



## THE BUREAUCRATIC BUSINESS

*– A business that has lost its way.*

By Kim Radok  
Copyright 2020

*It used to be said that there were businesses which were too big to fail. We have seen in recent times that this old saying is not always true. Today, it is sometimes seen that the bigger the business, the more likely it is to fail.*

### Introduction

One of the most damaging business relationships you can have is with a business which operates with a bureaucratic organisational structure.

### Why is this so?

In answer to this question, you need to understand what a bureaucratic organisation is and how it operates compared to other business organisational formats. In the next paragraph you will find the indications of a bureaucratic business.

We have all worked with business customers and suppliers successfully and then suddenly, something has changed. Where once there was a cooperative relationship, communication was encouraged and operational processes negotiable; now these factors are almost non-existent. For instance, originally there might have been telephone or email contacts and responsible people detailed; now there is little information. Instead there are generic operational titles, “know all” managers with inflated egos, strict rules of engagement and little contact other than by email or information portals.

When you see signs such as those described above you will have come across a business that has become a bureaucracy. The problem when trading with a business which displays these characteristics is to find somebody responsible to help with your issues. If this individual cannot be found, it would be wise to prepare your business for ongoing and time-consuming problems.

Alternatively, if operating professionally and in a businesslike manner is unlikely to occur with the other business, it is probably time to rethink the relationship. You may even come to the conclusion that your time and money would be better spent downsizing your business or looking for new customers.

The following information will briefly describe why a bureaucratic business is so difficult to deal with and how it destroys value for all concerned.

### THE CHARACTERISTICS OF A BUREAUCRATIC BUSINESS

The principles which signal a business has become a bureaucratic organisation and how it can become a value destroying proposition for all stakeholders, is described below.

## Management and a Hierarchical Structure

Every business needs some form of hierarchical structure and a management team. I have seen an argument which suggests otherwise, however those businesses are the exception.

In today's business environment, the senior management team should know what is going on in all areas of their business. In fact, it is now a legal requirement and a perceived social obligation of management to know what is happening throughout the business. There is no legal requirement however on how management develops the processes which will enable them to develop this understanding.

One of the issues which hinders senior management's knowledge of what is occurring is when management has an arrogant attitude, and or a high level of insecurity, and or a belief that they have all the answers. As a result, senior management creates an inflexible hierarchical and organisational control structure to support their desires. This action usually fragments processes into smaller operational tasks. Senior management hopes with such operational structures they can achieve their desired objectives of control and costs savings.

Unfortunately, fragmentation of processes adds levels of complexity to what was formerly managed by an appropriate professional. These professionals could operate and manage all aspects of their work and understood the ramifications of their actions. The simple tasks which have now been created are completed by less skilled and professional employees who do not always understand how their actions affect the whole business process. Furthermore, based on how and why they were employed, these employees probably don't care either.

In such hierarchic structures however, control and costs savings are rarely achieved in line with senior management's desires and plans. This occurs because of the separation and breakdown of communication between senior management and their employees which operate under the control of middle managers.

In reality, these middle level managers become the real controllers of business outcomes as they receive information from senior management and the other employees. In turn, this allows them to manipulate the information which the other two groups receive in return.

As a consequence, what usually develops over time is an unwieldy combination of fragmented processes, Machiavellian managers and operating silo dysfunctionality. This environment suits the middle managers nicely with everybody now working in a bureaucracy, whether they understand it or not.

In a bureaucratic business, the employees working under the middle managers often become disenfranchised. One of the consequences to the business when this occurs is the increased likelihood of internal and external fraud.

Furthermore, and equally damaging, the disenfranchised employee feels they are under no obligation to protect their business's reputation. Their thought processes reach a logical conclusion that as management doesn't seem to care about the business's reputation, so why should they?

You are also likely to find a good proportion of the bureaucratic business's suppliers and customers are unhappy to some extent. When dealing with a bureaucratic business, the suppliers and customers have found they are unable to have an equitable trading relationship with that business as they would with "... a normal business".

## The Rules of Management are LAW

In a bureaucratic business, the LAW of management is supreme. Middle and lower level managers and employees are expected to strictly adhere to the rules and laws decided by management without question or comment.

If a lower level manager or employee offers suggestions for improvement, they are usually told their suggestions are inappropriate, will not work, or required. If management does like the suggestion, they will often claim ownership and not acknowledge the source.

When suppliers or customers try to initiate dialogue for issues which they deem are important, they are often advised their initiatives are appreciated, but then ignored. Alternatively, the enquirer is advised, if they want to do business with the bureaucratic supplier or customer, they just "... have to go along with the process".

In such environments, when suggestions and requests for improvements, or complaints are made about existing procedures, they are largely ignored. This lack of flexibility with procedures and for change, causes further problems for all the business's stakeholders.

## Silo or Departmental Operational Focus

In a bureaucracy, specialised employees do the work and are organised according to the work required or the skill sets of the employees.

Whilst management will often seek employees with professional qualifications and background or with a multitude of skills, generally these skill sets are not utilised in a bureaucratic organisation. As a consequence, professional employees and those with multiple skill sets are often disadvantaged and left frustrated when their skill sets and good intentions are deemed more of a liability than of value.

It is often found in reality, the one-dimensional robotic type employee is the preferred employee.

When the above factors are present, employees focus on the needs of their work silos or departments and job survival. Working for the overall good of the organisation becomes a secondary priority.

The silo or departmental functionality may be a preferred government structural approach. Where entrenched silo or departmental structures become established in a business organisation however, the outcome is less than desirable. What happens in these situations is usually a dysfunctional business because it lacks the attributes of what is deemed to be necessary for a modern sustainable business.

Briefly, the main attributes deemed necessary for a successful business these days include:

- 1 a positive and inclusive organisational culture;
- 2 the ability to make speedy decisions;
- 3 the ability to operate flexibly within operational and disciplinary boundaries;
- 4 encouragement and welcoming of innovation in all its forms;
- 5 encouragement and cooperation between all employees and employee groups;
- 6 motivated employees who seek mutually beneficial outcomes for the organisation and themselves; and
- 7 effective communications between all of the business's stakeholders.

These attributes are rarely found in bureaucratic organisations.

## Employee Responses

Once an employee realises that they are working in bureaucratic organisation, their first option is to stay or leave. Sometimes this option does not appear until they have been in the organisation for some time.

Over time, if employees decide to stay, they may develop a jaundiced view of management and decide to use the organisational processes to their own advantage.

If the employee decides to stay, they usually:

- 1 are political beasts by nature and find the organisation's structures allow them to play politics perfectly;
- 2 love the structure because they do not have to perform or think and so drift along without a care in the world and achieve just enough to survive;
- 3 don't want to work or to be held responsible and can get away it because "... it is always somebody else who is responsible";
- 4 believe they have no option but to stay and so become disenfranchised with every aspect of their work, the business, and worse still, often their personal lives.

In time, these employees will probably affect the performance of the business negatively. As history shows us, disenfranchised and bored employees are key players in the success of fraudulent activities initiated against the business. This happens directly or indirectly because the employees do not care, or from a sense of entitlement, or because they believe their fraud is unlikely to be discovered during the normal course of business.

Even if a fraud is detected, history again shows that management will rarely take any action other than to ask the employee to leave. The exception is where the fraud cannot be covered up or is particularly damaging. Irrespective of the nature of the fraud, unless strong and public action is taken by management, the remaining employees will be further disenfranchised. After all, most of them will know of the fraud anyway.

An employee which has lost faith in management and or their business is unlikely to assist in the objectives of management. When you treat adults without respect, which is magnified in the bureaucratic business model, they are not inclined to be supporters of management's objectives. Rather, they focus on what "...the business can do for them."

## What Does the Business's Stakeholder See?

The Supplier when dealing with a bureaucratic business organisation only sees a lack of cooperation and more work. Where once the supplier thought gaining a "a name customer" and the profits would flow, the exact opposite has occurred. The supplier usually finds they have now had to:

- 1 employ additional people to deal with their customer's bureaucracy and never-ending changes to processes;
- 2 try to learn how to deal with a constant change of software interfaces for which transparent procedures and assistance are rarely supplied;
- 3 suffer from a lack of assistance in following up of outstanding invoices, plus the deductions which suddenly appear and without supporting evidence etc.

The one advantage which the supplier may have when dealing with a bureaucratic customer, is if the customer does not reconcile their suppliers' accounts.

When the supplier is the only party reconciling the bureaucratic customer's account, the supplier has control over any payments received which cannot be allocated. If the supplier wants to keep these funds to defray the costs of dealing with the customer, they will.

By delegating the management of their account to the supplier and hoping to save costs, the bureaucratic business usually ends up losing more than is saved. After all, when mistakes are made with payments, it usually happens with more than one supplier.

The Customer may achieve a number of benefits when dealing with a bureaucratic business. There will be of course, some negatives such as delays in receiving requested stock or services. It is not unusual for both the genuine customer or the less honourable to make additional and unexpected profits from their trading relationships with bureaucratic suppliers.

The situations which allows these benefits to occur for customers, includes the use of:

- 1 purchase orders i.e. no purchase order on invoice, the customer refuses to pay;
- 2 customer advises special order conditions for purchase and the right to reject goods and services if not delivered on time.
- 3 constant contacts that embarrass the supplier when circumstances prove any issues were a result of the supplier's own procedures and inefficient employee actions and deemed compensation to the customer is required;
- 4 failing to pay all invoices which could have been paid earlier and which can go on indefinitely if left unchallenged;
- 5 raising deductions, both genuine and those without merit and then holding the supplier to ransom until the deductions are approved or proven incorrect;
- 6 not advising the supplier when deductions have been duplicated and keeping the proceeds;
- 7 deliberately holding on to monthly payments because the suppliers do not follow up late payments etc.

The real damage to the bureaucratic business in these situations is that although each item may be small in dollar value, or large on a small number of occasions, their cumulative value can be extremely costly.

## REINVENTING THE BUSINESS ORGANISATION

The task of altering the bureaucratic organisation to a more suitable format for business purposes will be a difficult and long-term process. It is also likely to be a project which will prove challenging for even the toughest of management and their teams, no matter their level of experience and competence. There are always a multitude of factors which will need to be dealt with properly.

Amongst the most important factors will be to encourage the best of the employees to join the change process journey and not lose other capable employees. The business will not want to lose capable employees which may decide to leave because they are already burnt out or disenfranchised. The other employee challenge is to find ways to remove the less capable and those which are not prepared to change and may damage the change process. Finding the right process to remove these employees without contravening their rights and ending up in legal action or the equally expensive court of public opinion, will be a challenge.

In addition, the business has to try and keep existing suppliers and customers happy whilst also informing and re-establishing credibility with previous suppliers and customers. It is no good after all, reinventing the business only to find you have lost your best suppliers and customers, and few others, want to trade with you.

All these factors are beyond the scope of this feature and so are for another time.

## SUMMARY AND REFERENCES

When a business becomes a bureaucratic organisation, it can be almost impossible to develop a positive and efficient trading relationship for its suppliers and customers. Where once there was a well-run and profitable business, it has become a potential commercial disaster for all concerned.

Once where there was a cooperative relationship, communication was encouraged along with negotiable trading terms and conditions, now these factors are virtually non-existent. For instance, where once there was identifiable telephone, email contacts and responsible people detailed, there is now little information. Instead there are generic operational titles, managerial interference, strict rules of engagement and little contact other than by email or information portals. In this situation, unintentional meanings may easily be interpreted, leading to inefficient and unproductive interactions.

When you review the main attributes deemed necessary for a successful business these days, they are at odds with what you see in a bureaucratic business. In a successfully run “normal business” you will generally find:

- 1 a positive and inclusive organisational culture;
- 2 the ability to make speedy decisions;
- 3 the ability to operate flexibly within operational and disciplinary boundaries;
- 4 to encourage innovation in all its forms;
- 5 to encourage cooperation between all employees and employee groups;
- 6 motivated employees who seek mutually beneficial outcomes for the organisation and themselves; and
- 7 to create effective communications between all the business’s stakeholders.

Previously it was said that there were businesses which were too big to fail. We have seen in recent times however this old saying is not always true. Today, it is sometimes seen that the bigger the business, the more likely it is to fail or at least be less successful than previously. One of the likely reasons a big business fails is because the business has become a dysfunctional bureaucratic organisation.

[Have a desire to learn more?](#)

The three references on bureaucracies listed below are a good starting point. Please note they are not the complete list of references available on this subject.

<https://www.sophia.org/tutorials/characteristics-of-bureaucracy--5>

<https://www.investopedia.com/terms/b/bureaucracy.asp>

<http://www.bustingbureaucracy.com/excerpts/weber.htm>



**CREDIT MATTERS**

Financial Risk Management is Good Management

Credit Matters Pty. Ltd.

Ph: +61 3 9802 0608

Web: [creditmatters.com.au](http://creditmatters.com.au)

Email: [info@creditmatters.com.au](mailto:info@creditmatters.com.au)