Understand your organizational capacity and don't exceed it, prioritize your work, limit your work in process, work in smaller batches, reduce queue sizes, and create frequent, regular customer feedback loops. Many of us have experienced the occasional software release death march, and a select number of us have endured the larger organizational death spiral." The slide is decorated with faint icons of gears, a hard hat, and a circuit board. In the bottom right corner, a small video inset shows a woman with glasses speaking. The footer includes the IIT Kharagpur and NPTEL logos.

Improving organizational thought is one of the ways to avoid death spiral. Understanding the organizations capacity and not to exceed it, prioritizing once work, limiting the work in process, work in smaller batches, reducing the queue size and create frequent customer feedback loops. These are some of the ways to improve the feed like ways in which we can like challenge the death spiral.

Many of us have experienced the occasional software release death march and selected number of us have endured the larger organizational death spiral. So, we were giving

examples of software, but we can draw analogy for from that to the you know like the organizational level, it is organizational death spiral also.

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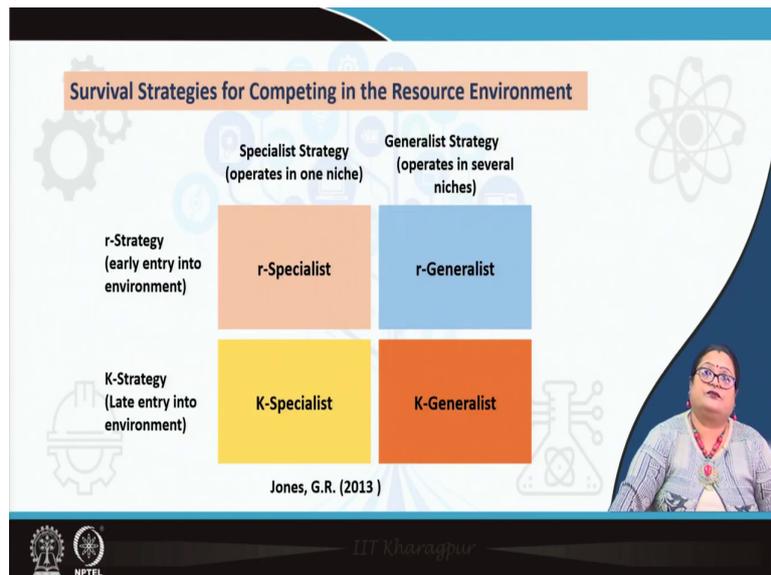
The slide is titled "Survival Strategies" in a blue box. The main text is on a yellow background and reads: "Population ecologists have identified two sets of strategies that organizations can use to gain access to resources and enhance their chances of survival in the environment: (1) r-strategy versus K-strategy: r-strategy is a strategy of entering a new environment early. K-strategy is a strategy of entering an environment late, after other organizations have tested the water. (2) specialist strategy versus generalist strategy: Organizations with specialist strategy is that concentrate their skills to pursue a narrow range of resources in a single niche. Organizations with generalist strategy is that spread their skills thinly to compete for a broad range of resources in many niches." The slide features a blue background with a white atom symbol and a speaker in the bottom right corner. Logos for IIT Kharagpur and NPTEL are at the bottom left.

Now, we were discussing like how to come out of these things, how to come out of the death spiral and for that what we will be now discussing is the survival strategies. Population ecologist have identified two sets of strategies that organizations can use to get access to resources and enhance their chances of survival in the environment.

r-strategy versus K strategy; r-strategy is a strategy of entering a new environment early. K-strategy is a strategy of entering an environment late after other organizations have tested their water. Specialist strategy versus generalist strategy; organizations with specialist strategy is that concentrate their skills to pursue a narrow range of resources in a single niche.

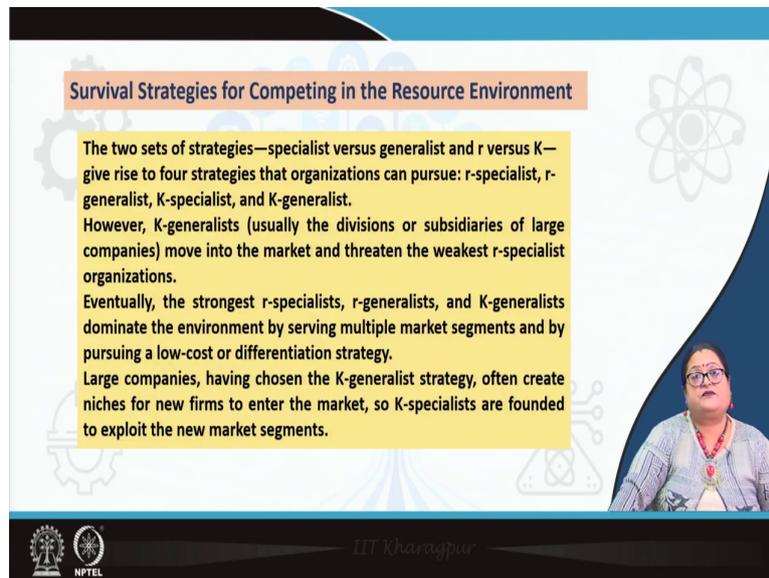
Organizations with general strategies that with spread their skills thinly for a broad range of resources in many niches and it helps them to compete in a broad range of resources in many niches; so, it is like spreading itself and its like distributing its risk kind of.

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So, we will have more look into this survival strategies for computing in the resource environment. So, we have r-strategy which is early to entering to the environment, K-strategy led to entering to the environment, we have specialist strategy which operates in one niche and we have generalist strategy which operates in several niches. So, based on the entry we can have r-Specialist and r-Generalist and we can have K-Specialist and K-Generalist; so, this model has been given by G.R. Jones in 2013.

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Survival Strategies for Competing in the Resource Environment

The two sets of strategies—specialist versus generalist and r versus K—give rise to four strategies that organizations can pursue: r-specialist, r-generalist, K-specialist, and K-generalist.

However, K-generalists (usually the divisions or subsidiaries of large companies) move into the market and threaten the weakest r-specialist organizations.

Eventually, the strongest r-specialists, r-generalists, and K-generalists dominate the environment by serving multiple market segments and by pursuing a low-cost or differentiation strategy.

Large companies, having chosen the K-generalist strategy, often create niches for new firms to enter the market, so K-specialists are founded to exploit the new market segments.

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Now, the two sets of strategies the specialist versus generalist and the r versus K-gives rise to four strategies that organizations can pursue; R-specialist, r-generalist, K-specialist and K-generalist. However, the K-generalist who are usually the divisions or subsidiaries of a large company moving to the market and threaten the weakest r-specialist organization.

Eventually the strongest r-specialist r-generalist and the K-generalist dominates the environment by serving multiple market segments and by pursuing a low cost or differentiation strategy. Large companies having chosen the K-generalist strategy often create niches for new firms to enter the market; so, K-specialists are founded to exploit the new market segments.

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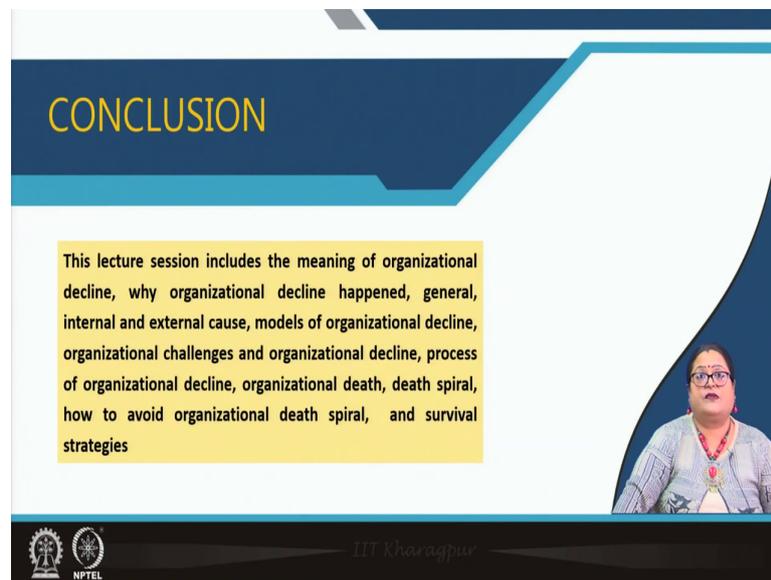
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These are the references that we have used for this discussion.

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CONCLUSION

This lecture session includes the meaning of organizational decline, why organizational decline happened, general, internal and external cause, models of organizational decline, organizational challenges and organizational decline, process of organizational decline, organizational death, death spiral, how to avoid organizational death spiral, and survival strategies

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So, in conclusion we can summarize that this lecture session includes the meaning of organizational decline. Why organizational decline has happened, General, internal and external cause, models of organizational decline, organizational challenges and decline. Process of organizational decline, organizational death, death spiral, how to avoid organizational death spiral and the survival strategies.

In the next session we are going to discuss more on organizational inertia and organizational resilience; so, stay tuned with us for the next session, happy learning.