The dynamics of bureaucracy

A review of (inter alia) the Aston Studies ; Pugh, D., and Hickson, D. (1976). Organisation Structure in its Context. The Aston Programme. London: Saxon House.

For many decades, a growing body of literature has come to exist and organizational design and structure has become more visible as organizations increase in size. In the UK alone. 4 million organizations exist with each organization differing in size. (Hall, Jones & Raffo, 1999) Organizational size has come to be considered an important contingency variable subject to two schools of thought. Economists belonging to the first school have long extolled the virtues of economies of scale. This approach often called the �bigger is better model�, assumed the per unit cost of production decreases as organizations grow. Thus bigger is said to be more efficient. For example on an annual basis, Buelens et al (2006) claimed that Daimler-Chrysler could supposedly produce its 100,000th car less expensively than its 10th.

The second school of thought hinges on the law of diminishing returns. Schumacher (1973) termed this as the �small is beautiful� model, an approach contending that oversized organizations and sub units tend to be plagued by costly behavioural problems. In contrast large and impersonal organizations are said to breed apathy and alienation, with resulting problems such as staff turnover and absenteeism. Furthermore as organizations grow in size, co-ordinating the efforts of individuals become increasingly difficult, hence, as organizations grow in size, the level of formalization in organizational structure tends to increase.

In today�s highly competitive rapidly changing world, big is not always beautiful as large organization size does not produce the advantages, although benefits of being large still remain. Many of the large, highly admired organizations of the past today are smaller as a result of extensive layoffs and downsizing. In many cases, they have lost out to smaller more nimble organizations that are not as large. Although it appears that in today�s hyper competitive business environment, large size may have more disadvantages than advantages associated with it. Size in its own right does not mean that organizations have to be slow and distant from the customers. This essay therefore will aim to establish whether �big is beautiful� associated with organizations or whether �large, complex organizations are obsolete dinosaurs and likely to disappear� (Lawler, 1999, pg 1).

Empirical research has consistently supported the link of organizational structure and its effect on bureaucracy as observed by Weber (1947) who observed a growth in rational-legal or bureaucratic, organization because he lived at a time that was witnessing a phenomenal growth in organizational size (Knights & Willmott, 2007). This was seen by the classic work of Peter Blau (1955, 1970). In his studies in the United States of over 50 government employment agencies involving over 1200 branches and 350 head offices, Blau found a consistent relationship between bureaucratization and organizational size, measured in number of employees. As employee numbers increased, so did bureaucratization. An organization with 10,000 employees was much more bureaucratized than one of 10 or even 100. Though bureaucratization increased with size, it did so at a declining rate, and so adding employee numbers to small organizations had a bigger impact on bureaucratization than adding the same number to large organizations.

This size in organization was best supported by the Aston studies in the United Kingdom by Pugh and Hickson (1976). These researchers found that organizational size alone, determined the structure of these organizations. As organizations increased in size, they were more likely to exhibit the characteristics of bureaucracy or what has now been labelled a mechanistic organizational structure (Burns & Stalker, 1961 cited in Jex, 2002). In contrast, smaller organizations tended to resemble characteristics of humanistic organizations, or what has now been labelled as organic organizational structure. The notion that big is beautiful may be true for organizations, as larger organizations gravitate towards more bureaucratic organizational designs because they make it much easier to cope with the complexities that are inevitable when large numbers of people are involved. For example having free flowing communication in a large organization could potentially lead to information overload and ultimately leading to chaos. Pugh & Hickson (1976) found several relationships between technology and structural variables, but these relationships where all overruled by the size variable. This big is beautiful concept may have such an impact on the structure of organizations as larger organizations have many large departments, each of which has its proper technology and technology characteristics. Larger organizations are thus much more complex than smaller organizations with only one dominant technology. This complexity is important to the design of organizations.

For many markets, particularly those that are global, big may be necessary for an organization in order to capture a significant market share or in turn, market share may be a cause for an organization to be big. Research based on the PIMS data (Lawler, 1999) revealed a distinct and positive relationship between market share and profitability. Firstly share often associated with economies of scale and low cost

operations facilitate market entry on a large scale and secondly share allows a consumer products organization to gain self space in stores, and to use its purchasing power to obtain lower prices and special relationships with suppliers as seen by Wal-Mart. In many industries, organizations with the largest market shares often are in a better position to install and oversee a strong degree of industry discipline that keep competition orderly and profitability stable (Lawler, 1999).

In the mid 1990�s the search for larger share positions was one of the many reasons as to why mergers continue to occur (Lawler 1999) such as the banking industry and telecommunications, in an era when the advantages of large size are frequently questioned, whilst many organizations are getting larger by merging with companies in their industries in order to capture market share and become a leader.

Another factor to take into this concept of why big is beautiful for organizations, may be that larger organizations are often able to get better debt ratings and superior access to capital both through equity markets and through loans from major institutions, thus for large organization, size in the mind of many investors means financial stability. Size for large organizations also often means large financing deals often meaning lower financing costs in areas such as stock offerings or loans as economies of scales are considered in this area. As a result of these factors, large firms often end up with lower cost capital than their smaller competitors. This is one of the reasons why General Electric were able to secure low cost financing for its numerous acquisitions, joint ventures and power projects in emerging markets (Lawler, 1999).

Amongst this another implication of big being beautiful which may be considered true to organizations is the notion behind research and development. In order to fund major investments in research, organizations need to be able to amortize costs over a large base of consumers, and so without a potentially large market base, high risk research cannot be justified. This is true in an era when product life cycles are getting shorter and shorter, thus big being beautiful would be perceived as an asset that enables organizations to engage in Research and development, often taking time to nurture and a large market share to recover costs.

In the field of organizational studies, many studies have attempted to discover how organizational size is related to flexibility and performance. Generally, scholars who assert that large organizations are more flexible and more likely to perform better tend to base their arguments on the amount of resources available to the organization. Kaufman (1971) suggested three reasons that would explain why big being beautiful for organizations may be more flexible. It was suggested firstly that large organizations could divert their resources to experimentation with impunity

because the deprivations could be shared by many members, thus limiting the burdens on each member. Second, large organizations could us various subsystems to test different ways on doing the same thing without taking too much risk, and as a result be able to explore the most effective responses and prepare themselves for various kinds of environmental shifts. Small organisations by contrast, do not possess this advantage in the natural selection process, since any failure in the variation stage may lead to unrecoverable impairments or deaths. Finally, the diversity of specialities and tasks that are inherent in large organizations are more likely to ensure fresh ways of formulating and attacking problems. This advantage is not available to small organizations that possess only a few professionals, and thus have fewer chances of sparking these individuals to develop new approaches.

Recent research suggested that when designing their organizations, professionals should follow middle ground between bigger is better and small is beautiful as both models had been oversold (Buelens et al, 2006). McKinley (1992) however talked of a new perspective saying complexity, not size was the central issue. Charles Handy (1998) put forth the notion that �growth does not have to mean more of the same. It can be better rather than bigger...businesses can grow more profitable by becoming better...more concentrated. Bigness can lead to a lack of focus too much complexity and in the end, too wide spread to control� (pg 52-54). There is no definite answer to the question whether big is beautiful but there is no doubt a compelling argument.

Some organizations have become so large that top management has tended to lose sight of what is happening in the organization. Large organizations thus need a structure that allows top management to receive all the crucial information about the workings of the organization. This was seen in December 2003 when Royal Dutch Shell suffered from the consequences of such a faulty information system. It turned out that a reserve of 2.3 billion barrels of oil did not exist at all, amounting to an enormous financial setback for the company. At the top of the organization are two executive boards, one with the directors of the former Dutch Oil company being Dutch oil and one with the directors representing the former British company Shell. The duality in the top decision making structure contributed to poor supervision and was probably the underlying cause of the long term underperformance of such a big company (Dickson, 2004 cited in Buelens et al, 2006).

This notion of big is beautiful was further tarnished by research supporting the ideology that size can be a problem in organizations. Lawler (1999) talked of employee satisfaction being low whilst absenteeism and turnover tended to be higher as a result of large organizations. He emphasized that employees had a harder time seeing a line of sight between their actions and the success of the

organization of which they are a part of. This idea of big being beautiful can be a downfall for organizations as this could lead to lower motivation on the part of employees and potentially lower organizational performance. Large bureaucracies can further become corporate dinosaurs, finding it difficult to reinvent themselves in a world of rapid technological and environmental change. They develop individuals with strong vested interest in existing organizational practices who resist change and prefer status quo. As a result, innovation is slower and new products and services are not well or rapid. This was witnessed by General Motors in the 1980�s, as well as IBM and PC (Lawler, 1999). The most straightforward and valid criticism of larger organizations is that they often do not work effectively from an organizational behavior point of view. All too often, they end up being slow moving, over head, intensive, losing touch with the employees, their customers and ultimately end up being non competitive.

Nevertheless of this big is beautiful approach Peters and Waterman (1982) strongly advocated the establishment that �small in almost every case is beautiful. The small facility turns out to be the most efficient, its turned �on, motivated, highly productive worker, in communication and competition with his peers, out produces the worker in the big facilities time and again� (pg321).

Many people consider the saying that good things come in small packages and for many this is true as people consider that small organizations are better in terms of performance as suggested by Quinn�s (1985) study or organizational innovation. He argued small entrepreneurs are not deterred by committed, board approvals and other bureaucratic delays. Moreover since �technological progress depends largely on the number of successful experiments accomplished per unit of time, task moving entrepreneurs can gain both timing and performance advantages over clumsier competitors� (Quinn, 1985, pg 76). Therefore flexibility can be seen as an inherent attribute of small organizations due to their quick and timely responses. Small organizations thus have the ability to respond quickly to problems and solve them due to a smaller chain of command as well as have the flexibility to bend, manipulate and change the rules depending on the need of the hour, where as a large organization would be stuck in the policies and legalities. This therefore allows employees and managers to be flexible with their decisions rather than waiting for a long chain of command. Macdonald (1995) further pointed out that small organizations were more flexible, not because of their possession of the structural capacity to change, but because of their ability to learn what to change. The ability for small organizations to learn is dependent on increasing the information networks by which the organizations acquires external information rather than on extending

the boundary of controlling external information that is usually used by most large organizations.

Several scholars such as Hannan and Freeman, 1984 and Sutton, 1997 reported that mortality rates decline with increased size. The liability of smallness suggests that size matters and bigger is better. This enforces the perception that the liability of the smallness theory advocates that expectations of success favor large firms over small ones, and on average small firms have a higher likelihood of failure. This stemmed from the view that small organizations do not perform as well as large organizations and have higher failure rates due to problems of raising capital, attracting, recruiting and retaining highly skilled workers, higher administrative costs (Aldrich and Auster, 1986) and legitimacy problems with external shareholders (Baum and Oliver, 1996).

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