The Management and Organisation of Firms in the Global Context

Edited by
Csaba Makó and Chris Warhurst

Against Bureaucracy: Why Flexibility and Decentralisation Cannot Solve Organisational Problems

Eckhard J. Dittrich and Stefan Kühl

Introduction

In recent years many companies have taken serious efforts to decentralise their organisational structures in order to make them more flexible. The classical bureaucratic enterprise seems to be outmoded if companies want to make best use of available personnel. It seems that fundamental shifts in the nature of markets as well as the 'micro-technological revolution' have led to the crisis of bureaucratic organisational forms. These forms are now regarded as to be too inflexible to meet the new challenges from the market and new technologies. Therefore customer and supplier orientated business organisations are in search of new organisational forms to help them survive in a economy that is increasingly global. This process has led to new organisational forms especially in small and medium sized enterprises, but also larger ones. Such enterprises are experimenting with new organisational forms such as process re-engineering, work groups, profit centres and benchmarking etc..

These new decentralised and flexible organisations are believed by many social scientists, business people and consultants to represent the future of business organisations. We, on the other hand, have severe doubts. Many changes are reactions to the increased global competition but are so in a way that is not based on the actual knowledge about organisations that has been accumulated over past years.

This chapter has three parts. In order to decipher the problems which occur with these new organisational forms we first outline our thoughts on the fashion of restructuring. We then provide a summation of the basic problems of organisational change. Finally, in the last section, we decode three dilemmas that decentralised and flexible enterprises have; the dilemma of identity, of power and of complexity.

Cycles of Organisational Change

Just as bust-boom economic cycles characterise business, so ideas about how to restructure companies rise and fall. At one time, it was management consultancy guru Tom Peters' 'chaos management' that dominated; later on, it was trimming excess organisational fat through 'lean management'. More recently, the idea of restructuring all of the fundamental processes through 'business process re-engineering' has gained prominence.

No matter which of these approaches was currently in fashion, the 'conceptual cycle' has always followed the same sequence. A new 'revolutionary' concept is usually introduced through a best-selling book about management – one which promises substantial increases in productivity, sales and profits, and is full of examples of successful companies and do-it-yourself recipes for change. Shortly after, management consultancy firms appear that are only too willing to help out managers who have not succeeded in achieving the promised productivity increases through the do-it-yourself efforts. After two or three years, doubts about the

new concept usually begin to surface. Scientific-sounding research studies are published showing that only 20 or 30 per cent of all the projects attempting to implement lean management, re-engineering, or chaos management have actually succeeded. This is the time when business journals – which until this point had been making their own contributions to the general enthusiasm about the reported discovery of the 'philosopher's stone' – begin publishing reports describing failed attempts at restructuring.

Consultants are immediately at hand once again, however, to explain why these restructuring processes have failed. The failure to make companies leaner is attributed to the strong resistance encountered from middle management, to a lack of teamwork among employees, to a lack of expertise in re-organisation amongst the top managers, and to a low level of acceptance further down the organisational hierarchy caused by a failure to provide enough information and sufficient opportunities for participation. Failures are explained by mistakes in selecting the right plan, failure to co-ordinate the project with the company strategy, and a lack of knowledge concerning implementation. The suggested remedy for these problems is obvious: a new, capable, and expensive consultant must be hired, at least until the next new, revolutionary management concept hits the market.

To the observer, it is initially surprising to see these cycles of restructuring concepts occurring, since all concepts ultimately have the same goal: reducing hierarchy and decentralising the company. Team and project work is supposed to enable the company to react faster and more flexibly to changing customer needs. The concern is to transform an apparatus marked by stagnation and self-satisfied stability into a powerful, mobile, process-oriented organisation. Such initiates appear as commonsensical, as it is seemingly obvious that there exists a constant necessity for all business organisations to change if they want to survive under conditions of competition.

Nearly all the elements involved in the new organisational concepts such as lean management and re-engineering – teamwork, process orientation, job enrichment, and dissolving strict departmental boundaries – have been suggested before. In the early 1970s, they were propagated under the slogan ' the humanisation of the working world'. At that time, they were rejected by many managers, who thought such ideas had been dreamt up by trade unions which were hostile to business.

Of course, there is nothing wrong with the fact that formerly condemned ideas have been circulating under different names for about ten years now and are held up as representing tools for increasing efficiency. Many management consultancy companies, organisation departments and business journals have been making a living out of marketing old wine, originally stored in trade-union cellars, in new bottles. This strategy has at least helped sustain a debate on how best to restructure companies. The real problem in the current discussion is that, when restructuring efforts fail, the same old story is always trotted out about lack of staff motivation, resistance from middle management and insufficient expertise regarding how to implement changes. That is, the problem of change is overwhelmingly defined as a problem of personnel. This reaction, however, obscures what are actually more deep-seated organisational problems associated with making companies more flexible and with introducing teamwork, reducing hierarchy and decentralising the organisation.

The Basic Problems of Organisational Change

The organisational form from which all of these new restructuring concepts are trying to distance themselves is that of the classic, hierarchical, centralised organisation. Bureaucracy and the Tayloristic division of labour have become pejorative concepts that an open-minded company manager would not promote nowadays. What is often overlooked, however, is the fact that the enormous growth in business efficiency during the last hundred years was due precisely to this bureaucratisation of organisations and the division of labour. Furthermore, nowadays, especially bureaucracy has become a catch-all-word. Each manager, each consultant and each scientist can load it with all evils, un-understandable events, unintended effects and generally problems that he or she is facing in his or her work. The necessary critique of bureaucracy has turned into a voluntaristic denouncement of bureaucracy that hinders a real understanding of it.

The classic bureaucratic organisation consisted of two core elements: the separation from one another of the individual steps that work involved, combined with a hierarchical regulation of working processes. This allowed positions and tasks assigned to each employee to be determined with formal precision. Each operation became artificially fixed, so that it was reproducible and predictable and could be undertaken by someone else when necessary. The bureaucratic company possessed a clear structure, and contacts with customers and suppliers took place at precisely established points in the company. A newly-hired assembly-line worker knew within a few minutes exactly what his place was within the company. Every saleswoman was aware that her work served as the vital link between the company and its customers. The hierarchy regulated the authority structure and so defined clear individual responsibilities.

Even though this bureaucratic and hierarchical form of company organisation is out of fashion today, it must be appreciated that, in the final analysis, it answered a deep-seated need for organisations. All kinds of organisations – companies, baseball clubs, festival committees, and even to some extent the family – are in a constant state of tension between two extremes: absolute order – a state of complete stability – and chaos – a state of total flexibility. But a business organisation is not completely free to choose the point at which it stands between these two extremes. A fact that has usually been overlooked in the debate over restructuring is that every company has a natural tendency toward order and stability. Organisations are not natural constructs that can be taken for granted, but ordered sections of a 'chaotic world'.

Ultimately, companies are only able to produce things at all because they reduce the immense randomness of the world to predictable behaviour on the part of a specific group of people. The head of a company reduces the range of possible actions open to both his staff and himself so as to be able to put a product on the market. That is the positive side of the story. However, because organisations are nothing more than artificial structures within a chaotic world, they are constantly threatened with the prospect of falling back into the state of disorganisation. Because organisations face this constant threat of dissolution, companies have a penchant for security and order. This explains their tendency toward inertia. It explains the preference on the part of employees and management for traditional ways of doing things, and it shows that bureaucracy and Taylorism were not pathological excesses, but logical realisations of tendencies inherent in every organisation.

One simple question now arises. Why do companies simply not settle into a comfortable state of bureaucracy and hierarchy which is, afterall, natural to them? The reason is the breakneck speed of change in their environment. Bureaucracies are optimally adapted only to surroundings that remain constant and predictable: for example, customer requirements that remain the same, reliability among suppliers, and stable competitive conditions. They can adjust themselves to the demands of customers and suppliers in peace and arrange their own working processes on a stable, long-term basis. But when customer demands, quality requirements, global markets, and technologies are in a state of constant change, then the social context in which companies find themselves becomes extremely unstable and unpredictable.

Companies can only respond adequately to these new types of demand by introducing a flexible organisational structure that is capable of change. The range of concepts as solutions that have been proposed – from lean management and re-engineering to chaos management –

are largely identical suggestions aiming at a more flexible organisational structure. All of the ideas about decentralisation and reducing hierarchy, however, lead to the organisation orienting itself more strongly toward the ideal of disorder than the ideal of order. What ultimately emerges, therefore, is a state of organising that no longer corresponds to every organisation's inner tendency toward stability.

From this perspective, it can be seen that the problems of re-engineering, lean management or chaos management should not be attributed to the failure of individual employees or insufficient expertise in new management methods, but as evidence of the fundamental dilemmas to which those companies are exposed that have dismantled hierarchies and decentralised themselves. They need decentralisation, they need flexibility but in producing them they become endangered of disorder. This point can be illustrated by examining three aspects of organisations: their identity, their power structure, and their complexity.

THE BASIC PROBLEMS OF FLEXIBLE AND DECENTRALISED ORGANISATIONS

The Problems of Identity

In bureaucratic and Tayloristic companies, boundaries with customers and suppliers were clear. The purchasing department was responsible for contacts with suppliers, and the sales and marketing departments then tried to take the product to the customer. These two functions were precisely defined input and output processes. However, in the new, flexible type of company that has been stripped of its hierarchy, it is no longer possible to centralise relationships with suppliers and customers in specific areas of the company. If a company issues the slogan 'give customers what they want when they want it,' then the relationship can no longer simply be channelled through the 'boundary posts' of purchasing and sales. Management efforts to extirpate the attitude, 'I'm not responsible for that. Phone my colleague.', are ultimately a challenge to each employee to make direct contact with customers and suppliers.

Tom Peters (1988) once described this development as involving the necessity for the new type of company to have only thin, transparent, porous boundaries with the outside world. It must be asked what do such porous and transparent boundaries imply for the stability of companies today. It becomes more and more difficult for company managers and employees to know where their company is located and where their colleagues are at any given time. While the company was formerly seen as virtually identical with the building in which production took place, today more and more of the net product is created directly with the customer, away from the company base. The clearly defined 'workplace,' which guaranteed that employees would always be in the same place, has given way to the requirement for employees to be present wherever they are needed. 'Places' of employment, which used to be the precise locations at which various functions occurred within the company, have given way to the process-oriented organisation of labour at least in the new types of organisations.

In addition to the increasing difficulty of localising an organisation, it is becoming more and more unclear who actually belongs to the organisation. In Tayloristic companies, who belonged to the company as staff was clearly defined, and an individual's tasks could be precisely determined using a job description. In the decentralised company stripped of its hierarchy, the defining criteria become more ambiguous: someone working for an autonomous production group can no longer be clearly assigned to the overall company organisation. The manager of a profit centre hardly needs to have more contact with the staff of that profit centre than he or she does with the employees of completely different companies. A consultant who has worked for a company for more than a year on a consultancy-fee basis can no longer clearly be described either as a 'supplier' or as a 'member of the organisation'. The clear Tayloristic and bureaucratic division between 'employee' and 'non-employee' – which is central in identifying where an organisation's boundaries lie – is being replaced by increasingly complex relationships with individuals and organisations.

The constant danger faced by companies oriented toward flexibility and change – that their boundaries to the surrounding world may dissolve beyond recognition – means that they face a fundamental dilemma which involves a need for such change but without at the same time dissolving completely. In a company attempting to adapt itself to a turbulent environment, how can the organisation be prevented from breaking up altogether? How can the flexibility and necessary standardisation required to steer the system be reconciled? Thus the flexible organisation is in danger of running into identity problems that tend to produce an economic rationality rather than an organisational rationality.

The Problem of Power

Like the problems created by the company's porous and transparent boundaries, the reduction of vertical and horizontal structures also leads to fundamental internal organisational problems. It is necessary to reduce the number of hierarchical levels and to soften departmental boundaries in order to enable the organisation to react flexibly to customer demands and implement innovations more quickly. But achieving greater flexibility in the company is often purchased at the price of unleashing unprecedented power struggles.

In addition to their function in structuring the working process, hierarchy and departmental boundaries served to regulate power struggles within companies. Each real or potential conflict that arose between employees could at least be resolved initially by statements such as, 'I'm the boss – I'll decide' or 'My department, and my department alone, is responsible for this area.' In re-engineered, leaner companies, this clear distribution of responsibility and power yields to a diffuse, unclear power structure. Stripping away hierarchy and decentralisation allow power struggles to progress to new heights, since they are no longer regulated by hierarchies and fixed structures. All the procedures involved in reaching agreements have to be resolved through open conflicts.

Power struggles on this scale, which have at once become largely unregulated, are capable of putting excess stress on a company. As a consequence, potential conflict becomes difficult to even acknowledge, as French sociologist Isabelle Berebbi-Hoffmann (1990) has described. In a large software applications company, stripping away the hierarchy and introducing decentralisation made it impossible for either power plays or conflicts to be discussed openly. The company promulgated the motto that each member of staff should carry out his or her work autonomously, and that co-ordination should take place in a friendly and non-hierarchical way. The atmosphere in the company, which was at first sight a positive one, led, in fact, to self-censorship: problems and power conflicts had become taboo.

What do these unregulated power struggles mean in practice? Let us examine project groups and semi-autonomous production groups – initiatives which are seen currently as the organisational 'wonder weapon' of management. Teams – when they work – are certainly a highly effective and flexible form of organisation. The main problem with teams is the absence of any institutional regulation of power struggles. Due to the official requirements for equality and the familiarity of the group relationships involved, power takes on a diffuse, uncontrollable character. But precisely because of this diffusion – the impossibility of identifying and naming powerful people by any formal means – it becomes impossible to recognise and discuss power, or it can only be achieved with difficulty (Fröhlich, 1983).

The Canadian organisation theorist Henry Mintzberg (1988) impressively described the dangers of decentralised and non-hierarchical companies by saying that there is no structure that is more Darwinistic, none that encourages the fittest more – as long as they stay fit -and none that is more catastrophic for the weak. Fluid structures favour internal competition, and may provide a seedbed for fierce power struggles. The French have a graphic expression for this development: 'un panier de crabes' or a bucket of crabs, all clawing at each other to get up, or out!

The Problems of Complexity

Over the past few years the debate over re-engineering and lean management has taken a particularly disastrous turn. Consultancy firms such as McKinsey, which is associated more with the classical bureaucratic companies than with flexible, adaptable firms, have suddenly started promoting the stripping away of hierarchy and introducing decentralisation as tools for making working processes more efficient and comprehensible. All at once, McKinsey representatives have started to condemn hierarchical and Tayloristic company structures, using terms such as 'complexity driver' and 'overcomplexity'. The propaganda opposing 'complexity drivers' in companies – meaning production processes that are too complex, product ranges that are too varied, value-creation chains that are too extended, and excess centralisation – is intended to prepare allegedly 'overcomplex' companies for treatment plans involving the introduction of 'complexity optimisation' and 'right-sizing' for example.

Fatally, McKinsey and others are overlooking the fact that, precisely in the decentralised and non-hierarchical form of company that they are demanding, the complexity of working and decision-making processes actually increases. It is not enough to simply count the numbers of hierarchical levels, departments and products when attempting to measure the degree of complexity in a company. The assumption that introducing simple rules and simple structures is going to create simple, minimally complex organisations is an illusory one.

Recent discoveries in mathematics, economics, physics and biology show that simple rules can create highly complex processes. When a drop of water falls onto a smooth surface, the interplay between two quite simple rules creates a highly complex structure. On the one hand, gravity is trying to pull the droplet apart and cover the surface with a smooth, shallow film of water. On the other hand, the surface tension in the water molecules makes them try to combine to form a large, compact sphere. The combination of these two rules produces highly complex droplet patterns, which it is impossible to reproduce. Chess – a game based on a minimum of rules – can produce play so entangled that even the most powerful computer has difficulty grasping its complexity.

Management's desperate struggle against 'overcomplexity' is directed against the same phenomenon that makes chess such a highly complex game and turns the droplet on the surface into bizarre and unique patterns; that is, the complexity that arises from the interplay of simple rules. It is not the result of an extensive system of regulations. Specifically, this struggle means that every attempt that a company makes to reduce complexity through lean management or re-engineering will ultimately lead to a further increase in complexity. To give one example: in a working process involving one foreman and ten different positions on a production line, the number of relationships that can be initiated is strictly regulated. All of the co-ordination processes involved have to pass through the foreman. If attempts to achieve the same production results involve using teamwork, the process of production and co-ordination is going to be vastly more complex: each person involved can and should communicate with each of the others, each person can take up of any of the various positions in the process, and also make contact with other teams. Eliminating the hierarchy thus turns what was originally a clear and easily controllable process into an unclear one that can only be directed with difficulty.

A Simple Way Out?

The dilemma facing companies that have eliminated hierarchy and introduced decentralisation is that, in view of the complexity existing both inside and outside the organisation, employees actually long for simple, lean, complexity-reducing structures, while such simplifications themselves in fact create a further increase in the confusion. The demand for clear, simple structures and processes becomes stronger and stronger the more turbulent the organisation's environment, the weaker the paths of communication and decision-making, and the more open and therefore complex the internal processes. The great danger for decentralised and non-hierarchical companies is that, with the reduction in hierarchical levels, the dissolution of departmental boundaries, and the externalisation of sectors of the company, they expect their working processes to become simpler – when what in fact happens instead is that they become submerged in unanticipated internal organisational complexities.

In view of the globalisation of markets, higher customer requirements and new technologies, it is not possible to return to the bureaucratic and hierarchical organisation. However, the introduction of new forms of company structure – whether labelled lean management, re-engineering or chaos management – does not fail primarily due to narrow-minded employees, resistance from middle management, inexpert senior management or incompetent consultants, but due to fundamental problems involved in efforts to reduce hierarchy and achieve decentralisation. Companies that allow themselves to be hypnotised by the soothing words of consultants offering ever-new 'revolutionary' management concepts, and which rush like lemmings after the latest management idea, are failing to seriously consider the genuine problems involved in reducing hierarchy and achieving decentralisation.