

Bureaucracy, the Virtual Organisation and the Future

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Bureaucracy is an organisational form that many of us love to hate. A phone call to any number of state departments can quickly become a frustrating process, trying to figure out exactly who you need to speak with to get something done. Coupled with this are the seemingly mountainous levels of red tape that one has to climb through, making bureaucracies seem overly slow and inflexible. Is there a better way to do things? This essay examines the role of the bureaucracy in today's environment, its benefits and its shortcomings. It goes on to discuss how the concept of the virtual organisation can in many ways improve upon, but not totally replace the bureaucracy.

One might question the reason for the prevalence of the bureaucratic organisation in our society today, considering the constant barrage of criticism aimed at it. The truth is that bureaucracy has many benefits. Bennis identifies some of the reasons why bureaucracy was developed in the first place; the "bureaucratic 'machine model' that Weber outlined was developed as a reaction against the personal subjugation, nepotism, cruelty, emotional vicissitudes and capricious judgement which passed for managerial practices in the early days of the industrial revolution" (1965, quoted in Wriston, 1980, pg 180). By having extensive policies and procedures in place, an organisation can help improve fairness in decision-making. Wriston (1980) points out that a bureaucratic model can have a democratising effect when used by an organisation. Wriston (1980) goes on to identify three important principles relating to democratising; equality, representation and democratic decision-making. In fact, a possible reason for a bureaucracies slowness in dealing with its environment is the democratic decision-making process, because many more people in the organisation need to be included in that process (Wriston, 1980). Wriston (1980) further identifies that by using inflexible rules and regulations, an organisation can guard against corruption and the inappropriate use of power. Robbins and Barnwell (2002) state that security of employment, clear lines of authority, definitive understandings of responsibility and the ability to achieve highly specialised work are all benefits of the bureaucracy.

How does this link with organisational effectiveness? As is discussed by Robbins and Barnwell (2002) there are several ways to measure organisational effectiveness, including goal attainment, systems, strategic constituencies and balanced scorecard approaches. An organisation can use any or all of these approaches to determine effectiveness. In a bureaucracy, it is likely that some aspects of an organisation's operations will be more successful than others. A goal in the goal-attainment approach might be to maintain economies-of-scale in a particular manufacturing process. Having control over a large portion of the value-added chain may enable this to occur. More agile virtual or functionally independent divisional structures may have trouble in achieving such economies due to the higher costs for outsourcing or interfacing with other parts of a

loosely coupled organisation. In the systems approach, the effectiveness of the process is vital, along with the ability to achieve a stable and balanced organisation (Robbins and Barnwell, 2002). A bureaucratic structure may provide added stability due to formalised policies and procedures, as well as achieving balance because of a more democratic style of decision-making. However, this advantage may be reduced significantly if the environment that the organisation exists in exhibits a turbulent state (Cheng and McKinley, 1983).

So, in many instances, a bureaucratic structure may result in a more effective organisation. Such a structure is far from being dead, now or in the future. In fact, even structures that would not necessarily be classed as bureaucratic have elements of bureaucracy in them. The need for administration, division of labour, efficiency, quality assurance and hierarchy of management is innate to the activity of organising (Robbins and Barnwell, 2002). Even the virtual organisation that outsources 90 percent of its tasks, has a very flat structure and is very adaptable in the face of change will need to use some elements of bureaucracy, even if it is only in developing policies and procedures to ensure the quality of a process. The question of the use of bureaucracy in the future perhaps should not be one of throwing it out completely, but of integrating some of its ideas into a synergy of structure theory.

This leads to a discussion about the downsides of bureaucracy. While the ideas first proposed by Weber in his ideal bureaucracy are not necessarily at fault, bureaucratic implementation often becomes problematic (Robbins and Barnwell, 2002). Robbins and Barnwell identify 8 problems that often occur in a bureaucracy. These are goal displacement, inappropriate application of rules and regulations, employee alienation, concentration of power, inability to adapt to change, overstaffing, tendency towards large size and low productivity and non-member frustration (Robbins and Barnwell, 2002, pg 310). McHugh, O'Brien, and Ramondt (2001) studied a large public sector organisation during attempts to restructure it to improve environmental responsiveness. They describe the underlying cause for this inflexibility to be a set of rational rules that generate significant amounts of red tape that slow the entire public service process down (McHugh et al., 2001). This, coupled with a change in demands from the customer (a need for improved quality) and other external pressures (a need for better efficiency and accountability) led to the inability of the bureaucracy to effectively perform (McHugh et al., 2001).

One way to try to improve a bureaucratic structure is to remove the inflexibility. McHugh et al. (2001) found this not to be an easy task. The public service organisation attempted to implement a team-based structure as the main work unit, believing this to be a way to achieve more self-management and to lessen the rigidity of the existing structure (McHugh et al., 2001). Problems were encountered when the existing hierarchy failed to properly adapt to the new team-based structure, indicating that it can be difficult to initiate change in a bureaucracy (McHugh et al., 2001). Bhargava and Sinha (1992) found that young Indian engineers perceived adaptive heterarchical structures as having more effective leadership and less interpersonal conflict than bureaucratic hierarchical structures. Such research shows that perhaps the best way forward for an organisation crippled by the weight of paperwork and policy documents is to find a radically adaptive, flexible, slim and efficient structural solution. Enter the virtual organisation.

A quote by Venkatraman and Henderson define the virtual organisation nicely; “Virtualness is the ability of the organisation to consistently obtain and co-ordinate critical competencies through its design of value-adding business processes and governance mechanisms involving external and internal constituencies to deliver differential, superior value in the market place” (Venkatraman and Henderson, 1996, quoted in Franke, 1999, pg 208). Essentially, the virtual organisation concentrates on a small number of core competencies and networks with other companies to do the rest. This networking structure can be one where a project is developed by a project leader and each virtual organisation performs a number of tasks and shares in the profits. Alternatively, a more traditional outsourcing arrangement can be had whereby a project initiator directly pays for the services of other (virtual or non-virtual) companies, and concentrates only on a small number of value-added tasks. Also, virtual organisations do not need to exist as a permanent structure. They can be cobbled together as a series of teams from more traditional structures, in place to work on an inter-organisational project for a short duration.

The concept of the virtual organisation is in sharp contrast to that of a centralised bureaucracy. The non-integration of the vertical supply chain that characterises a virtual organisation provides a number of differences, and potential benefits such as improved asset flexibility and liquidity (Fitzpatrick and Burke, 2000). Another difference is that virtual organisations often cluster together to reduce transactional costs. This clustering has enabled many companies to become resilient in the face of environmental change (Pyke and Sengenberger, 1990, cited in Pihkala, Varamaki and Vesalainen, 1999). Therefore, even though smaller usually means less resilient, virtual organisations are often able to achieve this resilience - a benefit usually restricted to larger, more bureaucratic structures.

But perhaps the biggest potential improvements over more traditional organisational structures are flexibility, quality, differentiation and turnaround times. Franke (1999) and Morris and McManus (2002) liken a collection of virtual organisations to an all-star team. If every participant in the value-added chain is an expert at what they do, the quality of each component should be very high. Often the quality reputation and marketing ability of other members in the network can be leveraged to improve the success of a project (Fitzpatrick and Burke, 2001). Because a strict set of policies and procedures is not necessary, change is able to occur rapidly, ensuring high flexibility (Fitzpatrick and Burke, 2000). Differentiation occurs due to the strong customer focus of virtual organisation networks. These networks are opportunistic, and are often set up to take advantage of a specific opportunity that has not yet been tapped (Morris and McManus, 2002). Such an opportunity is often presented in the form of a specific differentiation demand by a certain market segment. Finally, due to the efficiencies achieved from highly experienced organisations performing tasks on a particular project, quick turnaround times can result. These benefits can significantly improve the effectiveness of a project or organisation, by generating world class products that are globally competitive (Franke, 1999; Werther, 1999).

A vital element to achieve effectiveness virtually is the ability to communicate effectively. Rahman and Bhattachryya (2001) suggest that the usefulness of centrality in decision-making reduces when the ability of coordination technologies increases. This indicates that as it becomes easier and more effective to communicate internally and externally in an organisation, the benefits of the traditional centralised model for decision-making (such as ensuring decision congruence with organisational strategy and goals) are reduced and more decentralised decisions can be made as the required information is readily available. Coordination technologies based on the infrastructure of the internet have the ability to make timely information available to anyone who needs it in the organisation. For a virtual organisation, the interface between partners in the network needs to be cohesive if the downsides to not having an integrated value chain are to be minimised. Walters (2000) identifies relationship management as an important part of making virtuality work. Collaboration rather than conflict (and possibly competition) should be the focus when dealing with multiple organisations working on a single project (Walters, 2000).

In the end, the virtual organisation provides an alternative to the centralised bureaucracy. Small and medium sized businesses (SMEs) are often attracted to this structure, due to the lowered resource requirement for entry into an industry (Franke, 1999; Werther, 1999). Once in a network, the SME can leverage many of the benefits previously discussed to compete, and potentially be more competitive than larger resource rich companies in a particular industry. Even in very high technology industries, where entry for a small player on their own would be very difficult, smaller firms are able to flourish when using a virtual structure. But is this the end of the conversation? Have we found our perfect structural form?

To answer this, it is important to consider some of the downsides to the virtual organisation form. Such a structure leads to the loss of hands on control, due to the need for many tasks to be performed by others (Daft, 1991, cited in Fitzpatrick and Burke, 2000). This may pose a problem if the others in the network are not up to standard. All of the benefits such as high quality, flexibility and fast turnaround can vanish with one weak link in the network. Other potential pitfalls are weakened employee loyalty and reduced organisational participation (Daft, 1991, cited in Fitzpatrick and Burke, 2000). Trust between partners in a network also takes on an important role, as the independence of the companies involved removes authority from a single entity (Franke, 1999; Pihkala et al., 1999). A trusting relationship can remove much of the need for formal contracts (and adds to some of the flexibility of virtual organisations), but if this breaks down cooperation will turn to conflict and damage the effectiveness of the whole process.

Another issue is that by concentrating only on a small number of core competencies, an organisation opens itself up to obsolescence (Werther, 1999). This is especially the case in high-tech industries where the rate of technological change is high. Related to this is the overdependence upon other companies for support (Werther, 1999). The demise of one or two companies in a network may completely remove demand for the very narrow competencies that an organisation is involved in. This can be minimised by making products and services available world-wide, something that has become easier to do in recent years with the internet.

But will all organisations cope with a virtual structure? As touched upon earlier, some types of organisation may find a bureaucratic structure to be beneficial. Those in stable environments are likely to perform more effectively using a bureaucratic model than those with the same model in an unstable state (Cheng and McKinley, 1983; Morris and McManus, 2002; Werther, 1999). So perhaps a virtual structure is not optimal in a stable external environment. However, such an environment does not exist for most businesses, and the process of globalisation is likely to continue to rough the seas, placing a focus on global competitiveness.

With the limitations of the virtual form in mind, the conclusion has to be that there is no silver bullet for organisational structure. Aspects of the bureaucratic form are very appealing, such as the democratising of the decision-making process. Records still need to be kept and office work done, so it is unlikely that bureaucratic ideas will be thrown away completely. The need to improve the performance of organisations that are bureaucratic has been a common theme for decades, although trying to implement significant change may pose significant problems. One solution is to make use of the virtual organisation, with its narrowed core competencies, network surroundings and enhanced flexibility. With an increasingly turbulent business environment due to globalisation and rapid technological change, it is likely that the use of such networks and structures will increase over time. An entrepreneur with limited resources and a good idea would be wise to make use of the virtual organisation concept, taking elements of Weber's ideal bureaucracy to add more structure where required. The manager of a large bureaucratic organisation on the other hand should be wary of making significant changes overnight. Elements of the virtual form may certainly be applicable, perhaps in creating semi-autonomous teams working with groups inside and outside the organisation. Nothing in the future is certain, especially in the business world, but it is likely that both organisational types will play an important role in the years to come.

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