Readings in Organizational Decline

*Frameworks, Research, and Prescriptions*

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If the editors of this volume have done their job well, as I believe they have, the articles they have collected represent the best literature on salient issues in organizational decline. My chapter follows from two problems I observe in this literature. First, most authors writing about organizational decline tend to approach it from a perspective akin to that of relatives coping with the terminal illness of a loved one. The key questions are: Can the illness be overcome? Can the pain and misery be eased? How can one best take care of those who are dependent on the dying person? Impending mortality is a tough, heartrending, and uncertain time in the life cycle of both the dying person and those close to him or her. The same is true for a dying organization. Emotions run high.

People can't achieve immortality. But Lee Iacocca has achieved celebrity status and has become a folk hero to many people because he rescued Chrysler Corporation from certain death. Forgotten is the $200 million bailout by the federal government. Forgotten is the import quota on Japanese automobiles that reduced competition. Ignored is the likelihood that a quick Chrysler death would have speeded up the importation of new technology into the U.S. automobile industry, forcing the remaining American automobile manufacturers into a more rapid and constructive adoption of the imported technology. Forgotten are questions such as: Why should companies live forever? Why should society pay the cost of keeping dying companies alive in spite of their inefficiencies? Why are corporate raiders who go in and break up large, inefficient companies perceived as “bad guys?” No one seems to consider all the benefits of letting Chrysler and similar firms die.

The second problem I observe in the current organizational decline literature concerns the paucity of quality theories explaining organizational decline, especially theories that differentiate between autogenic (endogenous) and allogenic (exogenous) causes of decline. In fairness, I should hasten to add that many papers in this book draw on implicit theories, and the ecological papers by Hannan and Freeman and Carroll and Delacroix contain elements of a more explicit theory. Still, I venture to say that the ecology of organizational
decline looks more like a desert than a horticultural showplace. For example, a student recently presented me with a proposal to study the relationship between environmental attributes and the evolution of the insurance industry in the latter part of the 19th century. His proposed theory included seventeen environmental attributes, only two of which he thought would produce decline (he thought the rest would induce growth). Missing were all the competitive effects from other insurance companies and other competing populations of organizations. I asked him, “If your theory is correct, why isn’t the world covered with insurance companies?”

Why isn’t the world covered by General Motors, General Electric, AT&T, or the thousands of companies using Theory Y, achievement motivation, human relations, the two-factor theory of motivation, or sociotechnical systems? Starting with Moonie and Riley and Barnard, these organizations have had the benefit of over fifty years of consulting on effectiveness and growth, not to mention their tremendous assets, research budgets, talented management and staffs, large size, and so forth. Why isn’t there an incredible proliferation of companies run by one-minute managers, Theory Z managers, or managers following Tom Peters’ mania? The obvious answer, of course, is competition and decline. The other answer is that organizational behavior and management consultants don’t have much effect.

I think these two answers are related. The causes of organizational growth, regulation, and decline and the reasons why consulting theories about how to cause improvements don’t seem to work are more ecological than heretofore recognized.

Unfortunately, most organizational scientists seem to have a rather thin understanding of ecological theory. It is hard to believe that a decade has passed since the first Hannan and Freeman (1977) paper was published. Since then, there has been almost no elaboration of basic organizational ecological theory in the literature. Most of the emphasis has been on testing the twenty year old “liability of newness” idea posed by Stinchcombe (1965).

Consequently, my comment on the literature will really be a presentation of some patently ecological explanations of organizational decline that researchers could study. I will also comment on causes of organization decline in an effort to convey some sense of the importance of ecological theory for better understanding and possibly reversing organizational decline.

Population Effects on Organizational Decline

Intrapopulation Effects on Decline

Populations are sets of organizations that draw on the same pools of knowledge and skills in developing competencies (what McKelvey (1982) termed “comps”) useful in drawing the resources from their environment that are necessary for survival and growth. In light of this definition of a population, two forces affect the growth or decline of the members of a population: (1) the diffusion and retention of survival-enhancing comps, and (2) the competition of members over the resources available from the environment. Given a supply of alternative comps (variations), ecologists believe that competition and natural selection create the process by which survival-enhancing comps are identified. The more successful members of a population are those who most quickly and effectively take advantage of a newly identified survival-enhancing comp.

Comps. The relationship between the general level of competence and the number of organizations in a population holding the competence is interesting. In the case of the U.S. textile machinery manufacturers, Sabel and his colleagues (1987) argue that the reduction of the population down to two members and the captivity of the textile mills by the machinery manufacturers was the cause of the decline of this industry in the United States. This case suggests that a viable and stable population may require both consolidation to a few dominant, low-cost producers accompanied by a peripheral set of more innovative “custom” producers. There seem to be conditions in which the natural trend toward consolidation,
which seems unavoidable due to the effects of competition, may undermine the natural ability of a population to continue its life-sustaining innovations of new competencies. Thus, the traditional argument among industrial organization economists about whether consolidation leads to monopoly pricing (and, implicitly, hegemony and riches for the few) may be off target—at least in today's world economy. Nation-based monopolies contain the seeds of their own decline. Worldwide monopolies seem unlikely to exist since currency exchange rates, quotas, and tariffs are never subject to their control. If desired, national governments can always give local monopolies or oligopolies preferred treatment over a multinational monopoly.

Populations that, for various reasons, retain large numbers of members may also be prone to decline. Decline will be due in part to the natural emergence of a few dominant, low-cost producers at the expense of many smaller, less competitive firms. Attempts by various interests, particularly government entities, to maintain an artificially high number of small producers (for example, small farms and the U.S. active-passive solar industry) may invariably be misguided. In the latter case, government research subsidies and tax credits thwarted the natural development of larger lower-cost, more reliable firms by unnaturally supporting small, uncompetitive firms.

It is also important to point out that in organizational populations, growth or decline in the number of members is not always an indication of the health of the population. A decline in the number of members may be an indication of health during the consolidation transition from numerous birth forms to fewer low-cost producers. A population's health might improve as the result of increases in comps even though growth in the number of members is stable or declining. It is also possible to infer that a population is healthy because of growth in the number of members. In reality, it may be that the health of the population is marginal or declining as new entrants take away resources from a finite pool, thus lowering the health of each individual member. Such a misperception is akin to believing that the population of Ethiopians is healthy because their birth rate is increasing, even though there is not enough food to feed them properly.

Life cycles. Another set of issues concerns age and life-cycle distributions of, and within, a population. I am not sure we know what a healthy population looks like at various times in its evolution. Before being able to better understand the dynamics leading to the growth or decline of comps or population members, we need to know more about the evolution and demographics of industry populations. Is there a ratio between the number of dominant low-cost producers and small custom producers that is optimal for enhancing the survival of a population under competitive conditions? Is it possible for a few large firms to play the role of both low-cost (competitive) producer and competence innovator? Are there different life expectancies for large and small organizations in various populations? In some populations, decline may be a sign of good health. In others, it may indicate the decline of the population as a whole.

The evolution of a population of organizations seems to follow a life cycle of stages not unlike the birth, growth, maturity, revival, and decline stages suggested for individual organizations (Cameron & Whetten, Chapter 2). A population emerging due to a dramatic technical innovation, such as microcomputers, may pass through the life-cycle stages in synchrony with its member organizations; this is an example of a synchronous population. In other populations (restaurants, for example), the life cycles of the members fall into all stages, with most members' stages not coinciding with the life-cycle stage of the population; such a case involves an asynchronous population. I think the field would benefit by more careful mapping of the life-cycle stages of populations relative to the stages of their members. There may be identifiable life-cycle mixes in healthy populations. Clearly, explanations of decline, and responses to it, would depend on the life stage of the population and the particular organization within it.

What is important, then, is to critically and cautiously assess studies that focus only on births,
deaths, and population growth without also taking into account changes in competence and the health of individual members: an increase in the hazard function is not necessarily an indication of deteriorating population health! Organizational populations clearly differ from biological populations in the effect of number of members, improvements in competence, and the health of individual members on population health. Hence, equations used by theoretical ecologists to describe population increase and density are even more problematic for organizational ecologists than they are for biological ecologists. Unfortunately, we are far from achieving a mathematics of organizational decline, and I am not aware of much activity that would bring us significantly closer to reaching that goal.

Density dependence. Assuming that the demographic states of populations differ and fluctuate across time, the question arises, "Why?" Factors affecting the decline (and growth) of populations come in two forms: density dependent and density independent. As a population becomes denser relative to the resource pool available to it, density-dependent factors have more impact; for example high density may lead to decreasing births and fewer resources. Generally, density-dependent factors tend to stabilize a population at a certain size. (Presumably, this holds for competence and other aspects of health as well, although size is usually the only demographic variable considered.) Density-independent factors, typically elements of the environment, do not alter the intensity of their impact on a population as its size varies. In the various studies of decline available, I have not seen any attention given to distinguishing between the effects of density dependence and independence. Until this distinction is made clearer, both explanations for and normative approaches to dealing with decline have to be considered suspect.

Density-dependent factors have their strongest effect when the carry capacity (K) of the environment is reached. Carrying capacity is typically defined as that point in the growth of a population when its intrinsic rate of increase (r) equals zero. Competitive conditions in a population’s niche emerge only after the carrying capacity of its environment is reached. Organizations that thrive under the competitive conditions in such niches are called K strategists. Sometimes a niche becomes subject to drastic environmental changes or shocks such as the energy crisis or a new technology such as microchips. Some members of the population may become opportunistic in trying to take advantage of the new situation. These kinds of (entrepreneurial) organizations are termed r strategists because their proliferation is governed more by the rate at which they multiply rather than by the limits of environmental resources. Clearly, circumstances leading to, and theories explaining, the decline of r types must be quite different than theories about K types. Yet I do not see any attention to these issues in the decline literature.

Interpopulation Effects on Decline

Biologists have developed a fairly standard language for describing interactions between populations. Of the eight kinds of interactions that can occur (Pianka 1978: 174), biologists tend to emphasize competition and predation. Whether organizational scientists should emphasize these interactions as well remains to be seen. In any case, these two varieties of interaction do seem to be fruitful points of departure for the study of organizational decline.

Competition. Theoretical ecologists have used the Lotka-Volterra equations to model the dynamics of competition between two populations (Pianka 1978). The equations describe the interplay of four forces:

1. Population A's inhibition of itself;
2. Population A's inhibition of population B;
3. Population B's inhibition of itself; and
4. Population B's inhibition of population A.

Four cases of competitive interaction emerge from the interplay of these forces:
Case I: Population A inhibits B more than itself; thus B declines.
Case II: Population B inhibits A more than itself; thus A declines.
Case III: Each population inhibits the other more than itself; the outcome depends on which population was largest to begin with.
Case IV: Each population inhibits itself more than the other; the outcome is stable equilibrium.

Biological and organizational ecologists place most emphasis on the fourth case. In this situation, while there might be increases and decreases in the sizes of the two populations at various times, the populations remain in long-term equilibrium.

Industrial economists developed their field on the premise that forces existed that inevitably pushed industrial populations into situations of monopoly or oligopoly and found their primary field of application in the antitrust activities of the federal government. In assuming that monopoly or oligopoly are the inevitable outcomes, industrial economists place themselves in the same camp as the ecologists, in principle. However, organizational ecologists (e.g., Freeman & Hannan 1983; Freeman, Carroll & Hannan 1983; Carroll & Delacroix (Chapter 9); Singh, House & Tucker 1986) have studied populations that clearly have not moved toward monopoly or oligopoly. The implication of their work is that stable equilibrium exists in populations, but not at monopolistic or oligopolistic states. Competitive strategies, on the other hand, have discovered that a variety of forces exist in industry populations that do not seem to lead inevitably toward monopoly or oligopoly, or even stable equilibrium. Instead, changes in the four forces mentioned above continually undermine whatever tendencies toward homeostasis might exist in a population.

Those studying the ecology of organizational decline should acknowledge that all four cases are provocative. At this time, it does not seem to be an incontrovertible fact that organizational populations are all in stable equilibrium. I question whether much is to be gained by applying the competition equations to study only equilibrium if we are not sure that equilibrium conditions prevail. Perhaps it is understating it to say that most organizational scholars hold the view that organizations are much better able to alter inhibitions to growth, both their own and their competitors', than are biological organisms.

The examples from the literature included in this book focus on individual organizational approaches to coping with declining industries rather than population effects. Once we realize that the activities that inhibit growth, discussed below, are brought on or accentuated because the organizations in the populations are experiencing K conditions, we can see that all of these activities combine to form the basis of self-inhibition.

As supply outpaces demand, populations clearly inhibit their own growth because they approach the carrying capacity of their environments. But non-supply-and-demand factors also come into play as populations approach K conditions and the attendant increase of threats to their survival stemming from stiffer competition. Harrigan (Chapter 7) points out that populations inhibit themselves by not minding costs and operational improvements, by ignoring technological developments, by panicky behavior, by product obsolescence, and so forth. She also discusses more strategic actions members of a population may use to counter inhibition such as: investing in some niches, divesting units in other (less promising) niches, harvesting an investment rapidly, or disposing of unproductive assets quickly. Hambrick and Schecter (Chapter 16) discuss entrepreneurial strategies (revenue-generating and product/market refocusing) and efficiency strategies (cost-cutting and asset reduction). Staw, Sandelands, and Dutton (Chapter 5) point out that threat-rigidity effects undermine information processing and control. Thus, bold leadership and formalization, which can lead to growth, can also lead to stagnation. These strategies all pertain to altering self-inhibition. If all, or even some, members of a population could raise the inhibition level, they could stave off non-case IV declines and bring the population back into a case IV situation.
There has been much interest in changes within firms that move in or out of equilibrium positions into growth or decline states. These dynamics are, perhaps, even more interesting to study at the population level. As a population moves in and out of a case IV state, observers can see member organizations in states of decline. Paradoxically, the population could be healthy, getting stronger, or recovering from difficulty. Furthermore, which case a population is classified in should help determine how one might advise a member organization to attempt a recovery—or exit. Decline therapy is very much dependent on the state of the population, a firm's microniche within the population macroniche, and the relationship of the population niche to the niches of adjacent populations.

Predation. Intrapopulation predation in the biological world is rare but, among organizations, both intrapopulation and interpopulation predation abound. Consider the relationship between predation and decline. So far, strategists and ecologists seem to treat acquisition or merger as the death of the target organization. But predation via merger or acquisition may or may not feel like decline to the target organization. In terms of niche occupancy, many target firms are both financially and technologically stronger after merger than before. The firm as a separate identity may disappear, but the niche pressure against intrapopulation competitors may increase. Frequently an infusion of new managerial personnel negates active self-inhibition processes, leading the target firm to a stronger position, even if financial or technological aids are not forthcoming. Generally, the merger and acquisition process, its aftermath, and its effects on growth and decline are not yet well understood; however, it remains an important phenomenon. Because of secrecy beforehand, and sensitivity afterward, research sites are difficult to obtain.

Whether predatory behavior increases or decreases the overall decline or growth of a population is not entirely clear. Free-market advocates would argue that corporate raiders do us all a favor by taking over and breaking up large, ungainly, and uncompetitive organizations. Presumably the population in which a division of a large firm competes is better off with the division freed from an incompetent owner. If the division is strong, it may gain from autonomy and strengthen the competitive level within its population. If it is weak, it no longer is propped up by the corporation, and when it declines the population is probably better off.

A prevailing logic is that corporations should settle on about three basic businesses for purposes of risk aversion via diversification. Any additional unrelated businesses seem to complicate attempts to master appropriate strategies and operational excellence in the face of widely varying niches and strong competitors. Corporate pruning, either before or after raiding activity, may at first resemble decline, but, in the long run, better health may follow. The newest organizations seem patterned after firms in the construction industry. There is ever increasing whittling away at permanent employees balanced by increasing reliance on outside vendors, subcontractors, consultants, and other kinds of temporary employees. Depending on the nature of an emergent project, players are assembled from a relevant competence pool, rather than being moved around within the firm. Theory Z and lifetime employment notwithstanding, the U.S. corporate world seems to be moving toward fewer rather than more lifetime employees.

Niche Effects on Organizational Decline

In Figure 1, I offer a preliminary delineation of causes of organizational decline. These causes may be classified as external or internal. Externally caused decline may fall into one of two categories: (1) decline due to a reduction in the number of resources available to an organization and (2) decline due to the nature of structural or contextual changes in the niche that then impinge on the organization. The importance of this distinction is well illuminated in the work of Cameron, Kim, and Whetten (Chapter 10), which shows that effective organizations differ markedly from inef-
effective ones in their response to decline and turbulence.

Internally caused decline generally arises either (1) from conscious attempts by managers to adapt an organization to changing external conditions or (2) from the systematic loss of survival competence, that is, the loss of those knowledge and skill elements necessary both for responding to environmental change and for survival under new circumstances.

**Diminishing resources.** Organizations, as members of a population, exist in microniches that are subsets of the macroniche in which the population exists. Niches develop as a population develops its proficiency for garnering resources from its targeted resource pool. While it is important to keep in mind that both micro- and macroniches exist and are different, my discussion of resource decline applies to both.

Building on basic conceptual developments by Hutchinson (1957), ecologists define the fundamental or virtual niche as the hypothetical or idealized niche containing the resources an organization is able to draw on for its survival, without the interference of competition or predation. In reality, no organization ever exists in a virtual niche. Instead, organizations exist in realized or actual niches in which they suffer the full effect of competition and predation and other activities within and between populations.

Taking into account both virtual and realized niches, organizational decline may be caused by two kinds of resource contractions. On the one hand, the realized niche might be diminishing. In this situation, the contraction in resources is due to the increasing strength of an organization or population's competitors, or a decline in its commensal host. (For example, the decline of a prime contractor may affect its subcontractors.) On the other hand, the virtual niche might be declining because the pool of resources upon which a population or organization depends for its survival is declining.

Recognizing the difference is important. If the decline is in the realized niche, the logical survival strategy is to focus on gaining strength relative to the competitors or otherwise deal with the
inter- or intrapopulation interactions. But, if the decline is in the virtual niche, other kinds of adaptation may prove more productive than simply contending with competitors.

*Contextual change.* Much has been written about the difficulties organizations face as a result of uncertainties and environmental shocks. The maladaptive and decline potential from misaligned structure and process due to progressive developmental stages and the evolution of the business environment is much more destructive. Why? Because life-cycle changes and industry evolution are so insidious.

In most development theories, organizations seem to progress through birth, high growth, maturity, and revitalization as they become larger and older (for example, Greiner 1972; Flamholtz 1986) until they hit a decline phase (Miller and Frensen, Chapter 11). In reality, decline is hovering at every stage. Singh, House, and Tucker (1986) and Carroll and Delacroix (Chapter 9), for example, show that decline may be more likely during the birthing stage than at any other time. Decline may result, in fact, from several ecological states related to life-cycle development, and it is probable in all stages. First, the liability of newness is due to poor choice of niche. The identified resource pool simply does not sustain the organization. For example, if an entrepreneur opens a gourmet sandwich shop in an area where there is no demand for such a product, no amount of organizational expertise is going to save the would-be entrepreneur from disaster.

Second, liability of decline is as much a danger to a firm lucky enough to hit upon a much sought-after product. Ironically, as detailed by Flamholtz (1986), very rapidly growing companies may actually decline and go bankrupt (or become highly vulnerable to competitors) from being too successful because their managerial infrastructure cannot keep pace with the organizing demands of rapid growth.

Third, even if a firm manages to organize for conditions of high growth (*r* conditions), the onslaught of competitors and *K* conditions may rather quickly bring on the requirement of advancing into the subsequent stage of development. Ecologists think of this as changing from an *r* strategist to a *K* strategist. This is the period of time in the evolution of an industry known variously as a “shakeout.” Failure to make this transition is generally regarded as the prime reason for the decline of firms in a new industry.

Fourth, an implication I can draw from the quantum view of organizational development taken by Miller and Frensen (1984) and Tushman, Newman, and Romanelli (Chapter 3) is that decline is more likely during punctuations (really metamorphic changes) between life-cycle stages than during them. I realize that these theorists believe that their quantum or punctuated equilibrium theories apply to organizational evolution, but my understanding of their work suggests that their ideas apply more to the life-cycle change and development of individual organizations than to the evolution of form within a population. In any event the point is that, for the study of the ecology of decline, the effects during transitions between stages may be more important than what happens during a particular stage.

Fifth, the incidence of failure of relatively mature, functionally designed firms is less recognized in the business literature than is failure during the shakeout time, but many firms decline because of a delayed transition to the multidivisional form. Textbooks are full of examples of functional firms not recognizing the need to move toward a product or matrix form.

Even when firms do adopt a multidivisional form, top managements seem capable of fully understanding only a few unlike niches at any one time, which results in their failure to aggressively respond to contextual changes in one or more of these niches. Individual decisions may, therefore, become maladaptive and wayward, followed by their decline and that of the corporation. Consequently, people in general, and the corporate raiders in particular, have discovered that diversified firms, like stolen Porsches, are often worth more
Adaptation impediments. At the heart of most theories of how organizations achieve effectiveness lies the assumption that managers first view the external environment and then interpret it, develop strategies about how to respond, develop structural and process improvements, develop change approaches, and then implement the adaptations. (See, for example: classical management theory, Weber’s (1947) bureaucratic model, the rational goal model (Georgiou 1973), March & Simon’s (1958) administrative behavior model, the market failures model (Williamson 1975; Williamson & Ouchi 1981), the resource dependency model (Pfaff & Salancik 1978), and so forth.) However, there is substantial reason to believe that the joint probability that all the required elements necessary for this model to produce successful adaptation to environmental novelities are ever present in any given organization is very low.

First, consider the problem of accurately identifying what to adapt to in an organizational environment. Except in the situations where environments are well understood, and where an organization is essentially copying adaptations already performed by its competitors or conforming to the external institutional structure (DiMaggio & Powell 1983), environments are typically seen as multidimensional, complex, and changeable (Jurkovich 1974; McKelvey 1982 chap. 4). In addition there is a causal texture imposed by the actions of other firms and broader events that creates an inescapable uncertainty (Emery & Trist 1965). Finally, external environmental conditions are frequently opaque.

Second, even if environmental conditions are transparent, a variety of elements conspire against accurate perception of them by those in an organization. People tend to have idiosyncratic interpretations of the phenomenal world impinging upon them. They are known to selectively misperceive phenomena to accommodate their own biases. People frequently draw inaccurate images of organizational environments (Weick 1979). Where organizational adaptation might depend on a correct understanding of the causal sequences of particular environmental conditions, we can expect that an individual’s causal attributions might lead to inaccuracies.

Third, because of their multiple hierarchical levels and communications up and down the hierarchy, organizations frequently suffer from impacted information: top-level managers responsible for making strategic and design decisions often do not have access to as much relevant information as employees lower down in the organization. Sometimes key people in an organization have access to all the information necessary, but they make poor decisions because of their own biases, bounded rationalities, and poor decision-making skills. Even if those in power, the dominant coalition, make the proper decisions, a host of implementation difficulties can impede their progress, such as resistance to change, intracoalition politics, and unexpected maladaptive outcomes of rational behaviors, as outlined by Rumelt (1987).

Competence loss. Many of the chapters in this book describe various kinds of incompetence. Some portion of organizational incompetence may be blamed on mistakes, stupidity, and panic. As must have been apparent in my discussion of life-cycle progressions, many previously competent managers of heretofore successful firms appear incompetent simply because they keep applying old cures to new problems. The loss in comps is a result both of people leaving and of the comps becoming obsolete.

Referring to the Harrigan chapter (Chapter 7), managers may adopt a mistaken turnaround strategy. Or, as Cameron, Kim, and Whetten discovered (Chapter 10), some managers fail to protect the technical core. As Staw, Sandelands, and Dutton argue in Chapter 5, managers may mistakenly rely on inadequate or irrelevant prior information. Sometimes managers do ill-advised things,
such as the college president Chaffee (1984) describes who takes a pay raise while everyone else is asked to take pay cuts. Finally, imagine the firm attacked by a corporate raider whose management fights off the hostile takeover attempt by encumbering the firm with a huge debt in a stock buyback plan, or who gets rid of key assets in a “fire sale.”

The list of ways managers can make mistakes is probably endless and quite random, given that there is no reason for such behavior to form a pattern. But organizations may suffer the effects of incompetence in more predictable ways. In fact, as Greenhalgh and Rosenblatt imply (Chapter 15), a positive feedback cycle often sets in. One of the effects of decline may be a systematic loss of competent people. As an organization begins to get into trouble and starts cutting back on pay raises, expense accounts, support staff, growth and promotion opportunities, and so forth, the highly qualified employees will leave the organization because they can usually find better-paying and more stable and promising jobs in more successful firms. The net result is that the proportion of relatively incompetent employees grows, so that the chance the organization will suffer from the effects of incompetence grows. As the number of poor decisions increases, the number of talented employees who will find work life better somewhere else also increases. Organizations dependent on external legitimacy and resource support for survival may find that once information about their decline leaks out, the sources of legitimacy and resources may withdraw their support, thereby hastening the decline cycle.

Conclusion

Strangely, organizational decline is the best thing that ever happened for those of us who draw on allogenic forces and natural selection theory to explain organizational form and function. Why? At present, the vast majority of scholars in micro- and macro-organizational behavior will accept almost without question the notion that managers prepossession create and implement strategies and adaptations to push their organizations along the survival path. These scholars are frequently adamantly resistant to the ideas of natural selection and blind variation.

Attribution theorists distinguish between external and internal attributions of causality. Generally, they have found that people tend to attribute success internally (“I earned an A in physics.”) and failure externally (“That S.O.B. gave me an F in math.”). Because the field has focused principally on growth and success, it has been difficult for scholars to attribute causality externally. It was logical to believe that managers are the actors responsible for success and, further, managers and consulting clients wanted to believe it, of course. The task of switching scholars’ thinking to ecological forces and natural selection should be much easier when the subject is organizational decline. After all, everyone will readily blame decline on external events! Later, after ecological theories explaining decline are established, it should be easier to get scholars to apply the frameworks to explaining growth and success as well.

Another insight that has become clear to me in writing this chapter is the importance of merging the ecological and population studies side of macro-organizational behavior with competitive strategy and industrial-organization economics. The ideology and methods of organizational development spread through the universities and businesses of the United States during the three decades after World War II, when the country was at the peak of its economic strength relative to competing firms from other nations. “Competition” and “survival” were not in the vocabulary either of scholars or business executives. Now, the ideology of competition has clearly gained much more currency. Whereas the current “hot topics” in the natural sciences are often driven by the creation of new instruments like particle accelerators, electron microscopes, radio telescopes, or space platforms, in organizational studies hot topics can be driven by prevailing economic forces. Right now, the United States feels the wind of foreign competition stirring up trouble for U.S. companies. It seems logical that many scholars
and studies would draw upon the prevailing economic scene for both ideology and inspiration. The sooner academic departments focus on, and organize around, a merger of these fields, the more useful and insightful our field will be. (Maybe one of us will even become a White House advisor!)

During the decade since Hannan and Freeman published their seminal work, ecologists have focused primarily on applications of event-history and hazard-function analyses of organizational births and deaths. The approach has mirrored trends in theoretical bioecology. I should emphasize what may be a potentially significant difference between bio- and organizational applications of the Verhulst–Pearl and Lotka–Volterra equations. Clearly, organizational populations may decline due to the loss of members or competence or, conversely, strengthen as a result of gains in members or competence. Membership and competence may vary independently. Their degree of covariance may shift as a population, especially a synchronous one, moves from one life-cycle stage to another. Until ecological studies account for the potentially confounding effects of membership and competence, we should view their results cautiously. As I mentioned earlier, the likelihood that competing organizational populations may not achieve equilibrium status advises further caution over applications of the Lotka–Volterra equations. Of course, the many other reservations bioculturists and organizational scientists have about theoretical ecology also apply.

Most organizational-studies scholars still do not think in terms of the dynamics and effects of populations. Even in this volume—except for the chapters by Hannan and Freeman, Carroll and Delacroix, and Cameron and Zammuto—I see virtually no recognition of population effects. The field still is the handmaiden of practicing managers who want help in getting their particular job done better. The field is still driven, it seems to me, by consultants who get paid by practicing managers and who aim their intellectual insights at ideas apt to help in the personal consulting business. Unfortunately, populations usually do not hire consultants. Populations are abstract and impersonal. Populations do not go out of business and fire people; only firms do. I would like to think I have made it clearer, if not clear, that little systematic understanding or explanation of organizational decline will emerge without a focus on population ecology. To do otherwise, that is, to focus on individual firms and individual managers, is to run afoul of the down side of blind variation—random, avoidable errors. What this means is that I do not think any useful systematic theory will come from most of the chapters in this book, because they are stepchildren of blind variation; that is, they are really studying natural selection (if they only knew) in an illogical way. They have captured one principle, blind variation, but they have missed the other three: selection, retention and diffusion, and competitive struggle. Given that blind variation exists, the only way—and I do mean the only way—to make sense of what is going on is to study populations in the context of competition, hence, by drawing on all four principles. Only then will our field begin to take on meaning. As Hayek (1978) remarked, “An age of superstition is a time when people imagine that they know more than they do.”

References


