

DECENTRALIZATION AND RECENTRALIZATION  
OF THE MERCHANDISING FUNCTION

Thesis for the Degree of M. A.  
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Charles Louis Thomas, Jr.  
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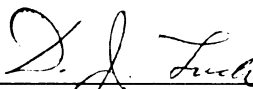
"Decentralization and Recentralization of the  
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By

Charles Louis Thomas, Jr.

AN ABSTRACT

Submitted to the School of Graduate Studies of Michigan  
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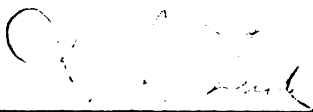
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Today the managements of the food chains are faced with the problem of revising their merchandising organizational structures to meet the growth of the industry. More people are being employed than ever before, and more competition is being met in virtually all areas. Because of these two elements, any company's organizational structure must be re-evaluated and alter constantly in order to provide a framework within which each individual can most easily work toward a common goad.

Very little has been written on this particular subject. However, the "theoretical" concepts of organization which have been written about by many authors can be applied in some degree in almost every case. To supplement these "theories" examples have been used from a variety of companies. This information has been obtained from readings and from interviews with men in the food industry.

In order to show how one company has organized its merchandising function and has utilized many of the theoretical concepts, a case study was made of its merchandising department. This was done by visiting several of this company's branches and interviewing the various merchandisers.

It is thought by many that administrative decentralization is a cure-all for management ills. In many cases it has failed because there has not been recognized the need for "recentralization" which is the means for control and coordination after a company has become decentralized.

However, in order to understand decentralization and recentralization and the ways they both may be used, it is first necessary to investigate the formal methods by which an organization may be changed. The change can be effected by the addition of new levels. Many companies are now utilizing sub-levels within the basic level structure.



The number of these sub-levels depends primarily upon the amount of work for which the primary level is responsible. The structure can also be changed by the addition of new departments, such as staff departments.

The organization can also be changed by re-allocating authority within the existing corporate framework. This is perhaps the most important for it stresses the relationships between the various individuals.

A combination of all of these leads towards decentralization, which is the maximizing of authority at the lowest possible level. However, to aid the company in obtaining its goals, there must be an over all direction from above so that the efforts of each individual are channelled toward the common goal. This latter provides the need for recentralization.

The degree and methods of control and coordination basically depend upon the attitude of top management and the capabilities of the subordinates. The needs for each company will be different, and so no formula can be devised which may be applicable to all firms. At the same time the need for each company will vary according to the immediate situation. Consequently the basic consideration for any plan of recentralization is that it remain flexible.

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THESIS



**"The Food Distribution program at Michigan State  
University is under the sponsorship of the National  
Association of Food Chains"**

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. . . not of the letter, but of the spirit  
for the letter killeth, but the spirit  
giveth life.

II Corinthians 3:6

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## ACKNOWLEDGEMENTS

No thesis is the product of one individual. What beliefs the author claims to be his own, are in reality an assimilation of the writings, ideas, and experiences of others. It is for this reason that I am especially indebted to the authors of the books referred to, the professors and fellow students for their ideas, and the individuals of the particular chain studied in Part II for their experiences.

A great deal of credit is due to my wife for being a critic and editor in the preparation of the material.

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## INTRODUCTION

### Purpose

The term "decentralization" has become very fashionable. In fact, it has gained such wide acceptance that it is seldom that one hears an executive mention its counterpart, centralization, let alone advocate it. Even though the word decentralization is widely used, even as a synonym for good management, there appear to be many misconceptions as to its real value and use in the business organization. This confusion can be largely attributed to several factors. The first is the theory that the institution of decentralization will serve as a cure-all for management ills. The second is that the effects of decentralization will immediately take place after a new organizational manual or chart is developed and becomes part of the company policy. The third area of confusion is the idea that it is simple to put into effect. If management adheres to these illusions, the gains which are possible by developing a decentralized organizational structure may ultimately be destroyed.

This paper is designed to show that the use of decentralization is very complex and demands considerable study and work before it can function effectively. It must be understood initially that the main purpose of an organization is to bring about the coordination of human effort, and that decentralization is merely a tool to this end. "Until recent years emphasis was placed on the techniques of

management. Lately business men have come to realize that the success and progress of an enterprise is the sum-total of the success and progress of its people."<sup>1</sup>

It is often thought that decentralization, if practiced at all, should be complete. However, "If used in the extreme, it is both ridiculous and impractical."<sup>2</sup> In order to temper its use and keep it "manageable", it is advisable at the same time to employ the tool of recentralization, which will provide control and coordination. The proper use of recentralization will enable management to derive the full advantages of decentralization, yet retain the power to direct the organization in the obtaining of its goals.

This study is not intended to prove that decentralization and the accompanying recentralization are the best tools of management. Rather it is designed to point out the various considerations of each. The use of these tools depends entirely upon the individual business, for as yet no formula has been designed which will meet all situations. The degree to which they can be used effectively will vary considerably from one firm to the next. Finally, the degree and use of them will differ in the functions within the individual company.

### Need for Study

Every week more food chains announce intentions of expansion. This expansion is taking place by several means. Some chains are merging with their former competitors. Others are building new stores which either replace the older, smaller ones, or advance into new territory. In virtually every case the

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1. Given, William B., Bottom-Up Management, Harper and Bros., New York, 1949. Introduction.

2. Baker, Helen and France, Robert R., Centralization and Decentralization in Industrial Relations, Princeton University Press, New Jersey, 1954, p. 17

chains are building supermarkets which even in themselves can be labeled as medium sized businesses.

As the companies grow, the problems of management grow at an equal or faster rate. More people must be managed. Where the larger stores twenty years ago employed in most cases no more than ten or twelve, they now provide jobs for over a hundred. The manager is no longer a worker by definition, but a supervisor whose main job is to coordinate his employees so that they produce more sales and profits. To assist him, more office personnel have been added. One job before top management today is to devise methods by which the personnel can most easily accomplish their tasks.

With the rise of the large supermarkets and the increase in the number of managers, more decisions have to be made. Not only do they have to be made, but they must be made well. Management must understand the nature of decision making so that it may be delegated to the most appropriate level or person. "Insight into the structure and function of an organization can best be gained by analyzing the manner in which decisions and behavior of such employees are influenced within and by the organization."<sup>3</sup> The fact that more decisions have to be made is accentuated by the observation that as the companies grow in size, the distance from the store and the office increases both mentally and physically. Because of this, it has been found that more decisions are made at the lower level. This becomes more urgent because, as the distance increases, the units enter new areas of competition.

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3. Simon, Herbert A., Administrative Behavior, The MacMillan Company, New York, 1951. p. 3

In order to cope with this situation, the managements of the food chains have to understand the tools with which they can work. The organization that was effective ten, five, or even two years ago is now probably outdated, for organizations do not remain static. They change as the environments in which they exist change. It is too easy to retain the old structure, the old ideas, but time has proven that companies who maintain this attitude often lose their former competitive position. Instead of becoming stagnant, the company must develop ways to meet the new situations. They must find new ways to coordinate human effort. Even though these facts are realized by many managements, they are reluctant to change. Change means the abandonment of tradition. Initially it may mean added expenses. Mistakes will be made during the process, but the question must be asked: "can we afford not to make these mistakes?" And finally change, as shall be discussed, can mean the decrease of the power of any one individual.

On the other hand, many managements have taken actions to make the necessary moves to meet the new situations. But in some cases they have blindly accepted decentralization per se. They have not, in the author's opinion, fully recognized the coexistent need for control and coordination. It is for these reasons that there is a vital need for this study in order to understand the ways that an organization can be altered, and the tools which can be used to accomplish this end.

### Limitations

The subject of decentralization as applied to all the functions of a company would be much too large for a paper of this size. Consequently it will deal primarily with only the merchandising function. This was selected because it is one of the key operations of a food chain. It is one which contains many different points

of view, no one of which can be called right or wrong. At the same time, it has become increasingly more important with the growth of competition. Successful operation of the merchandising function is one of the keys to greater sales and profits.

### Division of the Subject Matter

The material of this study has been divided into two parts. Part I will be an investigation into several organizational concepts which might be called theoretical. "There are many managers who hold the familiar cliché that a matter may be 'all right in theory, but wrong in practice'. This cannot be true. If a theory is comprised of principles which explain relationships and facts and if principles are fundamental truths explaining certain phenomena, as indeed they are, there can be no inconsistency between theory and practice. The theory may be inaccurate or it may not be applicable in a given situation, but it can hardly be right and applicable and yet be impracticable."<sup>4</sup> Also in Part I there will be a discussion of authority and its delegation followed by a study of decentralization and recentralization. Throughout this section examples will be given, taken from readings about various companies. These companies are not all in the food field, but have been selected from retailing and industry. The reason for this is because it is felt that the general problems of management are the same, no matter in what industry they appear.

Part II is a case study of one food chain, emphasizing the merchandising function. It is intended that in this part the reader will be able to see specifically

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4. Koontz, Harold and O'Donnell, Cyril, Principles of Management, McGraw-Hill Book Co., Inc. New York, 1935. p. 9

how the principles brought out in Part I are applied in actual practice. In no way was this company selected because it represented a perfect example of organization or decentralization. Instead it was selected at random, and is used only to show the problems that exist and how they are handled by one company. In order to make this an objective study, the name of the company has been withheld.

#### Method of Obtaining Material for the Case Study

Material for the case study was obtained by visiting the home office and four branch offices of a large food chain. The branches visited were selected at the suggestion of the home office. It is felt they present a cross-section of the company in that they are of different physical sizes and operate in different competitive situations. Each one, then, has its own problems and handles them by different methods. At both the home office and the branch offices interviews were held with several of the product merchandisers. A set of questions was asked them on how certain merchandising functions were performed, and by whom the merchandising decisions were made. The interviews also covered the relationship between the various levels within the company, ie., stores, branches, and home office.



## PART I

### Changing the Merchandising Organizational Structure

#### CHAPTER II

##### CONCEPT OF ORGANIZATION

"Organization is the structural relationship between the various factors in an enterprise."<sup>5</sup> Too often an organization is thought of as merely the formal relationships between various boxes appearing on the organizational chart. However, a successful organization is one that realizes the importance of the personal aspect, and provides for the coordination of the individuals who make up the structure. It enables the individuals to work together in a concerted effort toward a specific goal. Because the individuals are constantly changing, the organization must be able to change with them. This does not mean that the formal organization is to be altered with every personnel shift. It does mean though, that it must be flexible enough to adapt to the personnel who fill the various positions.

The formal organization does provide a very necessary function. Primarily, it prevents the individuals from working in a vacuum. It establishes job specifications and relationships. It enables the individual to work freely within a specified sphere. Ideally it must not destroy spontaneity or discourage original thinking.

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5. Spriegel, Wm. R. and Davies, Ernest C., Principles of Business Organization, Prentice Hall, Inc., New York 1946. p. 33

The formal organization is in constant need of re-evaluation. Because economic conditions are constantly undergoing alteration, the goals and objectives of the company are likewise affected. One particular goal may have been reached, or found unattainable. In its place a new goal is formulated. At times the former organizational structure may be adequate, but more often than not, a new structure must be developed which will enhance the possibility of succeeding in the new effort. It is the responsibility of top management to find the new ways. This problem can be approached from three different angles, each one of which can be applied to any given situation.<sup>6</sup>

#### The Levels Theory

The first of these is often referred to as the "levels theory". Any business may be thought of as a system of levels. Each level is developed and maintained according to the nature and importance of the job. In a supermarket, for example, there is usually found three distinct levels: clerks, department heads, and manager. The manager, since he is responsible for the entire operation, is given the authority over the other two levels. Even though only one man occupies this position, it is distinct within itself, for no one else in the store has been given the same authority. By the same token, department heads create another level. By the nature of their jobs, i. e. responsibility over a particular function of the store, they are given control over their various departments, and are at the same time held accountable by the store manager. The clerks usually occupy the lowest position within the organization because of the relatively low importance of their jobs. This same

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6. Petersen, Elmore and Plowman, E. G., Business Organization and Management, Richard Irwin, Inc., Chicago, 1949. p. 281-284

type of levels thinking is not restricted just to the stores, but carries through the entire organization. From the Board of Directors down through the clerks will be found many levels, and generally levels within levels. The store is a distinct level within the company, and yet is itself broken into various segments as shown above.

It has been only recently that management has created a new level within some of the stores. Because of the growth in their size, it was found that an assistant manager or co-manager was needed in order to assume part of the management responsibilities. By creating this position, a new level was established falling between the store manager and department heads. If the stores once again become smaller, it may become advisable to delete this. The basic point is that management must be aware of the new problems which develop as the company grows. To expect the old managerial framework to be able to handle the additional load is in many cases a fallacy. One such means of distributing the responsibilities is by the creation of new levels, or the expansion of the existing ones.

The hardest question to answer is when a new level should be created or an existing level expanded. There is no one guide which can be used. However, basic to the solution is the consideration of the human element: What is the most effective span of control for any one person in any one position. Some authorities say that this span should fall somewhere between three and six people and when it exceeds this limit it loses its effectiveness.<sup>7</sup> Others claim a smaller number, while others state the span can be limitless. It is apparent that the thinking on this is variable, which seems logical because of the many differences involved. It is

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7. Dale, Ernest, Planning and Developing the Company Organization Structure, American Management Association, New York, 1952. p. 51

conceivable the span could be greatest if the individuals included within the framework were highly competent and worked well together. On the other hand, the number would be smaller if the subordinates needed more supervision. The primary fact is that as the span is increased by the addition of more subordinates, the direct relationships and the cross relationship are increased. This often means that it is harder to supervise. There are more people who are directly responsible to the supervisor, and there are more individuals at the same level who have to work with each other. In some cases this cross relationship may be very intimate, such as an office staff, and at other times, it may be quite remote as evidenced by store managers in a district. It is felt that the "optimum span of control may be determined by weighing the advantages of retaining managerial responsibility as against the gains to be realized by delegating it. The span of control should be extended to the point at which the advantages of delegation are outweighed by the costs of extra staffs, additional supervision and added difficulties of communication."<sup>8</sup>

There are several dangers which are connected with the addition of new levels. The first is that it often means more "red tape". In order to get authorization to perform a certain act, it may mean struggling through numerous layers of management in order to reach the responsible person. The second danger is that if carried to extremes it may make the company unwieldy. Areas of authority will probably overlap and many individuals will be confused constantly as to exactly over what they have authority and in which areas they can operate. This

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8. Ibid ., p. 53

situation, if allowed to exist, can lead to demoralization of the employees for they are being prevented by the organization from achieving their goals.

### The Departmentation Theory

The second method is called the "departmentation theory". This idea segregates businesses into several departments, each in charge of its own operation and an integral part of the organization. In turn this theory can be divided into areas, for it allows for the establishment of two types of departments - the functional and the staff.

### The Functional Department

The first of these is the functional grouping of the activities of the business according to their specific nature and duties. Thus in a food chain there might be found a merchandising department, personnel department, legal department, etc. Each one of these is responsible for a certain area of the company's operation. Within each is grouped all the activities which are necessary for the performance of the specific task. These activities are assigned to sub-departments which are created to specialize in one particular area of the departments' activity. In many merchandising departments there are found sub-departments of product buying, advertising, sales and promotion, research, etc. Technically, these are grouped together in one department because they are all integral parts of the merchandising function, and need to be coordinated in order to formulate and project an effective program.

In many respects the creation of these basic departments and their sub-departments leads to the centralization of authority within the departments themselves.

The sub-departments are headed by specialists. These men by the very nature of their activities have to be technicians in their particular field. The basic requirement of a successful department is the technical competence of its managers. However, the stress of this in many departments has led to the developing of men who know of little beyond their own areas. Within their spheres they are unexcelled. Taken outside of that area, they are lost because they cannot perceive all the factors which go into the whole. Consequently, someone must be placed in charge of the entire department who is able to interrelate all the parts into one workable program. He is the only individual who is at this time able to see the "forest through the trees".

Even though there is a need for this "generalist", the stress is still placed upon the development of the specialist. It is interesting here to note an observation by Peter Drucker " . . . a man who shows too much interest in the enterprise as a whole, and who tries to obtain a general view, is not likely to be promoted."<sup>9</sup> This is because these specialists, under a functional system, are necessary (even as they are under any system), and in order to become a "generalist", one first must have been a specialist in many areas.

#### Staff Department

The second of these department areas is the staff unit. Most large companies today utilize this type of unit, for by its creation the line or operative units are able to concentrate on operations and are not bogged down by the time consuming problems of planning and research. It has been found that as a company grows, the job of the line officers becomes more complex and covers a wider variety of

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9. Drucker, Peter F., The New Society, Harper and Bros., New York, 1950, p. 214

of subjects. Some firms to combat this have increased the personnel under the supervisor so he is relieved of some of the detail work and is able to spend more time on planning. Other firms, as mentioned, have turned to the staff units.

### The Role of the Staff

The role of the staff is varied. It is hard to mention all the areas in which it operates, for they will vary from company to company and with the degree to which they are used. However, there are several duties which they do perform which seem to be universally accepted as their primary roles. They counsel and make recommendations to the line executives. They are in a position to do this for they have the facilities to carry out research. Sears, Roebuck and Co. maintain within their central buying organization three staff units which do nothing but perform research on products.<sup>10</sup> These are the Technical Laboratories, Merchandise Development Department and the Merchandise Comparison and Inspection Department. Combined, all three of these counsel the buying department as to the various qualities, price comparisons, movement of items, etc., of their own brand merchandise. These staffs will recommend the action they feel the buying department should take. However, the actual decisions are left to the buyers.

Besides making recommendations to the operating group, the staff normally participates in creating company policy. In many cases they will suggest a policy which actually is little more than a framework, the details and application being left up to the line executives. The framework is designed to provide a sphere within which the operator can work freely, knowing his decisions do not hinder or

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10. Emmet, Boris, and Jeuck, John E., Catalogues and Counters, The University of Chicago Press, Chicago, Illinois, 1950. p. 374 ff.

contradict the company's objectives. In some companies, administrative action of this type is performed solely by the headquarters staff in participation with top management. In others, top management, the staff, and divisional management will create this jointly.

The staff generally will analyze the results of the policy to see if the objectives derived are the ones which were desired. If they are not, they will make the necessary adjustments and interpret them to the line. They will very carefully explain why and where the deviation took place, and how the new policy will help prevent it from taking place again. In order to do this effectively, the staff must be able to create enthusiasm among the line in order to enlist their full cooperation. Without this, the policy may never have a fair chance, and may be doomed for revision prematurely.

The final primary role of the staff is to serve as a two-way channel for communication. The staff will make the recommendations to the line, and in turn the line will request certain services of the staff. The latter is actually the servant of the line, for its only excuse for existence is to serve as an aid for the field organization. In this capacity it operates as a coordinating unit for the various departments or branches. In General Motors, for example, the central staff agency acts as a liaison between the various branches and coordinates their activities so as to reduce duplication and wasted effort. They have no direct authority, but may appeal to top management in a last attempt to force a "wayward" manager into line.<sup>11</sup>

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11. Drucker, Peter F., The Concept of The Corporation, The John Day Company, New York, 1946. p. 41



### Requirements of Successful Staff Work

There are several requirements for successful staff work. The violation of any of these may lead to the condition whereby the staff loses its effectiveness. If this happens, it logically follows that the line will also lose some of its effectiveness because it is not organized to fulfill the staff function.

The first of these requirements is that the staff sells the idea. Without this basic philosophy, the line may become the servant of the staff. The selling technique may be developed through an informal approach, persuasion, familiarity with the line and mutual respect, or any other method found effective.

Next, the staff is required to take the initiative in promoting needed action. In order to do this, it must have all the necessary information which can be obtained from the operating units.

The final requirement is that the line must feel free to consult the staff for its assistance. The line will do this only when and if the previous conditions have been fulfilled, and they are convinced that the staff is not in any way attempting to infringe upon their operation.

### Dangers Connected with the Staff Department

There is a very real danger in the establishment of the staff department. Above it has been shown that the staff is the agent of the line. This relationship has been found to be most effective, for it is the line which is directly responsible for the sales and profits. However, in some cases, either consciously or subconsciously, the staff has gained control over the line.

Often, the staff executive will be superior in status to the line executive. In many firms the head of the staff organization is titled as a director or vice-

president. Psychologically, this places the staff man over the operator and in many ways may influence the latter's decision. By the same token, the staff executive may be invested with certain sanctions such as promotions and firings, not directly, but by recommendation, as in the example of General Motors mentioned before, where the "staff could appeal to top management". Because the staff is a service agency, it is likely to have great technical competence which might tend to influence the line to such a degree that it never questions the staff recommendations but accepts them per se. Finally, largely because of the latter, the line may default its authority and place it in the hands of its agent.

Coexistent with the ever prevalent danger outlined above, there also appear to be several difficulties which can arise between the two. The staff, because of its overall knowledge and picture of the whole, may become frustrated because it can see the errors which the line is making. In such a situation it may forget its position and "try to tell and not sell". If such a condition exists, there may develop what is called a "compulsory staff service". This is noticeably present in the administrative organization of the Catholic Church where it "operates to force the superior to listen to his subordinates. While the line decision rests with the superior, he cannot refuse to listen."<sup>12</sup> On the other hand, the line may feel that the staff knows little of the local conditions and thus its recommendations are worthless. This can be accentuated if the company maintains many branches, each with its own local competitive situation.

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12. Koontz and O'Donnell, Op. Cit., p. 143

### Conclusion - Levels Theory and Departmentation Theory

The problem before top management, then, is the decision when and if to add another functional or staff department. The addition of new departments, each with its own power to make decisions, is a further step toward decentralization. In some cases, it may become a necessity as the business grows and more activities are added or gain new importance. An example of this is the recent organizational change in the Grand Union Company where merchandising, formerly concentrated under one department, is now divided into two separate sections: Perishables and Non-Perishables. It is interesting to note that this is also the creation of a new level. Whereas previously the merchandisers of the product groups: grocery, meat, and produce, reported directly to the Vice-President of Merchandising, they now report to their respective new department heads who then report to the vice-president. This example points out the fact that both the level and departmentation theories help solve the same problem. They are merely two different avenues leading toward the same destination. Their difference is that they examine different facts along the way.

The third theoretical approach is the "Authority Allocation Theory". This method looks at an organization as logical system of allocating authority, responsibility, and accountability within certain men or groups. This has been separated because, while the first two can be indicated by the formal organization chart, the authority allocation theory is not so easily defined. However, this is perhaps the most important, for it provides the life blood of the organization and provides meaning to the other two. Because of this it shall be discussed in this light in the next chapter.

## CHAPTER III

### THE ALLOCATION OF AUTHORITY WITHIN THE ORGANIZATION

As mentioned at the close of the last chapter, the allocation of authority is one method by which the organization can be changed. It was noted that the other two methods were formal changes in that they actually appeared on the organization chart of the company. However, the allocation of authority, although it is implied within the structural charts is not always precisely defined. Top management may feel the present situation may be best met by a shift in the allocation of authority within the existing corporate framework. Even though this may be the desire of management, there are many subtleties connected with the exercise and meaning of authority that in effect may destroy the advantages hoped for by its new allocation.

This condition may arise because of the various concepts of the meaning of the word. Authority has been defined as "the power over others . . . to undertake activities deemed by its possessor to be appropriate for the realization of enterprise or departmental purpose."<sup>13</sup> Representative of another view is the idea that authority is a term for certain rights that the individual acquires. Authority and power are different terms, though related. Power is the force that maintains the

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13. Ibid., p. 47

right which is exercised by virtue of the sanctions of the higher authority.<sup>14</sup> It is not the purpose here to discuss the relative meanings of the word. It is intended merely to indicate that various executives look upon authority in different ways. Within one particular company, many meanings of the word can be found, to such an extent that practically every executive has adopted a personal meaning of the word. It is because of this wide divergence of understanding, that the plans of altering the allocation of authority may not be carried out as intended.

Authority in an enterprise is granted by the corporation. To be purposeful it should not be assumed. If this was the case, there could not be any overall direction, for everyone from the president to the clerks would assume the authority they wanted and each would act within his own sphere with little or no interaction. Generally speaking, then, authority comes from the top down through the various layers of management. It is delegated to the individual levels in such amounts as to give them freedom to operate to the degree that management desires.

#### Types of Authority

The delegation of authority is meaningless unless it indicates what type is to be delegated. Too often authority is used as an abstract word. To give it meaning it must be related to the specific type which is to be covered by its use.

There are basically four classifications of authority in any enterprise.<sup>15</sup> The first of these is the authority to plan. Before any decision can be made, or any action taken, the project must be planned. There is a very definite distinction between

14. Davis, R. C., The Fundamentals of Top Management, Harper & Bros., New York, 1951. p. 289

15. Petersen and Plowman, Op. Cit., p. 289

planning and decision making although often clouded in usage. Planning necessarily preceeds, for it is the drawing together of a certain group of facts into unified wholes. These then become plans of operation, programs, and policies. Decision, on the other hand, determines the action by selecting one of these, or the combination of several.

In many instances planning authority is concentrated in a few men near the top of the business hierarchy, for it mainly is thought of in terms of company policy or long term goals. It may be located, for example, in a staff department reporting directly to the president. It has the advantage by being placed at such a level in that it can be executed more uniformly and at times more quickly.

As the company grows and adds more functions, it may become necessary to delegate part of this authority to the department or division heads so that they can formulate their own plans and policy. Generally, when this is done, it is bracketed within a general framework set forth by a central agency. In General Motors, for example, there are two central committees which in effect act as the government of the corporation. These committees have delegated to the autonomous divisions certain planning authority, but still retain control by establishing certain standards which must be maintained. Thus, the division manager may plan his own policy as long as it is in harmony with that of the corporation. Federated Department Stores have a central group titled the Advisory Committee which actually runs the business. The individual stores can plan their own operations, but as in General Motors, these plans must meet the specifications set by the committee.

The degree to which this authority is delegated depends in large upon the capabilities of the individuals concerned. It will be developed later in the chapter that this one point alone has perhaps the most far reaching implications as to the success or failure of an extensive authority allocation plan. It will suffice to say here that the stronger the operating individuals have proven themselves, the more will be delegated to them of this planning authority.

The second type of authority is that of making decisions. "All decisions are a matter of compromise. The alternative that is finally selected never permits a complete or perfect achievement of objectives, but is merely the best solution that is available under the circumstances."<sup>16</sup> Actually decisions then, are the selection of the plans which previously have been made. Again, like the authority to plan, this is also delegated, but unlike the planning authority, which remains near the top, decision making commonly is delegated throughout the entire organization. Every person employed actually has to make decisions in order that the business may operate: A district manager must, when approached by the merchandisers, make the decision of how much his district will sell of a certain product. The store manager must decide what items to promote in his store. The clerk often has to decide the easiest way to perform a job. Since each job requires a certain degree of decision making, authority must be delegated commensurate with what is expected of the individual. It would seem foolish to expect a store manager in certain cases to buy merchandise direct from the supplier, and then not to delegate this authority to him.

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<sup>16</sup>. Simon, Op. Cit., p. 6

The third type of authority is that of organizing. In a small company this by nature belongs to the top executive, but in almost all cases of larger companies it has been delegated to others. In some corporate chains which operate under the branch or divisional system, each branch or division manager has this authority and in many cases it is further delegated to other key personnel who are in charge of various departments. In an individual store this authority appears to lie in both the store manager and the branch office. The branch will set forth a basic organization by deciding what departments each store shall have. In short, it provides a framework in which the store is to be organized. The store manager then has the authority to supplement and create his own organization as long as it meets the pre-established specifications. In other companies, this authority is not delegated to the store manager. In these cases he accepts what has been established for him. His job is only to see that they function harmoniously together.

It is interesting to note that several large companies, such as Continental Oil Company, Merck & Co., and Johns Manville Corporation, have created special staff departments whose primary job is to work on organizational problems for the entire company. They are constantly re-evaluating and revising the corporate structure. Generally, they are an arm of the president, or governing body. The creation of these departments is relatively new, and only have come into being after it was realized that the organization must be constantly changed to meet the current situations.

No authority to plan, decide, or organize can be effective unless there is sufficient authority to follow through, which is the fourth and last type to be discussed.

"Wherever there is an assistant, subordinate, or worker, the person directly in



charge must have the authority to enforce and follow through the task being performed."<sup>17</sup> The manager informs the department head what has to be done, the department head gives the order; the clerk performs the job. In this simple example, it is considered best that the department head have the authority to see that the job was performed. He gave the order; it is his responsibility to see that the task was accomplished as instructed. By the same token, the manager should have the authority to see that the department head has fulfilled his part of the operation. There is seldom a person in a better position to see that a job is completed than the immediate supervisor. He is in constant contact with the other person and can follow the progress of the job with little additional effort. A person twice removed, or two levels above, (store manager and clerk) loses this intimate contact and to regain it must make a special effort.

As mentioned before all four classifications of authority are commonly thought of as one. However, on close inspection there is a difference which in many cases can be considerable. An individual may have the authority to make decisions, and yet be unable to make the "right" decision because he does not have the authority to plan. A person may have the authority to organize, but his plan may fail because he doesn't have the authority to follow through. It is the contention of the author that whenever authority is allocated, it must be made specific so that the individual receiving the grant will know exactly what limits have been placed upon him. This will, in part, relieve some of the frustration, and enable the person to work more freely and more confidently. It must be recognized, though,

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17. Holden, P., Fish, L., and Smith, H., Top Management Organization and Control, McGraw Hill Book Company, New York, 1951. p. 34

that is not easy to establish the limits of an executive's authority. There are many variables within individuals which must be accounted for. The granting of authority must be done in relation to the individual capacities. / If certain authority has been delegated to a particular assistant merchandiser with success, it does not necessarily follow that the same amount can be successfully delegated to all assistant merchandisers. However, each person should have a clear picture of the limits of his authority.

### Delegation of Authority

One part of the allocation of authority is the delegation of authority. Allocation is a broad term which refers to the location of authority at any point in the organization. Delegation is more specific in that it is the commission of authority to a lower level. Decentralization relies heavily upon the delegation of authority and it is for this reason that the factors, process, and advantages of delegation must be considered.

A stated goal of delegation of authority is that decisions be made as far down in the organization as possible, but insuring that all activities and objectives are fully considered.<sup>18</sup> The first part of this statement tells how far down in the organization the decision should be made, and the second part of the statement says how far down they can be made. Often it appears that the first part is considered more heavily than the second, in that little consideration is given to the effectiveness of the resulting decision. It may be thought of in relation to the "law

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18. Drucker, Peter F., The Practice of Management, Harper and Bros., New York, 1954. p. 199

of diminishing returns" where by the additional amount leads to less gain than the previous ones. Thus further delegation may surpass the point where the decision can be made effectively.

### Factors Affecting Degree of Delegation

How far down in the organization a decision can be made depends upon several factors. Every time a decision is made in a company, there is a possibility that it may incur a cost to the firm. There is first of all the dollar and cents cost of a wrong decision. This appears to be so widely feared that in some companies the chief executive insists upon approving all purchases over \$2,500. In still others, division managers must go to headquarters for capital expenditures above a few hundred dollars.<sup>19</sup> Another cost to be estimated is the loss of reputation caused by a bad decision made by a subordinate. This could become a reality in many ways. The subordinate, for example, may decide to purchase some merchandise which is of inferior quality because the "price is hot". The customers buy the merchandise, find it is below par, and the company receives a bad name.

On the other hand, if there is no delegation, the cost may be greater than the loss resulting from any one of these or other errors, by taking the supervisor's time, which normally is at a premium. This is one of the problems faced by management in trying to determine the relative cost of placing the authority to make the decisions at a lower level.

Another consideration is the degree of uniformity desired in the making of decisions. If the authority is delegated to the lowest level, there is a greater chance

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19. Dale, Op. Cit., p. 118

that the uniformity will be lost, at least to a certain degree. In order to maintain a high degree of uniformity, many limitations probably would have to be imposed which might in effect destroy the advantages desired by the delegation. In certain companies, there may be a real need for this lack of uniformity because of the local competitive situation.

The number of decisions to be made also needs careful consideration. It may develop that the executive is overburdened by having to make too many decisions. In this case, he probably is unable to devote the necessary time to each, and in order to accomplish his job he is forced to make hasty decisions, which may or may not be the best. It is clear that the continuance of this kind of a situation could lead to unsatisfactory results. Consequently, the organization is forced to delegate part of this authority.

There are undoubtedly many more factors which can be included but they will vary from company to company, each one developing its own criteria. Representative of this would be the amount of physical decentralization a company has undergone, or it may be the "dynamics of the company" and its rate of growth and availability of managers. Whenever it is thought that delegation is essential, the actual decision must be based on facts which are peculiar to the particular firm.

#### Process of Delegation

Once these factors have been weighed and a decision has been made to delegate, it is thought advisable that management sets clear limits to the extent of this authority. These may be written or unwritten. They may be outlined in a policy manual as to what an individual can do on his own, what he must clear before taking action, and whom he must notify after taking action. This may be very specific in

that every probable situation is covered. On the other hand, it may be very general. The more specific or detailed it is, the less flexible is the area of the subordinate's operation, for generally he has to refer more often to his superior for authorization. There is a chance that under strict limitations he will lose his initiative and instead of taking the best action, he may do just what the "book" says he can, regardless of the situation. However, these limitations are important, because as stated previously, they do provide a definite area in which the person may operate, knowing that he is not usurping his power or right.

Along with process of authority delegation, there must be a coextensive delegation of responsibility. "Responsibility has been defined as an obligation of the individual to perform assigned duties to the best of his ability under direction of his executive leader. Authority is the corresponding right that enables the individual to discharge the particular obligation."<sup>20</sup> It appears then that responsibility precedes authority in its delegation. To show this relationship more clearly, there is the example of the store manager. He has been assigned the responsibility to run the store according to company policy. In order to be effective in reaching his goal, he must have the necessary authority for its accomplishment. In every layer of management there is the same relationship - first comes the assignment and then the means by which to perform and complete it.

In a large company there often arises confusion caused by dual subordination, whereby one person reports to two superiors. In the process of delegation, it is advisable that this be eliminated, or at least a provision be made to indicate

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20. Davis, Op. Cit., p. 281

to whom the individual should report, and whom to obey in case of conflicting orders. Ideally, there should be one order from one person. In practice, though, this is not always possible. There may be various orders coming from various persons. The U.S. Army has solved this by the system of rank. The order from the ranking officer is obeyed. Some companies follow somewhat the same program in that the individual with the highest status has the final say. Even though this method may seem to work, it may cause a feeling of frustration within the individual, for he does not know exactly whom to follow. It can be very damaging to morale. Many managements realize this, and to avoid this possibility, make it a policy that only the immediate supervisor gives directions to the individual.

At times, however, there may be a need for a division of authority in order to gain some technical guidance that otherwise might not be available. The Grand Union Company has created a meat supervisor who aids the head meat cutter in the stores. Formally, the store manager has authority over the head meat cutter, but in the technical aspects of the meat operation, the meat supervisor has this authority. Although this is a relatively new structure for this company, the reports are that it has been successful because each person involved understands the nature and exercise of this division.

The final process in delegation of authority is that the lower echelons be taught to seek assistance from their superior. Actually this presents somewhat of a paradox, because one of the objectives of delegation is to relieve the higher men of some details and to try to have the subordinate work on his own. However, at times the lower man will need advice from his superior, or information which would otherwise be unavailable. In some instances the subordinate has been made

to feel that seeking this assistance is a sign of his incompetence and because of this he is afraid to approach his supervisor. If such an atmosphere is permitted to exist - that the boss is unapproachable - there is a very good chance that the subordinate will take action on matters on which he has insufficient knowledge.

### Ways to Enforce Delegation

Often top management holds the philosophy that delegation of authority is a must. Even though this is their expressed belief, it often appears that their intentions are never carried out. The problem before management is to effectively promote this delegation so that it becomes a reality. Of course, there is no formula which will fit every company. There are nevertheless several plans which firms can adopt which will aid in accomplishing this. First, there must be an earnest desire on the part of top management for delegation. This cannot be just an abstract desire, but it has to be proven to the subordinates. This can be a very infectious attitude and once proven by the top level, it can spread throughout the entire organization. "Treatment by a superior establishes a climate which can encourage self-reliance on part of the junior."<sup>21</sup> Thus once the subordinate finds that his superior is in favor of and practices delegation in his own sphere, he may be willing to attempt the same in his own operation, for he has the implied approval of the man above him.

Part of the delegation can be accomplished by the issuance of an organizational manual, because it sets clear limits to each person's authority. In doing this it informs the individual that he can retain just so much authority before he infringes on the territory of another.

21. Riegel, John, Executive Development, University of Michigan Press, Ann Arbor, 1952, p. 45

Another policy is the maintenance of a large group of subordinates, but at the same time demanding a high standard of performance. "In the **Sears, Roebuck and Company** studies it has been found that, where a manager's span of control was well stretched, he had no alternative but to delegate authority. At the same time, in order to protect his own performance, the manager with so many subordinates found it essential to obtain good subordinate managers, train them well, establish clear cut policies, and find efficient means of control. Thus Sears has discovered that widening the span of management reduced levels of supervision, shortened communications, resulted in decentralization of authority, required better management, and forced manager training."<sup>22</sup>

Still another process used to enforce delegation is the refusal by management to promote a man until he has developed a replacement. A person normally can be considered qualified as a replacement only after he has had a chance to prove that he can perform the job. In order for this to be possible, he has to have had the opportunity to exercise the authority held by his supervisor. To have had this chance, the authority had to be delegated to him. There is, however, a flaw in this method. Some companies have men in key positions who have no desire to be promoted. They have reached their desired level, and their chief concern is doing the job well enough to keep it. To these men, there is little incentive to delegate. In fact it is conceivable that they might refuse to pass on part of their authority to a subordinate in fear that he may use it as a tool to surpass them and thus threaten their job security.

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22. Koontz and O'Donnell, Op. Cit., p. 217



### Advantages of Delegation

Up to this point in the chapter, the allocation of authority has been discussed in relation to the various types of authority. The factors involved in a decision to delegate, the process of delegation, and the methods which management can use to insure delegation have also been stressed. From successful delegation - successful in that it is carried out throughout the organization - the company may expect to achieve certain advantages. It may be said that the number of advantages corresponds closely to the degree to which delegation is practiced. Thus a company which delegates only in certain areas, generally can not expect to reap the full rewards. Again, these rewards may not be sufficiently strong enough to persuade the company to adopt extreme delegation.

The advantages most commonly associated with delegation of authority are as follows:<sup>23</sup> (1) relieves the executive of detail work; (2) permits the executive to plan for the future; (3) increases flexibility; and (4) aids in the development of the subordinate.

The more that the individual passes authority to others, the less detail work he has to perform. As this part of his work load is reduced, it frees his time so that he can concentrate on planning for the future. It has long been a criticism of some businesses that they spend too little time in this direction and therefore they are ill-equipped to meet the future, particularly when they are in a highly competitive industry. This realization can be evidenced by the creation of "future research" departments in companies like DuPont and General Electric, whose tasks are to plan products which will be marketed five or ten years hence.

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23. Newman, W. H., Administrative Action, Prentice Hall, Inc., New York, 1950, p. 208

The advantage of flexibility arises "from the authority of junior people in the organization to make prompt decisions without awaiting approval of the action from one or more supervisory levels."<sup>24</sup> In companies operating in many different markets this can be especially appreciated, because the competitive situation is constantly changing. The National Tea Company, by way of example, permits some of their store managers to change prices in order to meet the local competition. They feel the local store manager is in the best position to determine the need for this action, and so he should have the authority to make the change.

The subordinate, by having to make operating decisions, tends to develop faster. Not only can he then be held accountable for his success or failure, but also it will help build his self-confidence, for he can clearly see the results of his work. By giving him authority, it also tends to build his enthusiasm, for he then feels a part of the team.

### Dangers of Delegation

In undertaking the delegation of authority, any company must be prepared to meet the dangers that exist. These dangers may outweigh the above advantages, but it is the feeling of the author that if they are recognized, they can be corrected and thus enable delegation to be successful.

First, it is basically against man's nature to delegate. It is not natural. A man inherently likes the feel of power and once obtaining it, does not like to portion it to someone else. There are several other reasons why he does not delegate. There is the feeling that no one else can do the job as well as he; that a mistake

<sup>24.</sup> Ibid., p. 208

made by his subordinate will reflect upon him and will endanger his job; that the subordinate will do the job so well that he, the subordinate, will become more important; and the attitude that it is easier for him to do the job than to train someone else. All of these to some degree appear to be present in an individual's mind and it is only through training that they can be dispelled. It has to be proven by experience that they are largely fictitious, and it is only when this is done that the person will feel free to delegate.

At times authority is given in areas where it should not be. The individual should be given only the authority to make decisions in areas for which he is responsible. Thus a produce manager should not be expected to exert authority in grocery or meats. This is outside his sphere and outside the area which he has been delegated. In these outside areas, he normally does not have the necessary information and he is not in the position to have normal access to it.

One of the goals of delegation is to spread authority throughout the entire organization. However, in some cases it tends to become bottlenecked at one level. The cause of this may be attributed to several factors, the most important being the lack of trained personnel to receive the delegated authority at a lower level. It may be felt that the subordinates are not capable of receiving this authority, but by withholding it, it tends to delay their progress. Their slow development may further encourage the holding back of authority, which may eventually lead to a complete cessation of development and delegation. Thus, a cycle has developed which may create a serious situation within the company.

The key to delegation lies not in the mere granting of authority to others. Because authority has been delegated does not mean it will be successfully administered. "It is the acceptance by his subordinates of the power he holds over them. --- Thus the key factor is that managers have no real authority unless and until the individual subordinates confer this upon him."<sup>25</sup> The subordinates are the ones who are to perform the tasks, and unless they show faith and confidence in the one who has given them direction, the tasks will not be completed in the manner in which they were intended. Without this mutual acceptance, there can be no harmony of action.

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25. Koontz and O'Donnell, Op. Cit., p. 50

## CHAPTER IV

### DECENTRALIZATION

#### Forward

According to a study made by Princeton University in 1954, "decentralization, as a principle, is widely accepted by all levels of management without much critical appraisal of its actual practice or its possible impact."<sup>26</sup> The report continues: ". . . the statement of decentralization as a philosophy or principle of organization is a goal rather than a description of current practice. . . . Because even limited decentralization, according to these opinions, is more satisfactory than extreme centralization, decentralization should be stated repeatedly as a goal. The more it is talked about, the more all levels of management personnel will be encouraged to delegate and to exercise judgment in matters for which they are responsible."<sup>27</sup> It appears that for decentralization to become a reality and a success, it depends primarily upon the belief in it by all levels of management. For this to happen, top management must prove that they are sincere in their beliefs and practice it within their own sphere of operation.

"Decentralization is used as the minimization of decision making at the highest, central point of authority and the maximizing of the delegation of responsibility

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26. Baker and France, Op. Cit., p. 24

27. Ibid., p. 35-36

and authority in the making of decisions at the lower levels of management."<sup>28</sup> The basic purpose of decentralization, as indeed it is of every organizational method, is to improve the firm's economic efficiency. If the company endorses decentralization as their method, they are then implying that they believe in spreading responsibility and authority through the enterprise. They feel it will stimulate the feeling of personal freedom and that a man will try things on his own. The junior executive, the superintendent, the store manager, become managers in fact because they have the authority and feel the importance of their jobs. "These make for willingness and ability to work for the future rather than rest on the achievements of the past, and to strive for growth rather than to put on fat."<sup>29</sup>

#### Functional Decentralization

There are two types of decentralization. The first is called functional decentralization. Generally this is found in the smaller businesses, but a certain degree of it is found in practically all sizes of companies. It sets up integrated units with maximum responsibility within each of these units. Each of these places the emphasis upon the speciality and not the whole. An example of this would be any functional department within an organization. Referring again to the Grand Union Company, under their merchandising department are two functional departments of Perishables and Non-Perishables. To them have been delegated the authority of buying, selling, and control of the specific commodities under each classification. The emphasis is placed upon the particular commodity grouping and not the whole. In turn each of these departments are broken into segments, each responsible for a commodity group, such as meats, produce, seafoods, baked goods, candy,

28. Ibid., p. 20.

29. Drucker, Peter F., The Practice of Management, Op. Cit., p. 41-43

dairy, dry grocery, frozen foods, etc. This system of decentralization can be called universal, for it is found in virtually all businesses.

The weakness of the functional type is that it is hard to evaluate the results of its operation. As mentioned, each department is in charge of a specialty and the whole is composed of many of these. Thus the final sales and profit figure is a composite of all the functions. Naturally records are kept for each and it can easily be determined what each contributes to the total, but they are interrelated to such an extent that they influence each other to a certain degree. In a simple structure where there are three merchandising units - grocery, meat, and produce - the sales of each influence the others. If the meat is of poor quality, there is a likelihood that the other two departments will suffer through no fault of their own. Their relationship to the whole is still clear, but it is virtually impossible to determine the true results of each department because of the direct influence of the others.

The second major weakness of functional decentralization is that it develops specialists who become technically competent and interested in only their own operation. There is usually a degree of competition or rivalry between the functional units, and each strives constantly for a greater proportion of the whole. This relative proportion has become a measure of their success. In order to make a better showing, the individuals strive for more specialization. In some companies, this has been seen as a threat to the future development of top executives, and to combat it they make it a practice to rotate their people through the various departments.

### Federal Decentralization

The second type of decentralization is referred to as the federal system.

In this type of structure, activities are organized into autonomous units each with its own market and own profit and losses. It focuses its vision and effort upon performance and results of the whole. General Motors has been perhaps one of the most active promoters of this type.<sup>30</sup> They attempt to combine the greatest corporate unity with the greatest divisional autonomy and responsibility. In effect, it is a system of local self-government within the framework of uniform policy. Each one of the operating divisions is headed by a general manager, and the operating success of his division is his responsibility. Each has its own profit and loss and each has its own market. Some of the divisions compete with one another, such as Buick, Oldsmobile and Pontiac. The divisions will only buy from one another if the quality and cost of the products are equal to that of the outside competitors. Thus Chevrolet is not obliged to buy Delco batteries, and will not unless the batteries are of equal value to those of the competition. Another interesting feature of the G.M. plan is that the general managers soon become financially independent through a system of stock options and bonus plans. Central management feels that only when the division managers feel independent in this manner will they freely express their opinions and objections to policy, for they no longer have a fear of their jobs. At the same time they do not feel beneath the headquarters' personnel.

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30. Drucker, Peter F., The Concept of The Corporation, Op. Cit., p. 41-43



Federated Department Stores operate in much the same manner.<sup>31</sup> Each one of the seven stores acts almost completely as a separate business. Each has its own management and develops its own method of merchandising, for each operates in a different competitive market. If the merchandising plans of each store develop into satisfactory sales and profits in the eyes of the central management, then there is little interference from that body.

The advantage of this system is that each manager knows exactly how his unit stands. Each has its own profit and loss statement, and from this it can be determined how each is doing in relation to the others. It has the advantage of developing managers in independent commands who are generalists and not specialists. In effect, they become presidents of the units - responsible for all of its operations. By giving them this responsibility at a relatively lower level, the company can see in what areas they need strengthening before they become members of top management. In fact, it may be called a proving ground for future presidents.

In many cases both of these types are found. A company, such as Kroger, has branches which in many ways act autonomously. Yet within the individual branches there is a functional decentralization in that each has its own product merchandising departments headed by specialists. The National Tea Company operates much in the same manner, as does the Great Atlantic & Pacific Tea Co., and Safeway Stores. However, the degree that the merchandising function is federally decentralized varies considerably. It should be pointed out that while a company

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31. "Mr. Fred of the Lazari", Fortune, March, 1948. p. 109 ff.

may claim to be entirely decentralized, there may be one function which is extensively centralized. Only when all the functions or activities are entirely decentralized can this claim be substantiated.

#### Factors Affecting Decision to Decentralize

There are several factors affecting the decision to decentralize a particular function of a company. The first of these is the size and importance of the function. The size refers to the number of people who are directly connected with its operation. The importance would be in the relationship to the other functions which contribute directly or indirectly to the earnings of the company. The greater either the size or importance - in many cases these will change proportionately - the more decisions have to be made. At the same time the point of action moves further away from the person making the decision, resulting in increasing the difficulty in having the decisions carried out. By breaking down the size, or by decentralizing, the executive who makes the decision is nearer the point of action. Thus authority is spread over a wider area and there is a good chance there will be better decisions, since the executive has closer contact with the situation and has more time.

The second factor to be considered is the nature of the business in which the company is engaged. If the company is operating in a relatively competition-free area, there may be no need for quick decisions or extensive delegation of authority. It is conceivable that a food chain could operate in such an atmosphere in some area (although this concept seems to be disappearing fast). In such a case, competition would not be an important consideration when determining whether to decentralize merchandising. Much time could be taken to plan what items to promote and at what price without fear of being scooped by the other chains.

On the other hand, most chains do not enjoy such seclusion, and are forced to change their plans and decisions in order to keep from being left behind when faced by strong competition. It is advisable that the type of competition also be investigated to determine whether it comes from price, premiums, or service. All three of these demand individual attention, for the decisions concerning each must be different and go through a different process. The author feels the price competition demands the most delegation, for prices are continuously being changed and it must be decided immediately whether they should be met or not. Any delay may mean the loss of sales and customers. The other two types appear to be rather stable in that they do not fluctuate from day to day, and there is not a pressing need for quick decisions.

Third on the list of factors is the economic trend of society as a whole, or of a particular area. Prosperous conditions are conducive to expansion and growth, hence the need for more decisions. This in turn sets the stage for greater delegation, for any mistakes made will not seriously affect the company's position and the company can feel freer to experiment. An opposite viewpoint is that there is more competition during prosperity as more firms enter the scene in an attempt to gain part of the surplus business. As these competitors gain strength, prices generally are reduced. At the same time this lowers the gross profit, as recently has been the experience of several large chains which have not been able to increase sales sufficiently to offset the drop in prices. In this type of situation, operating costs usually are on the rise at the same time as the gross profit decreases. Consequently, any mistake in merchandising could present serious trouble.

In times of decline of business activity the national income also falls. In some cases this means a decline of competition, as some of the marginal firms are forced to close their doors. However, it also appears that the remaining firms will strive even harder to gain the fewer available dollars. The result - lower prices and lower margins. Here again there may be a greater need for quick decisions for the same reasons stated during times of prosperity.

Consequently it appears that the chains are faced with a paradox. Both economic situations lead to greater competition which results in lower prices. At the same time there is a greater need for quick decisions, which can be obtained only by placing this authority at the lowest possible level. But because of the resulting lower margins, it is also thought that mistakes of any sort are too costly, and therefore there is a greater need for control.

Which approach to take seems to be one of the hardest decisions the chains have to make. It depends a good deal upon the capabilities of the men in the field. The more capable they have proven themselves, the less control is needed from the central headquarters, and the more authority they can be delegated.

The final factor that top management must consider is its own feelings toward decentralization. How it feels will affect the entire company. If the headquarters merchandising department feels that control to a great degree is essential to the success of the operation, then it is unlikely that decentralization in this area will become extensive even though the rest of the company is decentralized. This attitude of control will pervade all levels of management in merchandising, and delegation will never become a reality, because each level knows it is not being backed by the higher level.

### Deciding the Degree of Decentralization

Once the decision has been made to decentralize, the question arises as to what degree it should be used. In order to effectively answer this there are several points which must be investigated. The first is, what is the lowest level where the facts are known which concern a merchandising decision? This can be restated to read, at what level are these facts known most quickly? If the facts are important they will eventually be known at all levels in the company. However, if the decisions are made at a high level, such as the central office, the facts may have changed or the subsequent action may be ineffective because of the time lapse.

There are some companies that believe the central office is the only place where all the facts concerning merchandising are known and can be interpreted. A local chain in Cleveland, Ohio believes this so strongly that the headquarters office forms all the display plans for each store. They send to each manager weekly a display chart indicating the type and location of each major display for that week. The managers of these stores have virtually no merchandising authority in this respect.

Another question, which keeps reappearing, concerns the capabilities of the managers at the various levels. Are the store managers capable of making the decisions concerning merchandising? If so, are there any areas in which they don't have these capabilities? These same questions can be applied to the branch or division level as well.

A third point deals with the amount of coordination and uniformity which is to be necessary. A store manager may be unwilling to delegate certain activities to his department heads because they are not in a position to coordinate. The

branch may not delegate the authority to fix prices to a store manager, because it feels that uniformity is a necessity and would be lost if each manager set his own prices.

Also included would be an investigation as to the significance or importance of the particular decisions. The more important the decision, the higher up it is made. The company itself can only place the weight of the importance, and then it may vary from time to time as the situation changes. All of these are interrelated. It seems that it would be almost impossible to answer one without giving consideration to the others. The ability of a man to assume authority may have a direct bearing upon the information he has available. At the same time it appears that many personal differences may enter. Perhaps half of the store managers have the capabilities and the other half do not, or the information may be available to them only part of the time. From this it is clear that there cannot be any one answer to the questions. In fact, the questions may not be answerable so that they cover all situations. The problem before management then is to decide what decisions can be made by all, all of the time. If they were to try to decide that this manager should have this authority, and that manager that authority, there is a probability that two things would happen. The first is that the organization would become cumbersome in that everyone at the same level would have different authorities. The second is that the individuals at the same level would become dissatisfied in learning they had less authority than their fellow managers.

The other side of the argument is that by delegating authority in such a manner renders the organization inflexible. There may be at times a real need for delegating

the authority to a particular branch or store, caused by the local conditions.

Therefore, some provision can be made in the structure for this type of contingency.

### Results of Decentralization

Management strives to develop an organization that will enable it to perform its task most efficiently. It would be senseless for it to retain a structure which stood in its path and created dis-harmony. Therefore, it must constantly evaluate the results. ✓ General Motors, following this procedure, has stated that decentralization has caused these things to happen.<sup>32</sup>

- (1) Spread of the decision making power has enabled decisions to be made more quickly.
- (2) Credit has been given where credit is due, for no unit can cover up its inefficiency.
- (3) There is an informality of management in that no one throws his weight around.
- (4) There is an absence of a gap in the executive group between the privileged few and the great many.
- (5) The creation of a large management group has insured a good supply of leaders for the higher levels. They have been tested in commands at lower levels and have proven themselves to have the ability for the higher jobs.
- (6) There is an absence of "edict management", in which nobody quite knows why he does what. All members of management at all levels feel they are part of a team and that their opinions and actions have a direct bearing upon policy.

<sup>32</sup>. Drucker, Peter F., The Concept of The Corporation, Op. Cit., p. 47-49

Of course these results are peculiar to General Motors alone and in no way can they be accepted as evidence that all corporations which practice decentralization to the same extent will benefit in the same way. However, it does appear to bear out the assumptions put forward by authors on management. There are other results which also can be derived which did not appear in the General Motor's case.

- (1) There is a tendency for men to develop faster. "The traditional 'apprenticeship' approach for developing managers ran out of gas during the 1930s."<sup>33</sup> The sooner the subordinate is given authority, the quicker he will develop his judgment and initiative. A man who is forced to wait for a prescribed period of time in a certain job with limited authority quickly grows stale. The longer he is made to wait the less chance there is of his advancing.
- (2) Decentralization enables the company to adjust more quickly to the local situation.
- (3) It provides top management more time to plan for future developments.

#### Determining the Extent of Decentralization

As previously mentioned many companies considered themselves entirely decentralized although, when the allocation of authority is analyzed, they are found to be decentralized only to a partial degree. The next area is then to discover to what degree the company actually is decentralized so that top management may know whether their philosophy is a current practice or just a good intention.

There are several ways by which this may be checked. One is by actually investigating where the decisions are made in each function. The lower they are made in the hierarchy, the more decentralized is the company. After this, the decisions

33. Dooker, M. J., The Development of Executive Talent, American Management Association, New York, 1952. p. 290



themselves, which are made at the lower levels, should be considered. Certainly most companies have decisions made at these points, but unless they are important in that they directly affect the operation, it cannot be said that the company is entirely decentralized. The greater the importance of these decisions, the greater is the degree of decentralization. However, if these are restricted to only a few activities and there remains a high centralization in others, the company as a whole cannot truthfully claim itself as being extensively decentralized. In order for this to be claimed, every function has to follow the same pattern to a great extent. Perhaps the company has retained centralized control over the merchandising department but decentralized the rest of the units. In this case, it should qualify its statements of being decentralized.

The final criterion is the amount of control which is exercised by the headquarters, or branch, over the operating units. ✕ There is less decentralization when the supervisor is informed of an action before it is performed, for then the actual authority, even though it may be of the informal nature, rests with him, for he can suggest different methods or even exercise a veto. ✕ There is more decentralization if the supervisor is informed after the action has taken place for then he can only offer suggestions in regards to future performances.

#### Other Considerations

The discussion of decentralization is not complete unless the following factors are considered. Unless some degree of decentralization is used, the best laid plans of top management may go to waste. The success of any plan depends not only on how it is physically carried out, but also in what spirit it is executed. Management may decree that all customers' packages be carried out, but unless

the boys who actually do the work exhibit a willingness and friendliness toward the customer, the packages may just as well have stayed in the store. It has been the experience of many companies that plans made in the central office are sabotaged or met with a lack of understanding and sympathy by the time they weave their way down through the organization. By having the lower echelon actively take part in management by being granted authority, there are indications that more enthusiasm will be generated and the spirit will play a more important role than the letter.

Complete decentralization implies that the general office, division, area, or branch has no control whatsoever over the activities of the component parts. In a great percent of the companies, this would lead to confusion. The independent units would have a tendency to become kingdoms within themselves and operate with no regard as to how their actions might affect the rest of the company. In a chain organization some decentralization appears to be necessary, if not a great deal, but complete decentralization would tend to reduce the advantages enjoyed by begin a chain - reputation, buying power, bargaining power, etc. It seems that to make extensive decentralization workable, there must also be a degree of control and coordination.

## CHAPTER V

### RECENTRALIZATION - CONTROL AND COORDINATION

"Recentralization of authority - to centralize authority once decentralized. This process is normally not merely a reversal of that of decentralization, for the authority delegations are not wholly withdrawn by the various line managers who made them."<sup>34</sup> Recentralization then is but a retraction of delegated authority in order to provide the control and coordination which is deemed advisable by the corporate governing body. In the last chapter it was seen that complete decentralization can lead to serious complications within an organization. In order for a business to achieve its goals, there must be some overall direction which will insure that the efforts of the managers and workers are channelled toward the objective. Without this the efforts may become conflicting and result in dis-harmony. The amount of control and coordination necessary will again vary by company and by functions within a company. Like the other organizational methods, it too must be flexible so that it can be altered to meet the needs of the current situation.

Coordination involves the unification of information, decisions, and actions, both upwards, downwards, and crosswise.<sup>35</sup> All levels of management like to

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34. Baker and France, Op. Cit., p. 206

35. Seckler-Hudson, Catheryn, Processes of Organization and Management, Public Affairs Press, Washington, D. C., 1948. p. 52

share in the knowledge of what the others are doing. In a store all department managers perform better if they know what each is going to promote for the period, or for the week. Each branch office finds it necessary to be informed as to what their stores are doing in sales and promotions. All the individual branches gain by having access to the methods the other branches are using for merchandising. The central office, by the same token, can function better if it knows what is being accomplished in the field. It is only when this communication pervades the entire organization that the personnel feel they are full members of the team.

Control is the establishment of methods to insure that the activities of the personnel are directed towards the goal, and kept within the general policy framework of the organization. Policy is not an abstract word as many are led to believe, but a general rule that has been laid down by top management to limit the activities and discretion of the subordinates. In effect it itself is a control in that the lower levels must conform to it. But in this discussion control will generally mean the methods used to enforce the policy.

#### Need for Recentralization

It appears that many companies do have very well conceived recentralization programs. However, the popularity of the word decentralization and the connotation that it means no interference has created some reluctance because the organization feels it will become a dictator if it installs a program of recentralization.

In order for a company to institute recentralization once it has become decentralized it must recognize the need for it. The need for each company will differ because of many factors - namely the local conditions and the quality of personnel.

Another factor commonly stated as a reason for recentralization is the necessity for the maintenance of a certain degree of uniformity. Sears, for example, for this and other reasons, maintain a central buying agency which does all the buying for all the stores. This office sets all the general policies governing buying and selling. "Policies set here determine the whole merchandise structure, the selling prices to a great extent and in large measure the company's potential profits."<sup>36</sup> In the setting of prices this office merely suggests them to the stores, however, they insist upon a certain profit margin. The merchandising attack for the entire year for all stores is planned at this headquarters. It is the belief of the Sears' management that this central buying and selling organization has brought an improvement in quality, variety, and balance to their merchandising. In the case of Sears, a high degree of uniformity seems to be a necessity because a large majority of their merchandise is manufactured for them and sold under their private label. In order to insure that this merchandise meets their specifications, they feel that it must be controlled centrally.

"Management also is encouraged to establish some sort of a coordinating system so that information on successful techniques developed in one unit may be made available to other units."<sup>37</sup> In the food industry, where many new techniques of merchandising are constantly being developed, such as self-service, frozen foods, premiums, etc., this need is accentuated. At the same time a central clearing agency will avoid misunderstanding arising from the use of various

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36. Emmet and Jeuck, Op. Cit., p. 374

37. Baker and France, Op. Cit., p. 71

techniques which may affect the other units. A certain unit may feel it a necessity to use a stamp plan to meet local competition, but if it installed such a plan without conference with the rest of the company, much misunderstanding may arise, particularly if the company had previously been dedicated against their use.

In certain cases, it has been the experience of some companies that sudden changes need top level thinking. It has developed that the people on the spot are accustomed to operating in a set manner and may not recognize the importance of the change. At times changes can appear so subtly that they may not even be recognized by the local personnel until after they have occurred. It is thought by some that a central merchandising staff, because of this possibility, should have a very close working relationship with the operating units, so that they may indicate to the units what changes are taking place.

Recently there has been much discussion about the various government laws which affect the food industry. Much of that which appeared in the various papers and trade journals recently was confusing. In order to gain a uniform interpretation of these laws, it is thought advisable to have their interpretation made by a central department. Although in practice their interpretation is handled by the legal department where one exists, the decision can greatly influence the merchandising function, and therefore is a great concern of this department. By having the interpretation made at top level, it can be controlled and applied uniformly throughout the branches.

As stated in a previous chapter, staff departments are relatively expensive to maintain because of their technical aspects and because they are not directly

producing sales for the company. They are, in fact, "carried" by the operating units. Instead of maintaining a complete and extensive staff for each unit, some companies have created a joint staff at top level. By having this central agency, the need for its twin at the lower levels is erased, thereby effecting a savings. As pointed out before, however, often times the units feel the staff at this level is too far away to be of any good.

The last need most commonly stated is that lower level managers have a desire to clear with a higher authority. It appears this gives them more confidence for they know they have approval of their superiors. The author, however, feels that if decentralization has become to some degree a current practice and not just a good intention, this is not a valid need. The subordinate, by having been entrusted with authority, has sufficient feeling of security so that he does not feel the need for approval from above. The whole psychological feeling reverts back to the attitude of top management. If the benefits of decentralization are to be realized, the subordinate must feel freedom of action within his sphere, and cannot be in constant fear of disapproval from his superior. Many store managers, although they have technically been given large grants of authority, still appear to be afraid of "sticking their necks out". By holding this idea of approval as a need for recentralization, it appears to be an admission that decentralization cannot work.

#### Requirements of Control and Coordination

In order for recentralization to be effective, there are several requirements which must be met. First, it must only reflect the needs and requirements of the activity. Sears, Roebuck and Co. have developed their central buying department

because of the advantages they can have by buying in large quantities and the need for uniformity. If it was found that the stores could gain the same advantages and control at the same cost, it is conceivable that they would receive this additional authority. If controls are instituted solely for the sake of control, then the hope of decentralization is destroyed, for the more extensive the control, the less authority can be delegated. Controls then also should be flexible so that when the need passes, they too may be abolished or decreased depending upon the circumstances. If one branch has violated company policy, it may be necessary to fix a control procedure for a temporary period, if it is felt the violation is serious and jeopardizes the company as a whole. As soon as it is felt the branch or unit is again following policy, the control might be removed or at least relaxed in order for the unit to regain its lost authority.

Unless the reasons for the control and coordination mechanisms are understood by all who are concerned and the mechanisms are shown to fit the needs, there is the chance they will not receive the support of the lower echelons and will be looked upon merely as intervention and not as aids. The subordinates must be shown how these can help them in their task. At the same time they must be designed to assure corrective action. The deviations from the plan must be corrected as soon as they appear, for if allowed to continue, the instigator may assume what he is doing is correct. The longer a deviation is allowed to exist, the harder it becomes to apply the corrective action.

#### Methods of Effecting Recentralization

There are two distinct methods of effecting recentralization, direct and indirect. The direct method generally involves putting in writing exactly over what



areas of authority any one person or level may operate. This would include any broad policy framework made by headquarters. The more control desired, the more detailed the policy and thus more limitations on authority or interpretation of the policy. For example, the central office may decide that all branches should reduce some of their prices in order to meet the loss leaders of their competitors. This in itself is a fairly restrictive policy, but could be made even more so by stating that the branches should lower their entire price level to that of the competition. This actually would tend to fix the branches' prices, and take that authority away from them.

Another direct method of recentralization is the requirement of reports by the central office from the branches. The timing of these reports has a good deal to do with the amount of control. If the reports are sent as a summary of the weekly or period activity, there is little control, for there is little the central office can do once the action is complete. However, if the reports are statements of intentions, then they provide a great deal of control for the superior can recommend changes, or veto the action.

Personal audits can also be used as a direct control. Generally the superior or his representative will visit the field unit, whether it is a branch or store. This person will study what actually is being done by the manager. From his observations and other material collected, such as tonnage, inventory, and like records, he will make an evaluation. This will be made in comparison to a pre-established rating, or in relation to the other people being audited. It is one method to determine how effectively and efficiently an operation is being run.

Usually whenever recentralization is mentioned or even thought about, the idea develops that the only way it can be accomplished is through the use of policy, records, and other written forms. However, the indirect method, which places the emphasis upon the personal relationships, can be equally as effective. In the chapter on authority, formal authority was the only type discussed. It was seen to be that which was specified by the organization, granted by the organization, and limited by the organization. In any enterprise, though, there is the very important element of informal authority which transcends the bounds of authority set by the organization. It develops primarily through the personal contacts and relations of the individuals within the company. It is thought by some that without its existence, no company could operate for it would become tied to its formal structure and become inflexible. On the other hand, if it becomes more common than the formal authority, the company may find itself in the position where everyone does as he desires within his own area with no regard for the whole.

This informal authority can be used as a very effective means of recentralization. An example of it would be a merchandiser calling on a store and talking to the store manager, or department heads, and offering suggestions on how to perform a certain task. According to the formal structure, this cannot be construed as an order, for the store manager is responsible only to his district manager and theoretically takes orders only from him. However, the mere presence in the store of the merchandiser and his suggestions are often more effective than an order from the district manager. The store manager realizes the merchandiser is a specialist, and often will accept his advice even though he is not necessarily

convinced the action is the best. This can be a result of the store manager being influenced by the status of the merchandiser, or fear that if his own plan fails, he will be criticized. If the store manager fails to respond to this informal authority, the merchandiser could talk directly to the district manager in the same manner and if successful, the store manager would receive a direct order from his superior. A plan of this kind can be used within any area of the business. With it goes the corresponding danger that it may be over-used and result in a demoralization of all levels. The store manager could feel he was responsible to two superiors, the district manager could feel his formal authority was being destroyed. Nevertheless, it can be executed as a very powerful means of recentralization.

Just as common as the use of the previous method, is the formulation of committees. To many the use of committees has to be justified, for there is a feeling that their cost exceeds their value. Committees do take time and often it is impossible to fix responsibility for the results. At the same time, it may be a committee in form, but not in fact. One man is apt to be the leader because of his status, knowledge, or some other reason, and the other members become merely "yes" men, or proving grounds for his ideas. It is interesting to note that in one company investigated, this exact thing happened when the merchandisers gathered to select new products and discontinue others. In this company whenever the branch manager offered his opinion, the others, although previously disagreeing, almost at once concurred.

The committee, though, does have many advantages. It provides a chance for an exchange of ideas by men with diverse interests and experiences. It might

be said to provide a balance. A certain committee may be composed of the merchandisers from all three basic departments - grocery, produce, and meats - for the purpose of drawing up a sales plan for a period. Each naturally would present his own ideas as to what should be featured in his own department. The others may be able to suggest other items and evaluate each plan. A committee which operates under these conditions may also provide coordination between the various departments by suggesting tie-in promotions. Also each department will be fully informed as to what the others are featuring. If every man has the opportunity to offer suggestions, there is a greater chance there will be complete acceptance and more enthusiasm in carrying out the program. Often younger men can be included, and by exposing them to this exchange of ideas and experience, their training is augmented.

Committees can be used at every level to impliment both control and coordination. The store manager may call a store meeting, a form of committee, to discuss the sales plan or operating problems. Headquarters may have committees to formulate and decide policy. Federated Department Stores is actually run by the Advisory Committee, whose job is to scrutinize economic prospects, sales, and detailed operating data. Also it sets performance standards and recommends procedures. It is an interesting feature of this committee that the stores are not obliged to follow its recommendations, but if they follow their own course and do not have satisfactory results in the eyes of the committee, they have a lot of explaining to do.<sup>38</sup> Sears, Roebuck and Company, in order to coordinate the functional organization, has created an Officers Board composed of the Territorial Managers

38. Fortune, Op. Cit., 109ff.

and the top executives. Committees on factories, advertising, credit policy, merchandise budgets, operations, and personnel gather information from the units. They condense it, and then make reports to the Officers Board. The Board then uses these as a basis for the formulation of policy.

The final indirect method to be mentioned is a creation of a central office merchandising staff department. Perhaps there can be no better controlling and coordinating agency than one of this type. Its function has been discussed in detail previously, so it will suffice to say at this point that it can be used to dispense information on new products, techniques, and suggestions from the other units. It is in a position to direct by recommendations the activities of the units, so that they are all channelled toward the common goal. The stronger the staff, and the closer it can become to the operating units, the more effective it will be in this role, for the units will have more respect for its decisions and suggestions. They will feel that the staff is part of the team and not just an "ivory tower".

### Problems and Dangers

Recentralization is a tool of decentralization. Its use can be dangerous, for if excessively practiced, it can destroy all the advantages of decentralization. It is a system which is used within a system. As General Robert E. Wood of Sears, Roebuck and Company has stated, "While systems are important our main reliance must always be put on men rather than systems. If we devise too elaborate a system of checks and balances, it will only be a matter of time before self-reliance and initiative of our managers will be destroyed and our organization will be converted into a large bureaucracy."<sup>39</sup> According to legend there is a sign

<sup>39</sup>. Dale, Op. Cit., p. 42



which hangs on the wall of a small midwestern depot which reads "Before emptying trash cans, wire Omaha for approval." Perhaps this is a bit extreme, but nevertheless, recentralization does present many dangers and problems which, if not recognized, can lead to what General Wood calls a large bureaucracy.

First, it is hard to establish uniform control because each branch and each store has different local conditions. One set of controls in one place may be adequate, while in others it may not. For example, if one branch is always able to accurately estimate results of sales and profits, and another is never even close, how can both be controlled by the same methods? If one store consistently shows a high percent profit but low sales, and another the reverse, again how can both be controlled in the same manner? Each one has its own particular problems and so cannot be treated like inanimate objects. A store, a branch, and even a company is composed of human beings, and so deserves to be treated as one. For this reason, flexibility is considered the keynote of recentralization.

Any control program can be met with resistance if the local managers do not realize the need for it. By the same token, top management, because of its fear of becoming a dictator, will often set up control machinery, but will not follow through, or will "water it down" until it loses its effectiveness. The success of any program of this nature depends upon the conviction of its need by all levels.

## CHAPTER VI

### SUMMARY AND CONCLUSIONS

The purpose of this study is intended to dissolve some of the confusion which shrouds the use of decentralization. As a means within itself, decentralization is not the answer to better management. Coexistent with its use is the tool of recentralization. "If authority as well as performance is decentralized, then the problem of control is even greater, for the person delegating must adopt effective means determining whether this authority is used wisely."<sup>40</sup> In order to understand the full implications of this statement, a knowledge of the various organizational "theories" have to be obtained in order to see the interrelations between departments, the types of departments, and the methods by which management can change the formal organizational structure. It is not these alone that determine the success of a business, but rather the allocation of authority within them. The use of authority and how it is delegated can be compared to a human and how he uses his personality. If he uses it wisely, he has a greater chance of getting along with people. A corporation, which delegates its authority to the appropriate level, has a greater chance of success for it will aid its personnel to work together toward a common goal. Like humans, no corporation is exactly like another, and the extent

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40. Newman, W. H., Business Policies and Management, Southwestern Publishing Co., Cincinnati, Ohio, 1953. p. 458



to which it delegates depends on many factors from the quality of the personnel to the possible cost of making decisions at a lower level. Delegating authority is not an easy task for most individuals, because of the inherent desire for power. It is a method which must be developed, and this can only be done if top management sincerely believes this is the road to better management.

Since decentralization depends heavily upon delegation, this same attitude in top management must be prevalent. Also it must be practiced by all in order to penetrate the various levels of management. A man who trains under another who does not delegate and entrust part of his responsibility, is likely to develop the same traits and practice them in his own sphere of influence. There is found in many businesses today the same attitudes toward management in the lower levels as appear in the higher echelons. Decentralization is greatest only when authority is delegated to the lowest possible level, covers the more important decisions, embraces all the functions, and requires less checking or control.

With decentralization there must be considered the two elements of control and coordination. The need for these will vary in degree from company to company. Their success, regardless to what degree they are used, depends upon the understanding of their purpose by those affected. They do not destroy the elements of decentralization, but merely are employed as aids to insure that company policy is being carried out, and that the jobs of the individuals are made easier by a free exchange of information.

The degree to which recentralization has to be used depends a great deal upon the quality of the personnel to whom the authority has been delegated. "As

the resources of the subordinate for making correct decisions are strengthened, decentralization becomes increasingly possible."<sup>41</sup> The more mature the relationship is between the subordinate and superior, the less is the need for control. The quicker the company can develop men to use initiative and judgment in order to gain independence, the quicker the decentralization can become effective.

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41. Simon, Op. Cit., p. 235

## PART II

### Case Study of the Merchandising Function of One Food Chain

## CHAPTER VII

### ORGANIZATIONAL STRUCTURE

The purpose of this case study will be to illustrate how the various concepts of organization pointed out in Part I have been utilized by one chain in organizing its merchandising department. It will indicate how the theoretical concepts have been employed to change the formal structure, and how the tools of decentralization and recentralization have given meaning to the allocation of authority within this company.

#### Physical Organization

However, before these elements can be fully appreciated, some mention must be made of the physical organization. In this respect the company is geographically decentralized. It is operated by a divisional process whereby the stores are grouped into districts. There are approximately eleven stores in each district. The districts, in turn, are consolidated into branches, which vary in size according to the number of districts involved. Each branch has its own warehouse and office. Divisions form the next level, in which the branches are grouped together according to their geographical location. At the top of this hierarchy is the central office.

As stated in the Introduction, only four of the branches have been investigated in this case study. Two of these have over one hundred stores and two have over fifty, but under one hundred.

Part of the physical decentralization of this company can be attributed to two main factors. The first is the large number of total stores operated, and the second, is the high cost of transportation. It was found that as the business grew, one of the best methods to control these transportation costs was to establish separate warehouses in strategic cities. Each warehouse is designed to serve a particular area, and in order to facilitate this service, the branch offices are maintained.

Into this physical organization is fitted the administrative structure, which is the body of this second part.

#### Administrative Organization

It was indicated in Chapter I that any company's organizational structure is in constant need of re-evaluation and change because of both internal and external factors. Two of the methods by which this might be accomplished are by the use of the "levels" and "departmentation" theories of organization. The company in this case study has used both of these in the development of its formal organization. Since this study has been limited to the merchandising function, the application of these theories will be discussed only in that connection. The study will not attempt to show its development throughout the entire company.

#### Application of the Levels Theory

The merchandising function in this company is segregated into three basic levels - the stores, the branches, and the central office. Each one of these primary

levels is in turn divided into several sub-levels. The company has used these sub-levels to alter its organization in order to meet its own particular needs.

The first level is that of the store. Technically, the store manager is responsible for all of the functions within his store, from an operational and merchandising point of view. As a merchandiser, it is his responsibility to order merchandise and to display it in such a way as to maximize sales and gross profit. To assist him are two sub-levels: department heads and clerks. The amount of assistance which the manager receives from his department heads varies from store to store. In some cases the head grocery clerk does all of the grocery merchandising from ordering to developing the sales plan. In others, the store manager uses the head grocery clerk merely as an agent to see that his plans are carried out. As a general rule, the department heads of the perishable departments - produce, meat, and dairy - do all of their own merchandising with only occasional assistance from the store manager. This assistance usually occurs in cases of interdepartment promotions, where the manager acts as coordinator and sometimes instigator, or if the individual department head requests or needs aid.

Within the past three years, management has realized that the store manager needed extra assistance in the larger stores. It was a case where the needs of the business had outgrown the existing structure. To remedy this, the sub-level of assistant manager was created. Not only was this level developed to help the manager, but also it was instituted as a training position for younger men. The job function of the assistant manager is to aid the manager in both merchandising and operations. However, in many stores, the assistant manager concentrates

more on operations than on merchandising. The reason for this is that many store managers have a greater interest or knowledge of operations and influence their assistants in this direction.

The second merchandising level is the branch. The titular head of this level is referred to as the merchandise manager. His job is to coordinate the various merchandising sub-levels. However, in only the two large branches did this position exist. In the other two the responsibility is technically that of the branch manager. However, it is interesting to note that in one of these smaller branches, the grocery merchandiser actually performed this function.

The branch level in turn, is partitioned into sub-levels - department heads and assistants. Again within the branches there are found considerable differences. One example is the organization of the various meat merchandising departments. In the two smaller branches there was only one sub-level to aid the meat merchandiser, that of the buyer. In the largest branch, on the other hand, the amount of business has dictated the creation of additional sub-levels, such as assistant buyer and sales assistant. This same type of comparison could be made for all of the merchandising departments. The important fact is that as the business grows and the volume of sales increase, more sub-levels are created.

The third basic merchandising level is that which appears at headquarters. As in the large branches, the chief of this level is the merchandise manager. This level, in turn, is assisted by several sub-levels, as was the level of the branches. Because of the amount of work which must be done at this point, as will be seen later, more sub-levels have had to be created.

### Application of the Departmentation Theory

This company has also used the Departmentation Theory to change its organizational structure. It has been seen that this theory segregates businesses into several departments, each in charge of its own operation. These departments are divided according to the activities which they perform, and together they are integrated to form the whole.

### Division into Functional Units

The basic store organization contains three departments - grocery, produce and meats. Each of these are responsible for their own successful operation. The personnel in each have the technical knowledge and the information which is essential. In many respects, these departments demand the skills of specialists. Both the meat cutters and produce clerks receive special training in schools sponsored by the branches. Here they learn the company's way of cutting meat, prepackaging, displaying, trimming produce, etc. However, most of their training comes from the department itself. In the larger stores separate departments have been formed such as dairy. Again the services of a specialist are required, and in one branch there is a special school for this department. It was found that the average grocery clerk did not have sufficient knowledge to successfully operate the dairy department.

At the branch level departmentation is also made according to functions. In three of the branches there were three departments corresponding to those in the basic store. They are the grocery, meat, and produce merchandising departments. The fourth branch has added a dairy department and one for company manufactured

products. Under each department is combined all the activities which are necessary for the buying and selling of the commodities. The one exception to this is that in the fourth branch, mentioned above, the two additional departments perform only the selling function. The buying function is done for them by the grocery department. The reason why this is segregated is that it is felt these sections have not yet grown to sufficient size to warrant a complete departmentation. However, the top management of this branch feels that by the addition of these new departments, one man or group can become more familiar with the products and therefore better able to merchandise them.

Unlike several chains, the buyer in this firm is not responsible for the selling. His function is to obtain the right merchandise at the right time, and at the right price. In several cases, as mentioned, he will have assistants as the need dictates. He will generally coordinate with the sales force of the department in setting retail prices. The sales force is largely responsible for the development of the sales plan and the maintenance of a profit balance. These two sections are coordinated by the product merchandiser.

In three of the branches, the advertising function, headed by an advertising manager, is included as part of the grocery department. In the fourth branch it is a self-contained section and is on the same level as the merchandising departments. The advertising manager reports directly to the merchandise manager. Briefly, the advertising manager receives from the various merchandisers the items which are going to be promoted. Using these as a base, he develops the newspaper advertisements for the week. He coordinates with the merchandisers as to the



space allocation and the relative prominence and position in the ad of each item.

The reason why advertising has been placed within the function of grocery merchandising in the three branches is that the grocery department normally dominates the advertisements, since it accounts for the largest portion of the total business.

This same type functional departmentation is again repeated at the central office level. There are again the three basic product sections which have appeared in both the branch and store level. Again, there is a grouping of all the activities of buying and selling. Like the largest branch, they too have added separate dairy and company manufactured products departments. Also at this level, the advertising department, which is combined with the Sales Promotion Department, is on the same level as the merchandising departments.

#### Duties of the Merchandising Staff Units

The merchandising departments, both at the central office and at the branch offices, have been created as functional departments. At the same time they are also staff departments in that they serve as aids to the line or operational units. Consequently they might be called "functional staff merchandising departments."

It was seen in Chapter II that the duties of the staff departments are many. In this company, the headquarters' merchandising staff's duties involve the making of broad merchandising policies, concerning code dating of perishable merchandise, quality of merchandise, general price structure, etc. These policies are generally only frameworks, and it is left to the branch merchandisers to fill in what is necessary in order to make it applicable to their own locale. In most cases

these policies are limited to subjects and areas which affect the company as a whole. At the same time, as will be seen later, even some of these policies are left to the determination of the individual branches.

Another staff function of headquarters is acting as a clearing house for new ideas. Many times one branch will develop a new technique or purchase a new product which is successful. This information is sent to the central office, there considered, and if thought to be of interest to the other branches, it is then distributed. However, it was stated in one branch that the merchandisers do not contact the central office in many instances because they presume the headquarters already has the information, or that the information does not have company wide appeal.

Headquarters, on the other hand, does pass information down to the branches by the use of a daily merchandising letter which contains general merchandise information such as new products, deals, current trends, etc. This information is obtained from two primary sources. The first is the information they receive from outside the company which comes from manufacturers' representatives, conventions, special reports, and observations of other food chains. The other source is their own market research organization which is constantly trying to find what the customer wants.

This central staff agency also gathers and evaluates the operating results from the branches. Generally these are collected at the end of the four week period. After being tabulated, each branch is given a composite report of all the branches, so that each is able to see how their own operation compares to the others in the company.

In almost every case, headquarters tries only to make recommendations and suggestions, and to interfere as little as possible with the branch merchandisers. New ideas are "sold" to the branches. If they do not "buy" them, then theoretically, they don't have to accept them. For an example, one of the central office merchandisers recently held a meeting with all the corresponding merchandisers of the branches. Part of the meeting dealt with prepackaged merchandise. He pointed out that the "new longer-life" packages being promoted by the packers actually reduced the incentive of the stores to obtain turnover, which is the key to profits. Having developed this point, he then indicated that regardless of the packers' claim that quality was not impaired by the long-life, company tests proved differently. At no time was an order given to discontinue these items. The action was left to the individual branches.

Also central office suggested to the suppliers of this merchandise a code dating system which would be intelligible to all. The reason for this was to aid the stores to rotate these items more efficiently. To help the stores understand the new system, headquarters had developed a new code dating chart which was sent to all stores. This was done not only as an aid, but also to establish uniformity among the branches.

This case exemplifies the work which the central office does for the branches. It makes policies when needed, it tries to "sell" the idea, it coordinates between the branches, it develops new ideas, and it conducts research.

This same type of staff relationship exists between the branch merchandisers and the stores, except there is a greater degree of control through the use of the policy making power. The policies which are formed appear to be in greater

detail and allow the store manager less latitude in interpreting them. An example is that each branch studied supports its own television programs. In order to fulfill its advertising contract, it requires certain stores to maintain certain displays. Another example is that two of the branches do not allow vendors to stock their own merchandise within the stores. On the whole, however, the branches act as staff agencies, by performing many of the same services which the central office performs for them.

Thus within this company, the staff departments of merchandising play an important role. The staff units are separated according to activities, and in this respect, they are functional departments. In recent years, they have been expanded in order to meet the current needs. In each branch they appear to provide the same amount of service to the stores in much the same way. Organizationally, the four branches and the central office are much the same. The only differences are those which have arisen through the variations in size.

## CHAPTER VIII

### APPLICATION OF THE PRINCIPLES OF DECENTRALIZATION AND RECENTRALIZATION

The last chapter has pointed out how this company has made use of the formal organizational methods to develop its present structure. Management has combined the use of additional levels and additional departments in order to reflect the needs of the business. As yet little has been indicated as to how responsibility and authority have been employed within this framework. It was suggested in the first part of this paper that the use of authority and its delegation provides the life blood of the formal structure, for they revolve around the relationships between people and groups. This chapter will illustrate both in a general way and through the examination of several merchandising problems to what degree authority has been decentralized and recentralized within the four branches. Because operating results were unattainable, and because of the tremendously different local competitive situations, it is not thought possible in this study to evaluate the comparative success or failure in this field.

#### Application of Federal Decentralization

These branches are part of a federally decentralized organization according to the definition stated in Chapter IV. To a large degree they perform as autonomous units. Each operates in its own distinctive market and competes with

different companies, with the one exception that they all compete with one large national chain. The competition is composed of all types of retail food stores from the independent local chains to the territorial chains. Two of the branches consider only one chain in their areas as their major competition, while the other two recognize two to three companies as their primary competition. In all cases, there are some stores which enter competition with single independent markets which are in the same neighborhood. However, these are not considered to be of major importance to the branches as a whole.

In all cases the branches are affected by the different types of merchandising practiced by their competitors. One of the branches is in an area where there is extreme use of trading stamps and other forms of premiums. Another unit is competing with stores which remain open every night and also on Sunday. In still another, the competition is not either primarily through premiums or service, but through price. Consequently each has its own competitive situation to combat, and to accomplish this, the branch level is granted authority to decide which merchandising methods can be best employed. It will be seen later that the central office supplements the branch merchandising plans by making suggestions and recommendations, but the decision to accept these in most cases is made at the branch level.

Each branch bears its own responsibility for its profit and loss. The total results are sent to headquarters at the end of the period. In this manner, it can be determined in what proportion each adds to the total company profit or loss. At the same time each of the merchandising departments also report their individual

sales and profit to the central merchandising department. As suggested in Chapter II, this does not enable a true picture to be given because of the interrelation of the separate departments.

#### Federal Decentralization Extended to the Stores

The stores within the branches also operate in somewhat of a federally decentralized manner. They, too, have their own individual markets to a degree, but there is some overlapping because of the proximity of one to the other. Because of this interrelation, the stores cannot always act as complete autonomous units. This can be shown by an example of what has happened in one of the branches. In a certain town, the branch had one store which had been doing very well from a sales point of view. A new shopping center was built two miles away and the branch built a large store in the center. The consequence was that the original store suffered a decrease of several thousand dollars in sales, and a proportionate decrease in profits. This has happened because the new store has attracted some of the original store's customers. The manager of the original store, for this reason, cannot be held completely responsible for the loss of business.

The stores also have their own profit and loss records which enable the branch management to determine their relative contribution to the whole. In the same manner as the branches report to the central office merchandising department, so do the various departments within the stores report to the branch merchandising staff the results of their sales. The branch will then determine the amount of profit each has made, after subtracting the amount of shrinkage. Both the produce and meat departments take their own inventory and report this to the branch at the

end of each period. The grocery department is inventoried at varying times (in some cases every four weeks, in other instances every six or eight weeks) by men from the branch office. From these inventories, and the records kept at the office, the sales and profits are figured. After the tabulation, the results are returned to the stores so that each department manager can see how he compares to the rest of the stores within the branch. This also lets the store manager know how effective his department heads have been in planning their sales to obtain a balanced profit.

#### Use of Functional Decentralization

As seen in the previous chapter on decentralization, in most federally decentralized companies there is also included functional decentralization within the various departments. The company in this study provides an excellent example of this combination. It was indicated, by way of example, that the central office merchandising department was divided into several sections, each in charge of a certain commodity group. This same division has been made in each branch. By placing these activities under separate departments and giving them the responsibility and authority for the sales and profits, the company has created a functionally decentralized organization. The general merchandise manager still coordinates their activities, but has delegated to each the authority to plan, decide, and follow through. These departments, on the branch level, are further decentralized by the division of buying and selling.

#### Informal Authority as a Means of Recentralization

The exercise of informal authority is a very important means of control and coordination. This is used in the relationships between all levels in the company.



One example is the informal contact between the branch merchandisers and the store personnel. The grocery merchandiser in one of the branches, tries to visit all of the stores once every three weeks. In other branches these visits do not occur as frequently. In fact, one store manager stated that it had been three months since a merchandiser had been in his store. It was stated that the primary purpose of the visits to the stores was to give the merchandisers a "feel of how things were going".

At the same time, he is able to talk to the store managers and department heads and offer them suggestions as how to merchandise the products. In all of the branches there are also produce and meat trainers, whose primary function is to instruct selected personnel in the technical aspects of the work, such as produce trimming, displaying, meat cutting, wrapping, etc. In this capacity they are able to reflect the merchandisers' thinking as to how certain tasks should be performed. However, because these are classroom instructions, the opportunity to reach all of the store personnel is virtually impossible. In an attempt to remedy this, the trainers also visit the stores, and as agents of the merchandisers, they make suggestions and recommendations. In practice, these suggestions are adopted by the store in most every case, and through this method, the merchandisers are able to maintain control and coordination of merchandising methods.

This use of informal authority exists between the headquarters and the branches in much the same form. As an example, the company recently decided to institute a new form of produce training, whereby the produce department heads are to become more conscious of the merchandising possibilities, instead of concentrating mainly upon the operational needs. To develop this program, a team from the central office produce and training departments visited each branch and

outlined the program. According to the formal authority structure, the branch merchandisers are responsible to the branch manager and not to the central office merchandising department, and therefore, this headquarters group held no formal authority over the branch merchandisers. However, it was understood the program had the approval of the branch and division managers. Because of this, and because the visiting group was able to "sell" the need for the plan, it was adopted by all four branches. It was designed in such a way that the branch manager was to form a committee which was to develop a series of concrete proposals. As a method of control, these were to be reported to both the operating group at central office and the headquarters' produce department after the plan had been in effect long enough to estimate results.

#### Merchandising Problems Indicating Decentralization and Recentralization

In order to see how this decentralization of the merchandising function actually is used in operation, it is necessary to see how certain merchandising problems are handled by the various branches. These are the methods used by only the four branches which were studied, and because they represent only a portion of the total number they cannot be considered as being the only methods which are used throughout the company. It will be seen that in many cases the procedures differ from branch to branch, which is due in a large part to the different competitive situation present in each. Another cause of the variations can be attributed to the philosophy of the branch management toward delegation of authority and the amount of controls they deem necessary.

### A. Buying and Selection of Merchandise

The central office grocery merchandising department selects and buys all canned fruits, juices, vegetables, canned fish, and all merchandise bearing the company label. This buying is done at headquarters' level because of the quantity involved, and because it enables the company to fully participate in discounts and allowances which are offered. By having all private label merchandise bought by one unit, the contracting for the product is facilitated and the quality of the items is more easily controlled. The central office in this situation is strictly a buying organization, and not a warehousing or selling unit. It is the branches which perform these jobs. In order to obtain this centrally bought merchandise, the branches order from the headquarters by means of requisitions which are made out every six months or by the year. This will give the buyers at headquarters an estimate of how much to purchase. The branches, however, may alter their orders, if they find their estimates were incorrect.

Another basic commodity which is bought centrally for all branches is fresh produce items like lettuce, carrots, citrus, other hard and soft fruits, potatoes, etc. The central produce department maintains buyers in the field who follow the growing seasons from one area to the next. Thus, there are buyers in the South who primarily follow the citrus crops in Florida, and then, as the year progresses, move into Georgia and the Carolinas for the green vegetables. There are buyers in the New England states following the apple and potato market. There are buyers on the West Coast who buy virtually all that is produced in that area, from apples to lettuce. These men send reports of crop conditions and prices to the central office daily by teletype, which in turn are sent, by the same means,

immediately to the branches. This information reaches the branches early in the morning and is supplemented throughout the day by additional messages if new situations develop. Using this information, the branches order from the central office. The central produce department is then able to coordinate and combine the various orders into one order which in turn is returned to the field buyers who then do the actual purchasing. One advantage of using this central agency is that shipping costs can be reduced by making up pool cars for the various branches. Thus if one branch has an order for one quarter of a car, and another branch, which is close, has an order for three-quarters of a car, the two orders can be combined into a single shipment. Another advantage is that a greater amount of crop information can be assimilated and dispatched to the branch merchandisers.

If at times the field buyers are unable to purchase the merchandise requested, these products are bought at the large terminal markets in the Mid-West. In order to supplement these orders, the branches themselves buy at the local market within their own areas. The products bought locally are usually those of which there is not enough volume to warrant ordering through the central buying office. Local markets are used extensively also in the summer growing months for locally produced fresh fruits and vegetables.

The headquarters' meat merchandising department buys two items centrally - all rail beef and seafoods. Again, as in the other cases mentioned, the branches order these two commodities from the central office. However, if the branch finds that its central office beef order is insufficient, they are authorized to buy from the local market as a supplementary source. All the other meat products are purchased locally, either from national distributor branch houses, or from local packers or distributors.

Most of the other items, except some special deals, are bought individually by the branches. It is their decision and responsibility to carry what the customers in their area want. In turn, the stores order from the branches what they deem necessary. However, three of the branches require the large stores to handle all of the merchandise offered. In the summer, three of the branches permit the stores to buy local produce direct from the farmers. To aid them, the branch informs the stores of the local prices which are being charged on the market, so the stores will have a guide as to what to pay. In one of the branches, the store manager is authorized to set his own retail price on these commodities, while in the other two the stores must follow the branch price. The fourth branch does not authorize any purchases from outside sources, for their merchandisers believe the stores cannot buy as well individually.

In all other cases than the one mentioned above, all stores must follow the branch set prices. Occasionally the branch will lower a price in a particular store to meet the local competition, but generally all prices throughout the individual branches are uniform. This does not mean that the prices between branches are alike; indeed they are not, for as stated each branch determines its own prices. There are a few exceptions to this general rule. All four of the branches have uniform prices on certain commodities because they are set by the central office. The company's own brand coffee is the most notable. Cookies and candy which are manufactured by the company also fall into this category of centrally controlled prices. Until recently, the company's own bread was also so controlled, but in the last several months the price setting of this was released to the branch level, because of the competitive situation. However, permission to change the price must be obtained from the central office.

The method of selecting grocery merchandise varies from branch to branch. Three of the branches use a merchandise board to act as a selecting committee. The composition of the board itself varies. In one branch the Merchandise Manager, all the merchandisers of all product groups, the General District Manager, the Superintendent of Warehousing, the Personnel Manager, and the grocery buyers or their assistants are included. In another, only the merchandisers and grocery buyers make up the membership. In the branch which does not use the board as a general practice, the decision rests entirely with the grocery merchandising department. This branch feels these men know enough about the products to be able to make the decision alone.

The function of the board is to select new products and discontinue those which have failed to generate sufficient sales volume. It is interesting to note that the primary consideration in the selection of new items is the amount of local promotional activity the product is to be given. After that arise questions concerning cost, retail price, markup, competing brands, expected movement, allowances, etc. The decision to handle the new or discontinue the old does not lie in one man, but it is put to a vote, and the group decides.

Formerly the selection of new items had to be presented to and authorized by the central office before the item could be stocked in the stores. This normally took ten days to be cleared, but could be done in a matter of minutes by using the telephone. Actually it was a perfunctory action. In the last several months this policy has been changed, and the branches only inform after the item has been stocked. In some cases the central office will recommend to the branches items which have proven successful in other branches.

Primarily in this field of buying and selecting merchandise the central office operates in an advisory manner. The actual selection rests with the branches. In all but a few exceptions, the stores must accept what the branch has selected. Their authority extends only as far as the decision of how much to order.

#### B. Product Acceptability in Certain Areas.

Three of the branches did not think that a separate sales plan was necessary for stores which were affected by different product acceptability. It was felt all stores could merchandise successfully under the same plan as long as they supplemented the branch plan with their own displays. These displays were based on past experience, and it was the responsibility of the store manager to devise them. However, it was recognized that certain products do sell better than others in different neighborhoods. All the branches have rural stores, and stores in high and low income areas. One branch, in particular, has stores in "foreign colonies". All of these factors do alter what products sell best, but not to a sufficiently large degree to develop independent sales plans.

The fourth branch did find these conditions to be of such importance that separate plans were made for the stores affected. These plans were formulated at the branch level. Mainly, these stores were a considerable distance from the branch office and were in rural areas. Because of their distance, they fall into a different type of competition - mostly local independents. It was stated that the nature of the competition and different customer preferences were the primary reasons for the development of the separate plans.

It appeared that the greatest variation of acceptability was in meat, not only in the cuts and type, but also in the grade. This is particularly true in the case of

beef. The company as a whole sells 84 percent choice grade, 14 percent good grade, and 2 percent commercial grade. It is decided by headquarters and the branch what grade each store will handle. In order for this market classification to be changed, a form must be made out giving the reasons and facts about the store. These include the meat sales record over a period of a year, percent of meat business to total store volume, percent of beef tonnage to total meat tonnage, earning power of the consumers, whether it is neighborhood or transient trade, and the major competition's meat sales and grade handled. This report must be signed by individuals at all levels and sub-levels, both in merchandising and in operations. All totalled, seven different people must sign it, and then the decision is made at headquarters. This is the only evidence found where headquarters played a definite role in the determination of how to merchandise to meet different customer acceptability. In the other cases they leave this decision to the branches, which in turn delegates the authority to the individual stores.

### C. Attitude Toward Coupons.

For the past few years there has been a large increase in the use of trade coupons. A few chains feel couponing by manufacturers has gotten out of hand and is now being used as a permanent merchandising device to such an extreme that it is creating a hardship on the chains. One chain, which is strongly against coupons, has launched a new procedure whereby their customers receive cash regardless of whether they purchase the products for which the coupons were issued. The chain in this study had not adopted this policy. However, the attitude toward coupons varies from branch to branch. The headquarters' merchandising department believes in couponing even when it is used extensively,



for it creates additional sales, which are in many cases extra sales. The opinion in the branches varies from "we have to go along with it" to "a wonderful shot in the arm". One branch merchandiser believes only soap and coffee manufacturers' couponing does any real good. He feels the rest have jumped on the bandwagon, but have not been successful in that they have low redemption rates, and have not succeeded in expanding sales of their products.

The method of handling coupons in the stores appears to be a branch decision. One branch merchandiser stated that there had been no definite policy on the subject issued from headquarters, so that the branches were handling the problems in their own way. In several cases the stores handled coupons in the manner which proved to them to be most expedient. In one store the cashiers were allowed to use their own discretion on the weekends when the store traffic was heavy. The store manager said the branch had a policy that the coupons should be redeemed only for the specified merchandise, but that there was no follow through on the policy, and on the weekends it was largely disregarded.

The company also issues coupons on its own manufactured products. The decision to use these is made by the individual branches. Two of the branches said the use of them had been successful, and two said they had not provided a sufficient increase in sales to cover the cost of issuing them. The two branches which uses them employ them when opening a new store and when introducing a new company product. In the latter case, headquarters shares the cost. However, the general feeling was that they are too expensive to use repeatedly or on an extensive scale.

#### D. Maintaining Sales and Profits in the Face of Extreme Competition.

How to maintain sales and profits in face of extreme competition has become a real merchandising challenge within the past several years. The central office has not issued any policy on this matter, but constantly is offering suggestions. Since each branch is involved in a different competitive situation, as seen before, each has adopted its own methods.

One branch has raised the price level slightly and has promoted lead items every week. It is felt the lead items will attract the customers and meet the competition, while the slightly higher price structure will offset the loss of profit due to the lowered prices on the lead items.

Another branch concentrates solely upon the stores which appear to be affected most by the competition. In these stores premiums are used to attract the customers. It is felt the premiums will create a sufficient increase in volume to offset the cost of their own use. As yet the branch has not used a premium plan branch wide. The premiums are not in the form of trading stamps, but merchandise such as dishes, hardware, cookware, etc. In most cases, these are either sold to the customer at cost, or given away in relation to the amount the consumer purchases of the regularly stocked merchandise.

Still another branch utilizes these premium deals on a branch wide scale, and to meet the cost of premium merchandise, the general price level is slightly increased. It is estimated that these deals, when they are given away, cost the branch from one and a half to two percent of total sales.

The last branch meets the competition's price on practically all items. In order to do this, they have had to lower the price level which in turn has lowered

the gross profit. For the branch to take this action, they first had to receive authorization from headquarters which was obtained in a joint meeting between the two levels. The branch, however, in order to protect their profits as much as possible, do not display their advertised items en masse, but merely expand the shelf allocation for those items. They do display higher profit items in the key spots, in anticipation that the consumer will be attracted to the stores by the advertised items, but will buy more of the profitable items since they are mass displayed.

There are, of course, other methods which are employed by each, such as interdepartment promotions, demonstrations, unusual type displays, etc., but the features outlined above appear to be distinctive to each branch. This does not mean that the others will not use the same technique. Instead it can be said these methods are the trademarks of the individual branches.

#### E. Establishing Markup.

Every quarter each product merchandising department will make out a budget for the following quarter. Primarily, this will estimate the sales and profit which they anticipate for that twelve weeks. These facts are based upon past experiences of the previous years for the like period, current income trends, crop conditions, meat supply, strength of competition, and many other factors. Once compiled into a branch budget, it is sent to the central office for approval. If there is a case of disagreement, in that the latter level thinks the profit is too high, or not high enough, it is solved in a conference between the two. Once accepted by both, it becomes the guide for each merchandising department in the branch as they make their period and weekly plans.

The meat and produce departments use what is called an "advanced classified", which is basically a form on which estimates are made of how much each item will move at a certain price. The merchandisers will select their specials, estimate the amount that will be sold, and the price at which this volume is most possible. This will enable them to figure the amount of gross profit dollars which the sale of these items will net. By using this as a basis, the price is set on the other merchandise in the department in relation to how much of the item will sell. By keeping a desired gross profit figure in mind, they are able to balance the prices so that this is achieved. This then will determine at what price each item shall be sold, and if the estimates are correct, then the gross dollar profit will also be a reality. This report is sent to the central office, but usually does not reach there until the prices have been placed into effect. Consequently, the central office has no control over the current weekly prices. At the end of every four weeks, a period report is submitted to headquarters. This is not an estimate of the forthcoming period, but a report on what has actually been sold and what profit has been made.

The grocery departments, because of the large number of items they handle, find it impractical to make out a weekly advanced classified. Instead, they rely upon past experience in order to anticipate what their dollar return will be. Generally speaking, there are fewer large price fluctuations on grocery items than there are on the perishables, and so they feel it is easier to maintain a certain profit figure. Outside of this, the other procedures are the same as the other two basic departments. This method was uniform in all of the branches.

#### F. Formulation and Presentation of the Sales Plan.

In the formulation of sales plans, the central office acts again in an advisory capacity. Each period the merchandising department will publish a book with ideas of what items to promote and how to advertise them. It will also include any manufacturer's deals or promotions which have been presented to and accepted by headquarters. The branches are not required to use these suggestions on either the merchandise or the ways to advertise. The selection and method is left up to the branches entirely. It should be added that the produce department at headquarters does not often suggest items because this plan is developed about eight weeks in advance of selling time and it is too far in advance to estimate what produce items will present a value at that time. However, they will suggest merchandising ideas and techniques which the branch might be able to use.

One branch meat merchandiser stated that to his knowledge few of the branches followed the headquarters' plan, since if all did, the increase in demand would drive the price up and thus defeat the purpose of bringing a value to the consumer. In another branch, a grocery merchandiser stated the branch had already made their plans before the plan from the central office even had arrived. He said they had tried to coordinate, but so far have not been able to.

Once the branch has made its own plan, which is designed to gain both traffic and profits, it is presented to the store managers through a period meeting. At this time, three of the branches invite all store managers, while one branch only invites the managers of the larger units because they lack space at the office to accommodate all of them. At these meetings the plan for the entire period is presented.

Afterwards, in some branches, the district managers have meetings with their store managers to lay specific plans. Upon returning to the stores, the managers convey the results of these meetings to their department heads so they can start planning ahead.

The plans introduced at the period meeting are not final, but are merely indications of what the merchandisers intend to promote. There are many influences which can change the plans such as availability and price of the merchandise, crop conditions, weather, etc. Because of this, a weekly sales plan is sent to each store with the final promotion information. This procedure is adhered to by all four of the branches. The only variation is the day of the week the plans are sent to the stores. This depends primarily on how long a period the plan is effective. In two branches the plan affects only the weekend - Thursday through Saturday. In the other two, the plan covers the entire six day selling week - Monday through Saturday. In all cases, the plans arrive in the stores soon enough for the department heads and manager to plan their own courses of action.

Very seldom do the branches demand that the stores follow the plan. However, they do require that the stores have enough merchandise to back up the advertised items and have a sound alternative plan of their own. Generally, though, the stores will follow the branch plans closely, deviating only so far as to create their own supplemental displays. The branches usually do not tell the stores how to display, but often suggest methods which can be used, or where the display could be placed. It is interesting that one branch encourages its store managers

and department heads to suggest to the branch items they think would make good promotions and ways they can be promoted.

#### G. Allocation of Space.

The shelving within the stores is arranged by a pre-determined plan which has been formulated by the branch merchandisers, the branch manager, and the headquarters' store planning department. During the planning stage of a store so many feet of shelving or cabinet space are laid out, and their position within the store is fixed. When the store manager stocks the store prior to opening, he knows exactly what space he has for each commodity grouping such as coffee, canned vegetables, sugar, baby foods, cereal, paper products, etc. Within this broad framework, each item of the group is fitted, usually according to a branch plan. This is determined generally by the sales of a product - the faster a product moves, the more "lines" it receives - and in some cases according to profit. In one branch, the opinion was that sales were the only factor to be considered, while in another, both the sales and the profit on the item were given equal consideration. Once the merchandise has been initially allocated, the store manager may make minor adjustments according to the local situation and his own judgment. One branch has compiled a report of the movement of each item in the grocery line according to sales, percent markup and dollar profit. This has been distributed to all store managers as a guide for them to use in the allocation of space.

#### Conculsion

These merchandising functions indicate to what degree authority has been delegated to the branches and the stores in these four branches. It also indicates

what methods of recentralization have been used by showing the use of various reports, policies, committees, and suggestions. In many respects, there are major differences between the branches as to how these functions are performed, which can be attributed to the local conditions and to the philosophy of the branch management. By having delegated a great deal of authority to the various levels and departments, the company has been able to develop men quicker, for the low echelon managers have an opportunity to exercise their initiative and judgment at a level where mistakes do not necessarily jeopardize the company as a whole. In developing men, they have made it a practice to rotate men from store to store, from branch to branch, and at times from department to department as they progress. It is the intention that this movement will enable the individual to see the different ways the operation is performed, and to gain the experience of working with the various people. It is the stated philosophy of top management that decisions shall be made at the lowest possible level. The success of this, as shown in Part I, depends upon all individuals sincerely believing and practicing this idea.



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