

E.F. Schumacher
Small is
Beautiful
Economics as if
People Mattered

Chapter 16

Towards a Theory of Large-Scale Organization

A Lonergan Institute Seminar

St Anselm's Abbey

From E.F. Schumacher

“Nobody really likes large-scale organization: nobody likes to take orders from a superior who takes orders from a superior who takes orders.... Even if the rules devised by bureaucracy are outstandingly humane, nobody likes to be ruled by rules, that is to say, by people whose answer to every complaint is: 'I did not make the rules: I am merely applying them.' ”

Discussion

What is the message of this cartoon?



From E.F. Schumacher

“The fundamental task is to achieve smallness within large organization. Once a large organization has come into being, it normally goes through alternating phases of centralizing and decentralizing, like swings of a pendulum. Whenever one encounters such opposites, each of them with persuasive arguments in its favor, it is worth looking into the depth of the problem for something more than compromise, more than a half-and-half solution. Maybe what we really need is not either-or but the-one-and-the-other-at-the-same-time.”

How Decentralized Should Decision Making Be?

It depends on your goals.

When it is important to have...	Responsiveness	Reliability	Efficiency	Perennity
...it is usually advantageous to veer toward...	Decentralization	Centralization	Centralization	Centralization
...as that solution enables and stimulates...	Immediacy	Compliance	Syndication	Detachment

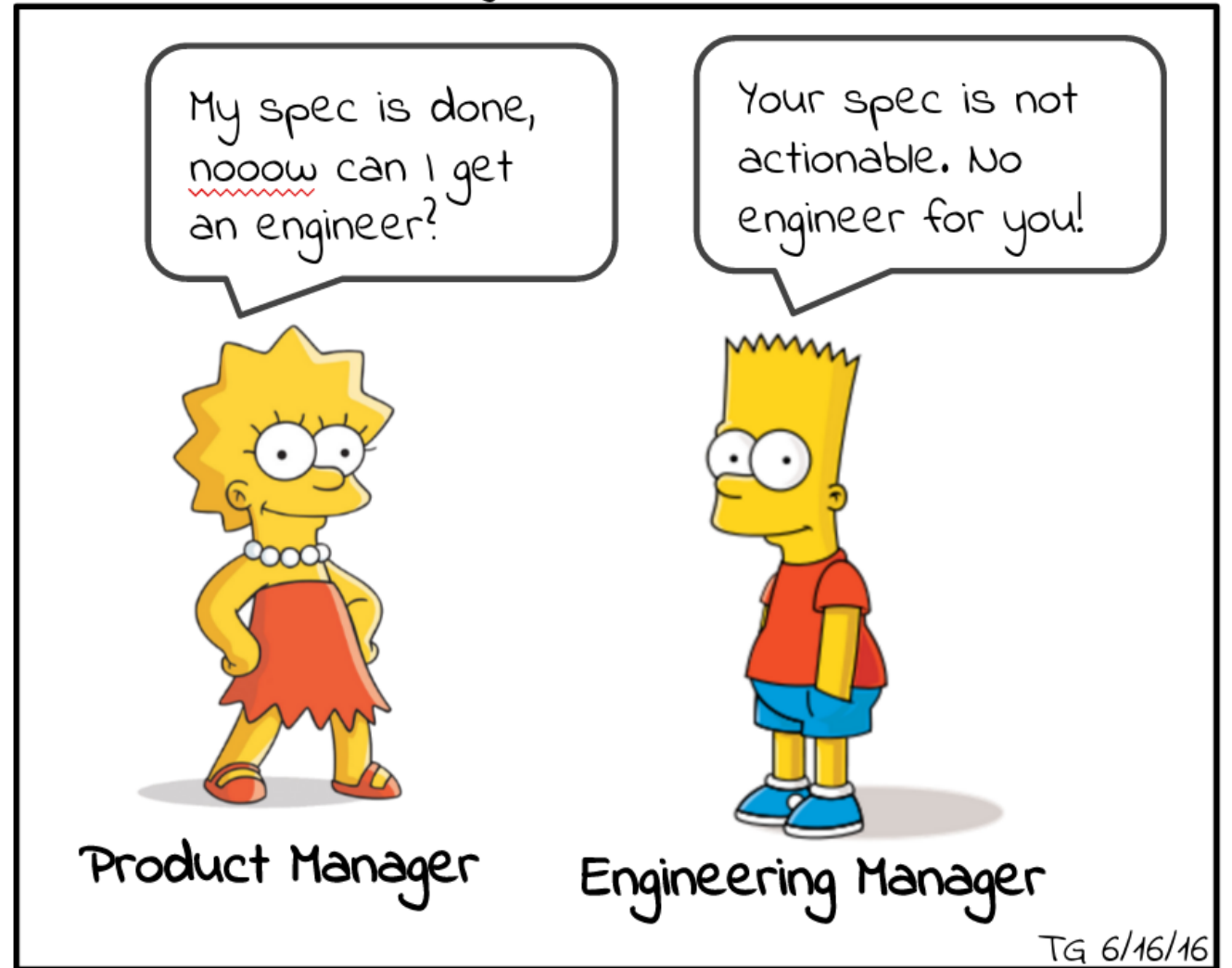
SOURCE HERMAN VANTRAPPEN AND FREDERIC WIRTZ

© HBR.ORG

From E.F. Schumacher

"Therefore any organization has to strive continuously for the orderliness of order and the disorderliness of creative freedom. And the specific danger inherent in large scale organization is that its natural bias and tendency favor order, at the expense of creative freedom."

The American Story - Episode 2



From E.F. Schumacher

"We can associate many further pairs of opposites with this basic pair of order and freedom. Centralization is mainly an idea of order; decentralization, one of freedom. The man of order is typically the accountant and, generally, the administrator: while the man of creative freedom is the entrepreneur. Order requires intelligence and is conducive to efficiency; while freedom calls for and opens the door to, intuition and leads to innovation. "

CHARACTERISTICS OF BUREAUCRACY & LEGITIMATE BASES OF AUTHORITY ACCORDING TO MAX WEBER

Bureaucracy

1. Rules and procedures
2. Specialization and division of labor
3. Hierarchy of authority
4. Technically qualified personnel
5. Separate position and incumbent
6. Written communications and records

Legitimate Based of Authority

1. Rational–legal → Bureaucracy is based on rational-legal authority
 2. Traditional
 3. Charismatic
-

From E.F. Schumacher

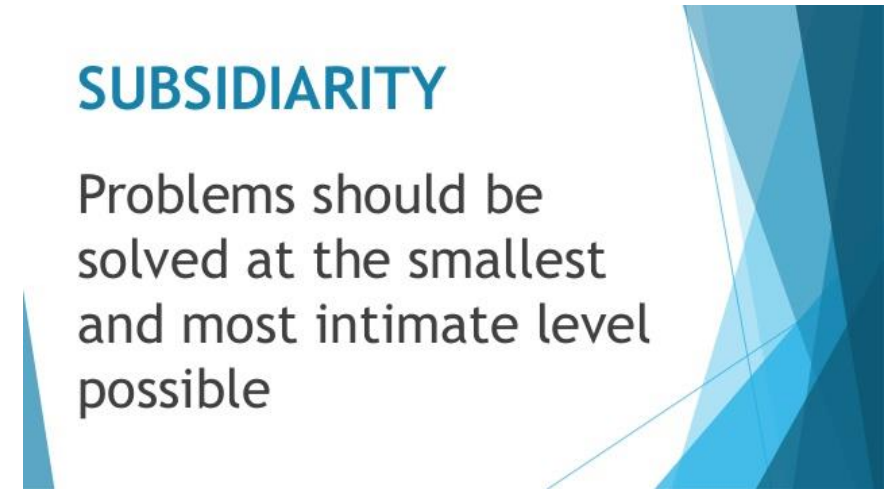
"These considerations form the background to an attempt towards a theory of large-scale organization which I shall now develop in the form of five principles:

The first principle is called The Principle of Subsidiarity or The Principle of Subsidiary Function. A famous formulation is this principle reads as follows: 'It is an injustice and at the same time a grave evil and disturbance of right order to assign to a greater and higher association what lesser and subordinate organizations can do. For every social activity ought of its very nature to furnish help to the members of the body social and never destroy and absorb them. 'These considerations form the background to an attempt towards a theory of large-scale organization which I shall now develop in the form of five principles.

The **first principle** is called **The Principle of Subsidiarity or The Principle of Subsidiary Function**. A famous formulation is this principle reads as follows: 'It is an injustice and at the same time a grave evil and disturbance of right order to assign to a greater and higher association what lesser and subordinate organizations can do. For every social activity ought of its very nature to furnish help to the members of the body social and never destroy and absorb them.'"

SUBSIDIARITY

Problems should be solved at the smallest and most intimate level possible

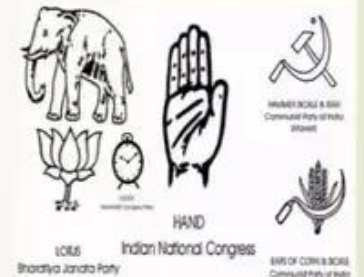


From E.F. Schumacher

“For central control to be meaningful and effective, a **second principle** has to be applied, which we shall call **The Principle of Vindication**. To vindicate means: to defend against reproach or accusation: to prove to be true and valid; to justify; to uphold; so this principle describes very well one of the most important duties of the central authority towards the lower formations.”

BUREAUCRACY.

1. Taken from the French word 'Bureaucracy' which means a bench or a desk.
2. Max Weber believed that bureaucratic organisations are the dominant institutions of industrial societies.
3. Weber was of the view that to understand nature of modern society we need to understand the process of bureaucratisation.
4. Eg: Department of state, political parties, business enterprises, military, education, are all organised on bureaucratic lines.



From E.F. Schumacher

- “The **third principle, The Principle of Identification**. Each subsidiary unit or quasi-firm must have both a profit and loss account and a balance sheet. From the point of view of orderliness a profit and loss statement is quite sufficient, since from this one can know whether or not the unit is contributing financially to the organization. But for the entrepreneur, a balance sheet is essential, even if it is used only for internal purposes. Why is it not sufficient to have but one balance sheet for the organization as a whole? ”

What Does a Company Balance Sheet Tell You?

A balance sheet shows what a company owns and owes and how much shareholders have invested.

THE BALANCE SHEET FORMULA



Assets

cash, inventory, property

=



Liabilities

*rent, wages, utilities,
taxes, loans*

+



Shareholders'
Equity

retained earnings

From E.F. Schumacher

"I now turn to the **fourth principle**, which can be called **The Principle of Motivation**. It is a trite and obvious truism that people act in accordance with their motives. All the same, for a large organization, with its bureaucracies, its remote and impersonal controls, its many abstract rules and regulations, and above all the relative incomprehensibility that stems from its very size, motivation is the central problem. At the top, the management has no problem of motivation, but going down the scale, the problem becomes increasingly acute."

Discussion:

What Motivates People



From E.F. Schumacher

- My **fifth**, and last, **principle** is **The Principle of the Middle Axiom**. Top management in a large organization inevitably occupies a very difficult position. It carries responsibility for everything that happens, or fails to happen, throughout the organization, although it is far removed from the actual scene of events. It can deal with many well-established functions by means of directives, rules and regulations. But what about new developments, new creative ideas? What about progress, the entrepreneurial activity par excellence?"



From E.F. Schumacher

"We come back to our starting point: all real human problems arise from the antinomy of order and freedom. Antinomy means a contradiction between two laws; a conflict of authority: opposition between laws or principles that appear to be founded equally in reason."



From E.F. Schumacher

“The best formulation of the necessary interplay of theory and practice. that I know of, comes from Mao Tse-tung. Go to the practical people, he says, and learn from them: then synthesize their experience into principles and theories; and then return to the practical people and call upon them to put these principles and methods into practice so as to solve their problems and achieve freedom and happiness?”

Final Thoughts?



In theory he was a great doctor – but not in practice.



THE END