

Coles myer ltd essay



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Coles Myer Ltd Background and Issues In 1985 G.

J Coles, primarily a Melbourne-based supermarket chain, merged with Myer Ltd, an upmarket Melbourne department store, becoming Coles Myer Ltd. The merger was brought on by an expectation of significant cost savings from sharing services and overheads such as purchasing, warehousing, information technology and property. However these benefits never occurred. Coles Myer was burdened with poor management, bad strategic decisions, and internal conflict. Their share price was faltering, and lagging behind their biggest competitor Woolworths, and profit had been stagnant for three years. In September 2001 the board appointed John Fletcher as chief executive, well known for his part in turning Brambles into a successful international company.

Fletcher's first priority was to do something about Coles Myer's share price, however he recognised that to be able to change it he must first deal with the companies strategic and structural problems. This analysis of organisational design and effectiveness will discuss the issues experienced by Coles Myer, discussion of theories related to the these problems and possible solutions, an examination of what is being done, and what else could be done to improve the situation. One of the biggest problems facing Coles Myer was organisational culture. With the Coles and Myer target markets being downmarket and upmarket respectively, compatibility of their cultures became an obstacle after merging. In order to achieve the anticipated merger benefits, Coles with their mass merchandising mentality would have to find a way to amalgamate many of their functions, tasks and processes with Myer's, who dealt with chic, and more expensive luxury

items. In addition to this, Fletcher believed the Coles Myer culture had become too bureaucratic.

A clear demonstration of this bureaucracy was in the headquarters of Myer in Melbourne, which was built as a statement of purpose, place and status. Also, since the merger, the Coles Myer bureaucracy had allowed several uncooperative silos to develop. This problem was worsened by the recent appointment of overseas managers to head the main businesses. As a conglomerate, Coles Myer had the difficulty of having to coordinate a diverse range of businesses including Coles, Red Rooster, Target, and Myer.

This was not helped by various newly appointed managers would change business strategies confusing employees and consumers. The result of this was that each business struggled to find its position in the marketplace and in the Coles Myer business family. Myer also struggled to find its place, it was continually under-performing, and it wasted a substantial amount of management's time. Fletcher also initiated considerable organisational change upon his appointment, including standardisation IT throughout the company.

He also worked towards developing a coherent strategy for each of the Coles Myer businesses, breaking down the bureaucracy, and developing a common culture. Relevant Theories The Machine Bureaucracy Coles Myer demonstrates many of the characteristics of a machine bureaucracy. " It is an organisation with very routine and formalised operating tasks, rules and regulations, which is highly centralised" (Robbins & Barnwell, 2006, pp. 123).

Being such a large organisation it has to rely on these formalised tasks, rules and regulations for coordination and control. The main strength of a machine bureaucracy is its highly efficient ability to perform standardised tasks. Like specialties within the organisation are grouped together to achieve economies of scale and reduce the duplication of personnel and equipment (Robbins & Barnwell, 2006, pp. 24). Many employees have the sole purpose of maintaining standardisation, and a large number of these would have been included in the 1000 back-office staff that was made redundant by Fletcher in his progress towards making Coles Myer less bureaucratic. However, creating specialised units can result in conflicts, the creation of unit goals that take precedence over the organisational goals, and a reduction in communication between the units.

Units that exhibit these characteristics are known as silos. Fletcher attempted to dismantle the silos within Coles Myer but encountered significant difficulties. Another problem for machine bureaucracies is trying to do too much. The resulting complexities arising from an organisation attempting to control a very broad range of businesses can often be too great for the machine bureaucracy structure to handle (Robbins & Barnwell, 2006, pp.

125). This problem was recognised by Fletcher, with one of his first moves to sell off the ' non core businesses' Red Rooster and World 4 Kids. Increased organisational complexity also played a part in failure to achieve the expected economies of scale after the merger. Organisational Change Change in an organisation can either be planned or unplanned. " Planned

change is change that comes about as a result of a specific effort on the part of a change agent" (Wood et al.

2001, pp 635), with unplanned being the opposite. Wood (et al. 2001, pp 635) also states that planned change comes about as a result of someone's perception of a performance gap. The board's recognition of such a performance gap led to Fletchers appointment as chief executive, and change agent. The problems facing Coles Myer were difficult and widespread. Most of the individual businesses struggled with business strategy, and across the whole organisation there was issues with organisational culture and structure.

These kinds of problems require a kind of change known as systematic change. Systematic is a form of planned change that is widespread across an organisation, and affects most aspects of its operation. Robbins and Barnwell (2006, pp. 377) suggest that because systematic changes causes widespread disruption and requires enormous effort that it is only done out of necessity. The systematic change that Fletcher initiated took the form of downsizing to reduce the bureaucracy and reduce costs; clear definitions of the structures, roles and responsibilities, and positioning of each business unit, developing a common culture across the organisation, and the standardisation of IT across the organisation.

Change is a continuous process, but the traditional episodic view of change is unfreeze, change and refreeze (Burton, Lauridsen and Obel, 1999, pp 2). Unfreezing involves management preparing a situation for change. The change is then performed. Refreezing involves positively reinforcing the

desired outcomes, and evaluating the change process and gathering feedback. A continuous but intermittent process.

Change can also be ongoing, where instead of refreezing, more of a rebalancing occurs after the change, ready for the next change. The change needed by Coles Myer upon Fletchers appointment was episodic. They needed a significant systematic change, and then for this change to be secured and given time to succeed, as the continuous changes occurring in the organisation in the previous years had done more harm than good. This also had to be supported by extensive feedback.

Organisational Culture Robbins and Barnwell (2006, pp 405) defines organisation culture as a system of shared meaning within an organisation, and that in every organisation there are patterns of beliefs, symbols, rituals, myths and practices that have evolved over time. Coles Myer has numerous organisational culture problems. Firstly, due to the separate nature of the businesses, vertical subcultures have formed in the Coles Myer family, contributing to the silo problem discussed earlier. This is a problem, as organisational effectiveness depends on how much the organisations culture, strategy, environment and technology are aligned with the organisations goals (Robbins & Barnwell, 2006, pp. 411). It is also the main reason behind the attempts to create a singular culture across the organisation.

But as Fletcher found out, it is a difficult problem, as it is almost guaranteed that subcultures will form within a large organisation such as Coles Myer.

Organisational culture was also a significant issue at the time of the merger. When mergers are aimed at attaining economies of scale, the success of the

merger will depend on how effectively the different cultures themselves can be merged (Robbins & Barnwell, 2006, pp. 419). In order to integrate functions, assets and infrastructure, a successful merger between the mass marketing culture of Coles, and the more elegant and exclusive culture of Myer would have to be performed. We know now that this wasn't to be, and that Coles Myer decided to abandon the Myer department store, and become known as the Coles Group.

Recommendations In addition to the actions already performed by Fletcher, there are a number of things that can or could have been done to improve organisational effectiveness and efficiency. An effective way to assist in the dismantling of silos, and preventing their formation is to promote communication between the silos. This can be done by creating various coordinator positions, whose job is to liaise between different departments, ensure that all the necessary information is being communicated, and regularly report back to senior management on how the departments are performing in relation to the organisational goals. The implementation of common/centralised IT and processes throughout the Coles Group would play a significant role in their future success.

Using common software and procedures will increase communication and coordination, and reduce organisational complexity. A centralised system is well suited to the Coles Group, and it will enhance control and monitoring; important processes in a machine bureaucracy. Leifer (1988) asserts that effective performance of centralised computer business information systems requires rules and policies that match the tasks of the machine bureaucracy organisation, supporting this statement. Moving to a centralised system

would appear to be a significant change, however Rockart and Scott Morton (1984, cited in Leifer 1986 p 66.

) believe implementing a centralised system in a machine bureaucracy requires few changes on part of the organisation". Having disposed of non-core businesses, and the culturally different Myer, the Coles Group are now set to unify their brand and culture. With the aid of the \$1.4 billion provided by the sale of Myer, the Coles Group will be cutting their key brands down to just three - Coles, Target and Office works within the next two years (Simpson, 2006). This strategy will help to resolve the organisational culture and structure problems discussed in this case study analysis, as by reducing the number of key businesses/brands the individual business goals will also be reduced, discouraging the formation of silos, and making it easier to create a unified culture throughout the whole organisation.

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