NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE

DEPARTMENT OF BUSINESS MANAGEMENT

BACHELOR OF COMMERCE (HONOURS) DEGREE IN MANAGEMENT

ORGANISATIONAL DESIGN – CBU 4110

FINAL EXAMINATION - JANUARY 2013

TIME ALLOWED: 3 HOURS 30 MINUTES

INSTRUCTIONS TO CANDIDATES

Answer question **One** and any other **Three** questions from Section B

INFORMATION TO CANDIDATES

i) Section A carries **40** marks
ii) All questions in Section B carry **20** marks each
iii) Questions may be answered in any order
iv) Credit will be given for the use of appropriate examples
iv) This paper contains **Seven** Questions

SECTION A

QUESTION 1

CASE: RESTUCTURING AT PROCTER & GAMBLE

Background Note

Procter & Gamble was established in 1837 by William Procter, a candle maker, and his brother-in-law, James Gamble, a soap maker, when they merged their small businesses. They set up a shop in Cincinnati and nicknamed it “porkopolis” because of its dependence on swine slaughterhouses. The shop made candles and soaps from the leftover fats of the swine. By 1859, P&G had become one of the largest companies in Cincinnati, with sales of $1 million. The company introduced Ivory, a floating

soap in 1879 and Crisco, the first all-vegetable shortening in 1911. In the period between the 1940s and 1960s, P&G embarked on a series of acquisitions. The company acquired Spic and Span (1945), Duncan Hines (1956), Chairman Paper Mills (1957), Clorox (1957; sold in 1968) and Folgers Coffee (1963).

In 1973, P&G began manufacturing and selling its products in Japan through the acquisition of Nippon Sunhome Company. The new company was named "Procter & Gamble Sunhome Co. Ltd." In 1985, P&G announced several major organizational changes relating to category management, purchasing, manufacturing, engineering and distribution.

In 1988, the company started manufacturing products in China. P&G became one of the largest cosmetics companies in the US when it acquired Noxell (1989) and Max Factor (1991). After witnessing a period of significant organic and inorganic growth, P&G began to face several problems during the 1990s. In the early 1990s, a survey conducted by the consulting firm, Kurt Salmon Associates, had revealed that almost a quarter of P&G's products in a typical supermarket sold less than one unit a month and just 7.6% of the products accounted for 84.5% of sales. The remaining products went almost unnoticed by consumers. Complicated product lines and pricing were also causing problems to retailers who had to struggle with rebates and discounts…

Introduction

In January 1999, Jager, a P&G veteran became the new CEO taking charge at a time when P&G was in the midst of a corporate restructuring exercise that started in September 1998. Jager faced the challenging task of revamping P&G's operations and marketing practices. Soon after taking over as the CEO, Jager told analysts that he would overhaul product development, testing and launch processes. The biggest obstacle for Jager was P&G's culture. Jager realized the need to change the mindset of the P&G employees

who had been used to lifetime employment and a conservative management style. On July 1, 1999, P&G officially launched the Organization 2005 program. It was a program of six-year duration, during which, P&G planned to retrench 15,000 employees globally. The cost of this program was estimated to be $1.9 billion and it was expected to generate an annual savings (after tax deductions) of approximately $900 million per annum by 2004…

Decline

The US based Procter and Gamble (P&G), one of the largest fast moving consumer goods (FMCG) companies in the world, was in deep trouble in the first half of 2000. The company, in March 2000, announced that its earnings growth for the financial year 1999-2000 would be 7% instead of 14% as announced earlier. The news led P&G's stock to lose $27 in one day, wiping out $40 billion in its market capitalization.

To add to this, in April 2000, P&G announced an 18% decline in its net profit for January – March 2000 quarter. For the first time in the past eight years P&G was showing a decline in profits.

Analysts felt, and Jager himself admitted, that he did too many things in too short a time. This resulted in the decline of the company's revenues and profitability. After a brief stint of 17 months, Jager had to quit his post.

New CEO

In June 2000, Alan George Lafley (Lafley), a 23-year P&G veteran popularly known as 'AG,' took over as the new President and CEO of P&G. The major difference between Lafley and Jager was their 'style of functioning.' Soon after becoming CEO, Lafley rebuilt the management team and made efforts to improve P&G's operations and profitability. Lafley transferred more than half of P&G's 30 senior most officers, an unprecedented move in P&G's history. He assigned senior positions and higher roles to women.

Under Lafley, P&G seemed to be on the right path. He was able to turn the company around through his excellent planning, execution and focus. With Lafley at the helm, P&G's financial performance improved significantly. The company's share price shot up by 58% to $92 by July 2003, as against a fall of 32% in S&P's 500 stock index. A former P&G executive, Gary Stibel said, "If anybody had any doubts about AG, they don't anymore. This is about as dramatic a turnaround as you will see."

However, analysts expressed doubts, whether the measures taken by Lafley would sustain P&G's growth in the long term. They felt that with a dominant market position in developed markets the scope for generating more growth there would be difficult for P&G.

The Organization 2005 program faced several problems soon after its launch. Analysts were quick to comment that Jager committed a few mistakes which proved costly for P&G. For instance, Jager had made efforts in January 2000 to acquire Warner-Lambert and American Home Products. Contrary to P&G's cautious approach towards acquisitions in the 1990s, this dual acquisition would have been the largest ever in P&G's history, worth $140 billion. However, the stock market greeted the news of the merger negotiations by selling P&G's shares, which prompted Jager to exit the deal.

Organisation 2005

Till 1998, P&G had been organized along geographic lines with more than 100 profit centers. In the late 1990s, P&G faced the problem of stagnant revenues and profitability. In order to accelerate growth, the erstwhile P&G's President and CEO, Durk Jager (Jager) officially launched the Organization 2005 program in July 1999. Organization 2005 was a six-year long organizational restructuring exercise which included the standardization of work processes to expedite growth, revamping the organizational culture in

order to embrace change, reduction in hierarchies to enable faster decision-making, and retrenchment of employees to cut costs.

With the implementation of the program, P&G aimed to increase its global revenues from $38 billion to $70 billion by 2005. According to analysts, though Organization 2005 program was well planned, the execution of the plan was a failure. Analysts believed that Jager concentrated more on developing new products rather than on P&G's well-established brands.

Under Organization 2005 program, P&G sought to reorganize its organizational structure from four geographically-based business units to five product-based global business units – Baby, Feminine & Family Care, Beauty Care, Fabric & Home Care, Food & Beverages, and Health Care. The restructuring exercise aimed at boosting P&G's growth (in terms of sales and profits), speed and innovation and expedition of management decision-making for the company's global-marketing initiatives.

It also aimed to fix the strategy-formulation and profit-creation responsibilities on products rather than on regions. The global business units (GBUs) had to devise global strategies for all P&G's brands and the heads of GBU were held accountable for their unit's profit. The sourcing, R&D and manufacturing operations were also undertaken by the GBU.

One of the major objectives of Organization 2005 program was to significantly improve all inefficient work processes of P&G including its product development, supply chain management and marketing functions. In order to achieve this objective, P&G undertook several IT initiatives including collaborative technologies, B2C e-commerce, web-enabled supply chain and a data warehouse project for supplying timely data to company's various operations located globally.

The Organization 2005 program made efforts to change P&G from a conservative, lethargic and bureaucratic to modern, quick-moving and internet-savvy organization. The new structure was directed towards revamping the work culture of P&G so as to focus on its new Stretch, Innovation and Speed (SIS) philosophy. Emphasizing on innovation, Jager said, “Organization 2005 is focused on one thing: leveraging P&G’s innovative capability.

P&G – Current Status

In 2003, Lafley continued his efforts to make P&G more adaptable to the dynamic changes in business environment. He challenged P&G’s traditional perspective that all its products should be produced in-house. In April 2003, Lafley started outsourcing the manufacturing of bar soaps (including P&G’s longest existing brand, Ivory) to a Canadian manufacturer. In May 2003, IT operations were outsourced from HP. Since Lafley became CEO, P&G’s outsourcing contract went up from 10% to 20%. Lafley continued to review P&G’s businesses and new investments with the aim of achieving sharper focus on its core businesses, cost competitiveness and improved productivity.

Source: www. p&g.com

REQUIRED:

(a) Identify organizational dimensions being ‘rectified’ in this case. How successful has management been at rectifying these dimensions. **[10 Marks]**

(b) Why did it become important for Lafley to make P&G more adaptable to the dynamic changes in the business environment? **[10 Marks]**

(c) To what an extent did strategy have an effect on the structure at P&G?

[20 Marks]

SECTION B

QUESTION 2

"*Today's businesses are not only affected by more forces than ever before, but the forces themselves are more volatile, quickly changing, and unpredictable than ever before. The forces operating in earlier times were not only fewer in number but easier to understand and more stable and longer lasting." (Kilmann: 1985, 191)* Discuss how these forces generate task demands that are met by appropriate technical structures.

[20 Marks]

QUESTION 3

'The technology -structure relationship is not all clear. Since organisations do diverse things, most use different methods with different activities.' Discuss this statement, making reference to local and regional organisations.

[20 Marks]

QUESTION 4

'The beverages industry in Zimbabwe has been extremely effective in shaping its environment, particularly in the areas of pricing and distribution of products, patent and the cooptation of external opinion leaders.' Using specific organisations in the beverages industry, discuss the applicability (or lack of it) of this statement.

[20 Marks]

QUESTION 5

Using local examples, discuss how size affects various dimensions of organizational structure and subsequently the structure itself.

[20 Marks]

QUESTION 6

With the aid of any model, discuss how structural change can be managed in organisations. **[20 Marks]**

QUESTION 7

Advance arguments for and against the adoption of newer forms of organisational design in Zimbabwe.

[20 Marks]

END OF EXAMINATION