CEO

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The Case For
Transorganizational Systems**

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ABSTRACT

This paper discusses transorganizational systems as an innovative yet increasingly frequent response to organizational decline. Transorganizational systems are coalitions of multiple organizations formed to address common problems, in this case to deal more effectively with organizational decline. It is argued that, in spite of strong factors militating against their formation, transorganizational systems are favored under certain specified conditions. It is further argued that the nature of the decline itself will interact with these conditions to determine type of transorganizational system linkages, whether among similar or dissimilar organizations. Transorganizational systems examples are cited to illustrate the arguments, and finally an approach is suggested for creating and developing transorganizational systems decline strategies.

The growing body of research on organizational decline may be viewed as a response to a recent development in the history of organizations. During the past several years, there have been increasing examples of organizational cutback and failure, often in large organizations that had, in the past, enjoyed a degree of immunity from retrenchment. Numerous private and public organizations are now facing turbulent environments, critical scarcities of vital resources, and uncertain demand for goods and services. Consequently, scholars are beginning to focus on organizational decline, in contrast to more traditional concerns for organizational growth (Hirschhorn & Associates, 1983; Whetten, 1980a).

In this paper, we will explore an innovative yet increasingly frequent response to organizational decline, the formation of transorganizational systems (TS). We begin with a general discussion of traditional responses to decline, and then describe TS decline strategies, identifying the specific circumstances under which those alternatives are likely to occur. Specific examples of TS will be discussed, and finally we will suggest an approach for creating TS programs to deal with decline.

TRADITIONAL RESPONSES TO DECLINE

Organization responses to decline depend, in part, on the nature of the decline. Whetten (1980b) distinguishes between "decline-as-stagnation" and "decline-as-cutback." Decline-as-stagnation refers to a general organizational climate and, ironically, is likely to occur during periods of abundance. Here organizations allow performance to slide and still achieve acceptable results, because resources are plentiful and demand is high. This type of decline may not involve cutback at all, but rather a gradual and subtle decrease in the rate of organizational growth. Decline in this sense is often considered a result of poor management, although that recognition

1

typically does not occur until long after the seeds of decline have been sown.

In this paper, we are concerned with decline-as-cutback. This kind of decline is more observable than decline-as-stagnation, and thus offers a clearer basis for discussing organizational responses to decline. Such clarity is especially helpful at this early stage of conceptualization about organizational decline.

Decline-as-cutback is an actual reduction in the scale of an organization's operations, precipitated either by a loss of competitive advantage (resulting in a smaller share of market) or a decrease in environmental munificence (resulting in a shrinking of the total market). Presumably, different organizational responses will be more or less appropriate under these different stimuli for decline.

Although there are a variety of possible management responses to decline, they tend to be myopic in discovering causes and developing solutions. Despite obvious external dependencies, managements tend to search for internal solutions to decline rather than for external solutions. (Pfeffer & Salancik, 1978). Organizations and their managements go to considerable effort to exert a need for control and thus maintain autonomy (Aldrich, 1979). They tend to resist external relationships that impinge on their ability to exercise discretion. Even when managements recognize the need for external relationships, they are likely to seek linkages affording the highest degree of freedom (Pfeffer & Salancik, 1978; Mulford & Rogers, 1982). Organizations will sacrifice autonomy only to the extent that they see clear, important compensating advantages. Such advantages generally comprise vital resources needed for survival (Pfeffer & Salancik, 1978).

This "rugged individualism" response to decline is also reinforced by the American culture. Many large U.S. firms have developed and thrived in a

2

highly competitive, individualistic culture. As a result, deeply ingrained
American cultural norms serve as strong support for solving organizational
problems internally. Moreover, management is less likely to question
cultural norms and learn new responses during the stressful periods of
decline. Failing organizations tend to place greater emphasis on well-
learned, institutionalized responses (Hedberg, Nystrom & Starbuck, 1976).
They do not question programs and solutions which were once successful, yet
may be ineffective for coping with a cutback situation.

In summary, organizations and their managements tend to look inward for
solutions to decline; they attempt to maintain autonomy, and enter into
external relationships only as a last resort to obtain additional resources
for survival.

TRANSORGANIZATIONAL SYSTEMS RESPONSES TO DECLINE

Given an organization's tendency to respond to decline internally and
with minimal external linkages, it is surprising to find a growing list of
examples that describe how organizations join with other organizations to
manage decline(Costanzo & Gershenfeld, 1982; Corrigan, 1983; Taber, Walsh, &
Cooke, 1979; Berg & Hafstrom, 1982). Generically referred to as
transorganizational systems, these multi-organization responses are an
unexpected yet potentially effective strategy for managing decline (Cummings,
in press). They represent coalitional structures formed by two or more
organizations for a common purpose; in this case, dealing with organizational
decline.

Transorganizational systems strategies enable organizations with disparate
goals to combine resources to bear on common problems. The costs, however,
may be high; member organizations must sacrifice some autonomy and resources
in order to coordinate their efforts. TS approaches also require complex

3

social structures that are difficult to create and manage. At the same time, the benefits can be great, not only to stem the decline, but even to revitalize what was thought to be a hopeless situation.

Because transorganizational Systems strategies are an innovative response to decline, we believe they deserve more systematic attention. At this early stage of understanding, conceptual clarification is a necessary prelude to empirical investigation. In this section, we provide a preliminary model for clarifying the boundary conditions within which this new social invention of external collaboration (TS) can be expected to occur.

The TS decline model, shown in Figure 1, lists specific conditions favorable to TS decline strategies. Because of strong forces militating against organizations joining with other organizations to manage decline, we expect TS responses to occur only under a narrow range of circumstances. Examination of the limited examples of TS decline strategies appearing in the literature supports this premise. The following five conditions have been identified as favorable to TS responses.

Figure 1 about here
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1. __Environmental turbulence.__ Based on the work of Emery and Trist (1965), several researchers have suggested that a major impetus for forming TS strategies is turbulent environments (Trist, 1967; Gricar, 1981; McCann, 1981; Boje, 1982; Lawless, 1982). It is argued that as the environment becomes more complex and changing, organizations experience so much uncertainty that they cannot cope with it by acting alone. By joining together with other organizations experiencing similar field-related problems, organizations can

negotiate a more stable order and reduce turbulence to more tolerable levels. Motivation to do so, of course, depends on organizational members perceiving environmental turbulence as contributing to their decline.

2. Shared fate. Declining organizations are likely to seek TS responses to the extent that they perceive interdependence or shared fate with other organizations. Such interdependence may derive from technological specialization and involve resource exchange among organizations; or it may involve organizations sharing a common problem domain, such as might occur among local organizations in a community undergoing industrial decline.

3. Lack of exit option. Organizations are more likely to choose transorganizational systems strategies when there is lack of option to exit the decline situation. There are numerous examples of national and multinational companies simply pulling out of communities in which performance of local subsidiaries has fallen short of corporate standards. Levine (1979) makes the observation that individuals who have the most to contribute to declining organizations are frequently those who have the most opportunities to leave. In examining plant closings, Meek and Woodworth (1983) show that plants are more likely to close in cases of absentee ownership because the community does not represent an important, continuing, and inescapable reference group . In these cases of exit option, the organization is not geographically bound, and hence has little motivation to engage in joint problem solving with other organizations. By contrast, a school system or other community-bound organization has no exit option; these "trapped" organizations are likely to to seek solutions through joint problem solving with other organizations in the community.

4. Altruism. As the term implies, unselfish concern for the welfare of

5

others can stimulate TS decline strategies. To the extent that organizational decline is viewed as a threat to human and social well-being, we can expect declining organizations to seek outside linkages in order to mitigate destructive consequences. This altruistic motive for TS decline strategies seems particularly salient in situations where organizations have strong social as well as economic ties in a community.

5. Mandate. Probably the most direct motivation to form TS under conditions of decline is when some higher authority or law mandates it. For example, the government may intervene to mandate linkages among public organizations that are having trouble providing essential services. It is assumed that the mandate will require necessary coordination among agencies, thus providing services more effectively than single organizations acting alone. A less direct form of mandate is government sanction, such as waiving antitrust laws to permit the merger of companies in trouble.

INTERACTIONS BETWEEN FAVORING CONDITIONS AND NATURE OF DECLINE

At this rudimentary stage of conceptualization, the five conditions favoring TS decline strategies should be treated as a checklist of possible initiating conditions. Clearly, considerable theory and research are needed to determine the full range of conditions favoring TS decline strategies, how they interact with each other, how each condition should be weighted, and how they should be combined (multiplicative or additive, for example) to impact TS responses.

It seems apparent from the limited research conducted so far that no single condition, with the possible exception of mandate, is sufficient to cause the initiation of a TS strategy. Management resistance to searching outside the organization is so strong that several conditions must be present

6

to motivate the affected parties to come together.

The question of successful collaboration is even more problematical, hinging, we think, not only on the total weight of the favorable conditions but on the extent that the conditions are recognized and acted upon at a relatively early stage in the process of decline. Waiting too long may allow for fateful and destrucive decisions to be taken; although, if one acts too soon, favoring conditions may not have emerged with sufficient strength to provoke enough parties to act.

The specific nature of decline will also signal which favoring conditions are likely to be more salient and who may be the relevant parties to engage in collaboration. As described earlier, the nature of decline-as-cutback comprises two types: decline resulting from a shrinkage of the total market and decline deriving from a shrinkage of market share. In general, we can expect the favoring conditions to promote transorganizational systems composed of _similar_ organizations when the nature of decline derives from shrinkage of the total market. Here the total industry is facing decline, and favoring conditions such as shared fate and environmental turbulence would motivate industry members to band together to manage decline.

On the other hand, when decline is caused by loss of market share by a single company, it is unlikely that other organizations from the same industry would form a TS. Here organizations would be forced to save a competitor, with only the declining organization serving to benefit. Thus, _dissimilar_ organizations are more likely to engage in transorganizational systems when the favoring conditions include shared fate at the community level, lack of exit, and altruism on the part of local leaders.

In summary, the TS decline model provides a preliminary conceptualization of this emerging strategy for managing organizational decline. It helps to

7

clarify the conditions promoting TS responses, and suggests how those conditions might interact with the nature of decline to determine whether collaboration will occur at an industry or community level.

EXAMPLES OF TS DECLINE STRATEGIES

So far the discussion about TS and decline strategies has been relatively abstract as we have tried to clarify the conceptual boundaries of TS decline. Now will apply that knowledge to concrete cases of TS decline. The examples cover both kinds of TS strategies, those composed of similar organizations and those consisting of dissimilar organizations.

TS Composed of Similar Organizations

A transorganizational system composed of similar organizations has recently been created in the semiconductor industry (Corrigan, 1983). Twelve companies are pooling their R&D resources to form Microelectronic and Computer Technology Company (MCC), a TS that will respond to the semiconductor threat from Japanese competition. The nature of decline involves an impending loss of market share in a task environment characterized by high turbulence. Each of the twelve industry members feels that it cannot manage the potential decline by acting alone. Moreover, each faces a scarcity of resources in terms of mounting an independent action. When combined with a strong perception of shared fate and government approval, these conditions promote the formation of an industry coalition for stemming the threatened decline.

Another recent example has occurred in the steel industry, which has acted to protect itself against foreign imports. Steel companies have worked together and with their lobbying groups to bring pressure on the federal government for temporary restrictions. They also sponsored advertising in the public media so that citizens could exert influence on their legislators.

This traditional TS strategy may not prove effective in the long run

8

unless the steel companies use their moratorium to modernize technology and
reduce labor costs. More innovative TS strategies, involving dissimilar
organizations (e.g. unions, suppliers, communities), will be required by
individual steel companies to determine which of them will emerge as more
effective.

TS Composed of Dissimilar Organizations

The Jamestown Area Labor-Management Committee is a transorganizational
system formed by dissimilar organizations located in Jamestown, New York
(Costanzo & Gershenfeld, 1982). It was created in the early 1970's to stem an
industrial decline that was well underway. The number of manufacturing jobs
in Jamestown had decreased steadily for 18 years. Jamestown's industries
were moving south, plants were closing, and unemployment was running almost
100% ahead of the national average. Furthermore, many young, educated people
were leaving Jamestown in search of better employment opportunities elsewhere.
Conventional industrial development efforts had failed because Jamestown had
a reputation for a bad labor management climate.

Conditions in Jamestown included many ingredients that we have suggested
as fostering the creation of TS strategies at the community level. Problems
faced by the community were clearly beyond the ability of individual
organizations. Industry in the entire northeast was migrating south and
Jamestown was particularly hardhit. A high level of organization
interdependence existed within the small community; everyone was affected by
the deteriorating economic base. While some firms were able to exercise an
exit option, many were not. Those remaining in the community shared a common
fate with the others.

Although not without difficult periods, the ten year history of the
Jamestown Area Labor-Management Committee appears to have been a success. The
TS was initiated with a clear purpose: to restore the existing manufacturing

economy of Jamestown. The coalition included organizations from government, industry, labor, and higher education. It involved a multi-pronged approach, including resolution of the major hostilities between labor and management, extensive retraining programs to prepare people for jobs, and attracting new business to the area. The town today reflects a dramatically changed climate.

Jamestown is an example of a TS strategy motivated by turbulence, shared fate and lack of exit; yet those conditions existed for some time before the TS was formed. Therefore we must ask what happened in early 1972 to provide additional impetus for formation of the Committee.

The role played by certain individuals, both in creating and sustaining the TS, appears to be significant. The personal initiatives of Jamestown's mayor, Stan Lundine, and others who were genuinely committed to the community provided major impetus for a cooperative effort. Many of these key people were motivated by strong humanitarian values and a deep concern for the social costs of decline. While it is difficult to determine how much altruism was a causal factor, its presence seemed necessary to tip the scales in favor of the creation and continuation of the Jamestown Area Labor-Management Committee.

Taber, Walsh, and Cooke (1979) have also documented the development of a community-based TS, created not to stem decline, as in the Jamestown example, but to reduce the deleterious effects of decline. This case involved the shutdown of an outmoded plant that produced automotive components and trim for a declining market. The action to close the plant was not opposed by the community; however, members of the community and representatives of the plant were concerned about the impact that loss of jobs would have on employees. While numerous community-service agencies were already in place, a serious gap existed in terms of their comprehensiveness, coordination, and activist

10

orientation in addressing the human needs anticipated from the shutdown. The transorganizational system that was developed had as its purpose to coordinate the various agencies in order to help employees cope with the various effects of job loss. It included management, union, university, and community representation.

Here again, there was a sense of shared fate among community organizations and some lack of exit option. The plant was owned by a company based in another city and the parent corporation was concerned with minimizing the cost of the shutdown. It had little altruistic interest in helping the community to deal with the aftermath. But the local plant manager and two staff specialists in human resources from within the plant expressed a strong concern for the human costs of the shutdown, and they subsequently played a major role in creating the TS.

In this case, as in Jamestown, there were obstacles to TS formation and continuation. The process began without the support of the corporation or city officials, both of whom had other priorities. The TS went through painful stages of development, growing and evolving from an ad hoc to an established organization. At several points, there were opportunities for breakdown; yet a strong sense of shared fate among the various agencies helped to form the Council, and the the altruistic motives of several key individuals played an important part in sustaining the cooperative process.

A third case example involves the liquidation and "transformation" of the Oresundsvaret Shipyard in Landskrona, Sweeden (Berg & Hafström, 1982). Faced with a declining world market for ship construction and inability to compete in it, the parent company, Swedyards, decided to close down the plant, employing nearly 3,000 people in a community of 36,000. The parent company sought government approval, and the Sweedish parliament authorized the close

down in order to permit other shipyards in Sweeden to survive.

In a remarkable effort of cooperation and ingenuity, nineteen organizations banded together under government sponsorship to form Landskrona Finance to provide venture capital and consulting assistance in the start-up of new businesses proposed by departing employees of the shipyard. The TS was composed of two municipal governments, a regional investment bank, Swedyards, and fifteen private industrial companies within the region. Together they contributed more than $15 million as a capital base to fund new businesses proposed by the shipyard employees. In addition, a regional industrial park was created on which to locate many of the new businesses. A central core business was also formed to provide accounting, personnel, and expert assistance so that each new business would not have to afford this costly overhead.

The net result, one and a half years later, was a thriving set of twenty-five new companies, employing over seven hundred employees from the shipyard. Other employees were assisted by the TS in retraining and finding employment throughout the region. No employees were left to join the unemployed.

This shipyard closure represents TS working in its most effective manner. All of the favorable conditions mentioned previously were present. A careful plan was formed from the beginning to bring together the public and private sectors at the regional level, and the result was to create several self-sustaining businesses that will likely create more wealth than was ever possible with the shipyard. More important, perhaps, is the opportunity created for many shipyard employees to begin a new stage in life as entrepreneurs.

CREATING AND DEVELOPING TS DECLINE STRATEGIES

We have alluded to the difficulties inherent in creating and developing

TS decline strategies. These multi-organization responses require member organizations to reverse their traditional responses to decline, and, in doing so, to surrender some autonomy and resources to coordinating the TS. Moreover, the tasks of managing multiple linkages among organizations and sustaining commitment to the TS are especially difficult under conditons of decline. They place severe demands on an organization's ability to manage and commit itself to external linkages, especially at a time when management's attention is likely to be directed inward to the organization's own functioning.

Cummings (in press) has suggested that the creation and development of TS strategies require a form of planned change distinct from that traditionally used in single organizations. He argues that TS situations tend to be underorganized, relationships among member organzations are loosely coupled and often indirect, leadership and power are dispersed among several member organizations, and commitment to the TS is sporadic as membership ebbs and flows.

Given these difficult conditions, planned change needs to focus on mobilizing and bringing order to the underorganized TS. This effort requires building new linkages and creating a system where none existed before. It will also involve establishing new structures, roles, and technologies to bring regularity and predictably to the TS.

Cummings has developed a normative model for TS attempts at planned change, involving three phases: identification, convention, and organization. It is beyond the scope of this paper to present the full model in detail. Rather, we will briefly describe the three stages and outline critical issues needing to be addressed in each phase. Although this model of planned change is in an early stage of development, we feel that, if the conditions favoring

13

TS decline strategies are already present, its application will increase the likelihood of creating and developing effective TS.

Identification

The purpose of the identification phase is to specify organizations potentially composing the TS. Because TS situations tend to be underorganized, the identification of potential members can be difficult because linkages among them are loosely coupled or nonexistent. Moreover, criteria for TS membership may be so ambiguous and difficult to assess that precise setting of boundaries is impossible.

While the identification process is necessarily somewhat arbitrary, the ultimate effectiveness of the TS will be determined largely by inclusion of appropriate organizations. Failure to involve relevant organizations, or conversely, inclusion of inappropriate members, may undermine the TS's ability to manage decline. Therefore, a systematic method for participant identification will improve the likelihood of desired TS outcomes.

The following issues need to be addressed at the identification stage. They can serve as a guide to the selection process by directing attention to relevant considerations:

1. What is the nature of the TS decline problem?
2. What knowledge, skills, and resources are needed for solving the problem?
3. What organizations can provide those skills and resources?
4. What organizations control resources, information, and legitimacy related to the TS problem?
5. Who should provide leadership for identifying potential TS members?
6. How can such leadership be enacted?

14

Convention

Once potential members of the TS have been identified, the convention phase brings them together to assess the feasibility and desirability of forming a TS. Typically, this phase includes one or more meetings (convening events) where potential members can openly explore their motivation to work together and to share their perceptions of the decline problem. The intent here is to establish sufficient levels of motivation and problem consensus to form the TS.

The following questions should be addressed at the convention phase:

1. Who should convene potential TS members?
2. Who should represent the organizations at the convening event?
3. How should the convening event be managed?
4. What are the cost/benefits of interacting?
5. What is the motivation underlying interaction?
6. What likely motivational problems exist?
7. What is the nature of the TS decline problem, and how does the larger TS environment impact it?

Organization

If, during the convention phase, a decision is made to create a TS, the organization phase proceeds. Its purpose is to provide the necessary structures and mechanisms to support and regulate joint behaviors toward achieving the TS purpose. Because TS are typically underorganized, the organization stage generally involves the creation of structures, roles, and and responsibilities where few or none existed before.

The following questions will serve as a guide to the organization phase:

1. What are the desired outcomes of the TS?
2. What kinds of member interactions are needed to address the TS decline problem?
3. What structures and mechanisms are needed to promote those interaction processes?
4. How involved should TS members be in implementing the TS structures?
5. When needed, how should member participation be managed?
6. What data should/can be collected to guide the implementation process?

We refer to these three stages as a process of transorganizational development. It is essential not only to organize a loosely-coupled system, but to develop a common perception of the problem and to arouse sufficient human energy for solving it. The concept of shared fate, for example, is not strictly an objective phenomenon measured only by external criteria. It is also a subjective factor with cognitive and emotive implications--shared fate has to be perceived and felt for the affected parties to move ahead.

CONCLUSIONS

The creation of TS decline strategies is an innovative and potentially promising approach for managing organizational decline. Although the conditions favoring this response seem relatively limiting, many of them are becoming increasingly prevalent in our society. Environmental turbulence should continue to predominate in many sectors of our society. Similarly, interdependence and shared fate among organizations can be expected to increase, particularly in light of the current information and technology revolution. In spite of the obvious obstacles, TS may be one of the more effective remedies for coping with the inevitable decline facing organizations in the coming years.

In this paper, we have attempted to identify the conditions under which TS might be an appropriate response to organizational decline, and have suggested an approach for creating and developing TS decline strategies. Hopefully, this preliminary conceptualization will lead to more systematic study of innovative responses to organizational decline.

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FIGURE 1:   TS DECLINE MODEL

Nature of Decline

| Shrinking of Total Market |
| Shrinking of Market Share |

Conditions Favoring TS

| Environmental Turbulence |
| |
| Interdependence/Shared Fate |
| Altruism |
| Lack of Exit Option |
| Mandate |

Kind of TS

| Similar Organizations |
| Dissimilar Organizations |