The flaws of decentralized organizations: why reengineering and reducing hierarchy fail

Stefan Kühl

Sociologist/management consultant, Berlin, Germany

Just as bust-boom economic cycles characterize business, so ideas about how to restructure companies rise and fall. At one time, it was management consultancy guru Tom Peters's "chaos management" that dominated; later on, it was trimming excess fat through "lean management" (Peters, 1988). More recently, the idea of restructuring all of the fundamental processes through "business reengineering" 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 thereafter, 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 alone. 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 percent of all the projects attempting to implement lean management, reengineering, or chaos management have actually succeeded. This is when business journals, which until that 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 "lean" reorganization among the top managers, and to a low level of "acceptance" caused by a failure to provide enough information and sufficient opportunities for participation. Failures in reengineering projects are explained by mistakes in selecting the right plan, failure to coordinate the project with the company strategy, and a lack of knowledge concerning implementation. The suggested therapy 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 surprising at first to see these cycles of restructuring concepts occurring, since all of them ultimately have the same goal: reducing hierarchy and decentralizing 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 organization. Nearly all the elements involved in lean management and reengineering – teamwork, process orientation, job enrichment, and dissolving strict departmental boundaries – have been discussed before. In the early 1970s, they were propagated under the slogan "humanization of the working world." At that time, they were rejected by many managers, who thought such ideas had been dreamt up by trade unions and were hostile to businessmen.

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, organization 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. These reactions, however, obscure what are actually more deep-seated organizational problems associated with making companies more flexible and with introducing teamwork, reducing hierarchy, and decentralizing the organization.

The organizational form from which all of these new restructuring concepts are trying to distance themselves is that of the classic, hierarchical, centralized organization. Bureaucracy and Tayloristic division of labor have become perjurative concepts that an open-minded company manager would never 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 bureaucratization of organizations.

The classic bureaucratic organization 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 the position 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 taken over by someone else. 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.

Even though this bureaucratic and hierarchical form of company organization is out of fashion today, it must be appreciated that, in the final analysis, it answered a deep-seated need for organization. All kinds of organization – 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 organization 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. Organizations are not natural constructs that can be taken for granted, but ordered sections of a "chaotic world."

In a "chaotic world," for example, a village square, all sorts of options are open to me, and I am – at least theoretically – highly flexible. I can start interviewing people, I can sell flowers, I can do somersaults, read a book, preach a sermon. However, the moment I start to structure the village square organizationally – putting up a factory, for example – both my own behavior and that of my neighbors becomes far more predictable. The boss and my fellow employees are entitled to expect that I won't suddenly start trying to convert them to Buddhism, or that I won't start showing off my skill at gymnastics.

Ultimately, companies are only able to produce things at all because they reduce the immense randomness of the world to predictable behavior 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 organizations are nothing more than artificial structures within a chaotic world, they are constantly threatened with the prospect of falling back into the original state of disorganization. Because organizations 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 realizations of tendencies inherent in every organization.

Then, why do not companies simply settle into the comfortable state of bureaucracy and hierarchy that is natural to them? The reason is the breakneck speed of change in their surroundings. Bureaucracies are optimally adapted only to surroundings that remain constant and predictable (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 organizational structure that is capable of change. All of the concepts that have been proposed – from lean management and reengineering right down to chaos management – are largely identical suggestions aiming at a more flexible organizational structure of this type. All of the ideas about decentralization and reducing hierarchy, however, lead to the organization orienting itself more strongly toward the ideal of disorder than the ideal of order. What ultimately emerges, therefore, is a state that no longer corresponds to every organization's inner tendency toward stability.

From this perspective, it can be seen that the problems of reengineering and lean 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 companies that have dismantled hierarchies and decentralized themselves are exposed.

In bureaucratic and Tayloristic companies, boundaries toward 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. In the new, flexible type of company that has been stripped of its hierarchy, however, it is no longer possible to centralize 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 channeled 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.

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. 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 occured within the company, have given way to the process-oriented organization of labor.

In addition to the increasing difficulty of localizing an organization, it is becoming more and more unclear who actually belongs to the organization or not. In Tayloristic companies, it was precisely defined who belonged to the company as staff. An individual's tasks could be precisely determined using a job description. In the decentralized company that has been stripped of its hierarchy, the criteria for definition become more ambiguous: someone working for an autonomous production group can no longer be clearly assigned to the overall company organization. The manager of a profit center hardly needs to have more contact with the staff of that profit center 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 organization." The clear Tayloristic and bureaucratic division between "employee" and "non-employee" – which is central in identifying where an organization's boundaries lie – is being replaced by increasingly complex relationships with individuals and organizations.

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: how to take account of the need for change without at the same time dissolving completely? In a company attempting to adapt itself to turbulent surroundings, how can one prevent the organization from breaking up altogether? How can flexibility and necessary standardization required to steer the system be reconciled?

Like the problems created by the company's porous and transparent boundaries, the reduction of vertical and horizontal structures also leads to fundamental internal organizational problems. It is necessary to reduce the number of hierarchical levels and to soften departmental boundaries in order to enable one 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 substantial or personal conflict that arose between employees could at least initially be resolved by statements such as, "I'm the boss – I'll decide," or "My department, and my department alone, is responsible for this area." In reengineered, leaner companies, this clear distribution of responsibility and power yields to a diffuse, unclear power structure. Stripping away hierarchy and decentralization 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 basically open conflict.

Power struggles on this scale, which have all at once become largely unregulated, are capable of putting excess stress on a company, so that potential conflict becomes difficult to even acknowledge. In a large software applications company, stripping away the hierarchy and introducing decentralization 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 coordination should take place in a friendly and unhierarchical way. The atmosphere in the company, which was at first sight a positive one, had – as the French sociologist Berebbi-Hoffmann (1990) has shown – in fact led to self-censorship: problems and power conflicts had become taboo.

What do these unregulated power struggles mean in practice? Let's take a look at project groups and semi-autonomous production groups, which are currently seen as being the organizational "wonder weapon" of management. Teams – when they work – are certainly a highly effective and flexible form of organization. But as was seen with the Yugoslavian experiments in company democracy and self-administration, 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 took on a diffuse, uncontrollable character. But precisely because of this diffuseness – the impossibility of identifying and naming powerful people by any formal means – it becomes impossible to recognize and discuss power, or it can only be achieved with difficulty (Fröhlich 1983).

The Canadian organization theorist Mintzberg (1979) impressively described the dangers of decentralized 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 favor internal competition, and may provide a seedbed for fierce power struggles. The French have a graphic expression for this: *un panier de crabes* – bucket of crabs, all clawing at each other to get up, or out!

In recent years the debate over reengineering and lean management has taken a particularly disastrous turn. Consultancy firms such as McKinsey, which one associates more with the classical bureaucratic companies than with flexible, adaptable firms, have suddenly started promoting the stripping away of hierarchy and introducing decentralization 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 centralization – is intended to prepare allegedly "overcomplex" companies for treatment plans involving such things as "complexity optimization" and "rightsizing."

Fatally, McKinsey and others are overlooking the fact that, precisely in the decentralized and non-hierarchical form of company that they are demanding, the complexity of the working and decision-making processes actually increases. It is not sufficient to 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 organizations is an illusory one.

Recent discoveries in mathematics, economics, physics, and biology show that simple rules can create highly complex processes. When one tries to let a drop of water fall 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 can hardly grasp it.

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: complexity arises from the interplay between simple rules. It is not the result of an extensive system of regulations. Specifically, this means that every attempt that a company makes to reduce complexity through lean management or reengineering 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 coordination processes involved have to pass through the foreman. If one tries to achieve the same production results using teamwork, the process of production and coordination is going to be vastly more complex: each person involved can and should communicate with each of the others, take up any of the various positions in the process, and 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.

The dilemma facing companies that have cut out hierarchy and introduced decentralization is that, in view of the complexity existing both inside and outside the organization, 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 surroundings are, the weaker the paths of communication and decision-making are, and the more open and therefore complex the internal processes have become. The great danger for decentralized and unhierarchical companies is that, with the reduction in hierarchical levels, the dissolution of departmental boundaries, and the externalization 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 organizational complexities.

In view of the globalization of markets, higher customer requirements, and new technologies, there is no way of returning to the bureaucratic and hierarchical organization. However, the introduction of new forms of company structure – whether we call them lean management, reengineering, or chaos management – does not fail primarily due to narrow-minded employees, resistance from middle management, or incompetent consultants, but due to fundamental problems involved in efforts to reduce hierarchy and achieve decentralization. Companies that allow themselves to be hypnotized again and again 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 decentralization.

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