

Introducing the modern workplace

Assignment one

Structure and culture of Tesco

Prepared by: Aleksandar Nedev (1816234)

For: Molly Jack

12.2019

Founded in 1919 by Jack Cohen as a collection of market stalls, Tesco has grown to become the biggest UK supermarket chain. It has also successfully expanded its operations to other countries in Europe and Asia and has continued to command the highest market share despite the growing competition from Germany discounters Aldi and Lidl. This essay is going to analyse how the structure and culture of Tesco have contributed to its success.

Organisational structure

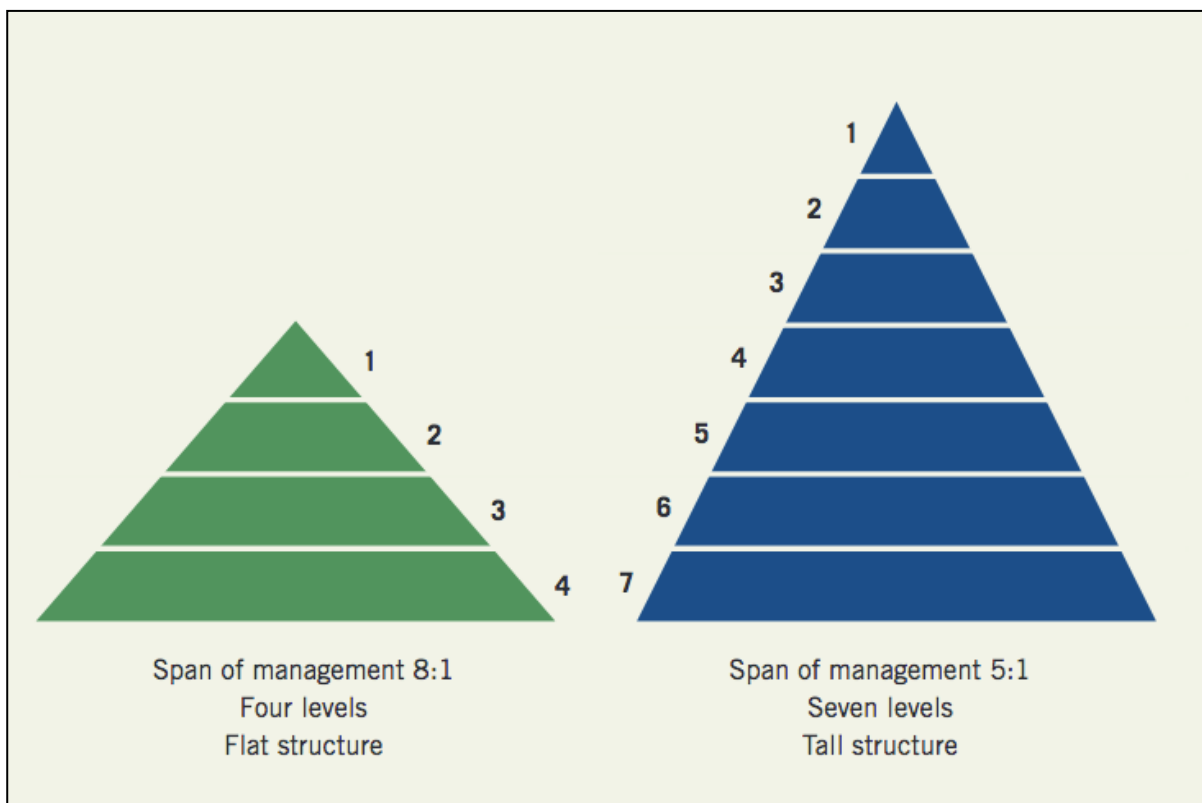
Often illustrated by organisational charts, organisational structure refers to a formal pattern of how jobs and people are grouped in an organisation. In fact, Lorsch (1977) has described organisational culture as the definition of individual jobs and their relationship to each other as indicated in organisational charts and in job descriptions. On the other hand, an organisational chart is the visual representation of an organisation's structure. According to Huczynski and Buchanan (2013), the right organisational structure is essential for the success of an organisation because it has potential to shape the people's attitudes and behaviour as much as the organisational groups they operate in. However, an inappropriate structure can block an organisation's achievements.

There are several types of organisational structures that have been identified by different academicians and they include; divisional, project teams, network, functional, matrix and horizontal structures and each structure consists of four principles including; the hierarchy (tall vs flat); the span of control; the chain of command; departmentalisation; centralisation vs decentralisation (Huczynski and Buchanan 2013; Mullin 2016).

Tesco's organisational structure is a tall structure due to the fact that it is a large company and has multiple layers within the hierarchy. With operations across the UK, Asia and Europe, and an online presence across the world, Tesco is one of the most diversified retailers. With such a big size, Tesco requires a strong supportive management and like

most multinational organisations it follows a tall hierarchical structure. On top of the hierarchy is the executive board headed by the CEO, the mediate level consists of various vice presidents and other managers and assistants under them. On the base level the highest managerial position is for Regional manager who makes major store decisions regarding the stores situated in the region under him. Under him, there are store managers responsible for different store (Annual Report 2018). Thus structure is partly responsible for Tesco's success and growth.

Figure 1: Tall structure vs flat structure



As shown above, a flat structure is characterised by a small number of levels and a broad span of management at each level. On the contrary a tall structure is characterised by many levels and small spans of management (Mullin 2016). In a flat structure, company employees have more power within the company, but in the tall structure, power is centralised on the top levels and there is more employee control giving employees less power. However, it should be noted that a flat structure creates a culture of creativity

and innovation while a tall culture limits it (Huczynski and Buchanan 2013). A flat structure also creates greater job satisfaction, more delegation, and increased communication between levels of management. A tall structure offers greater control and better performance.

Mullin (2016) has also argued that companies should avoid many command levels because they increase hierarchical authority and span of control leading to the risk of empire building and unnecessary expenses. It's thus no surprise that after the 2014 accounting scandal, the company was forced to restructure in order to move forward (Ruddick 2014).

Organisational culture

As a concept, organisational culture has attracted lots of attention from scholars, in fact, many scholars have used different definitions to conceptualise it. Hofstede (2001) has defined it as *collective programming of the mind*, Petersens and Ibsen (2013) have defined it as some kind of glue that bonds the members of the organisation together. In simple terms, organisational culture can be defined as a set of values and norms shared throughout an organisation. Culture is a natural part of an organisation's life and influences overall attitudes, behaviour and employee effectiveness. According to Armstrong (2009), a good organisational culture can make an organisation unique and differentiate it from competitors, giving it a competitive advantage. An appropriate culture also brings about positive influence in the organisational behaviour, helping create a culture of high performance (Armstrong 2009).

Tesco has had tremendous success in the UK retail industry despite the high competition, this has only been possible because of its strong culture which is centred around its customers. As of 2017, Tesco ranked among the world's top customer centric retailers, the reason why it is the most successful retailer in the UK (KamCity 2017). As part of this

culture, the company has developed a range of own label products, improved in store facilities, from meat counters, and bakeries to baby change rooms, it also involves its customers in market research and decision making through columns. The company also offers first-class training program that empowered all staff to look after customers in the best way possible (Smart Company 2012). This coupled with their Clubcard and loyalty program that has put it on top of the list of the most customer centric companies have contributed greatly to its success. This goes to show how a strong organisational culture can enhance the overall effectiveness and performance of an organisation.

Whereas a positive culture can promote productivity, a negative culture can potentially impact the employee behaviour, group effectiveness as well as the overall organisational design. In 2014, Tesco's accounting scandal was blamed on the company's poor leadership and culture. In fact, the company had to restructure soon after the scandal (Butler and Farrel 2014). This brings us to the close knitted relationship between culture, structure and leadership noted by Huczynski and Buchanan (2013). An organisation's structure is a high determinant of its culture yet its leaders who are responsible for creating and changing a culture. That is why Dave Lewis had to restructure and change the company culture in order to reinvent the Tesco brand after the accounting scandal (Butler and Farrel 2014). According to Felsted (2015), the scandal was as a result of poor leadership which created a division between performance and the cultural and financial health.

In order for companies to successfully operate in the global market place, they must put into consideration the cultural issues in their daily business operations. This is because culture has potential to impact an organisation's activities both positively and negatively. Brook (2003) has noted that business culture of a company or organisation can not replace or eliminate the national cultural differences. In fact, it has been found that the

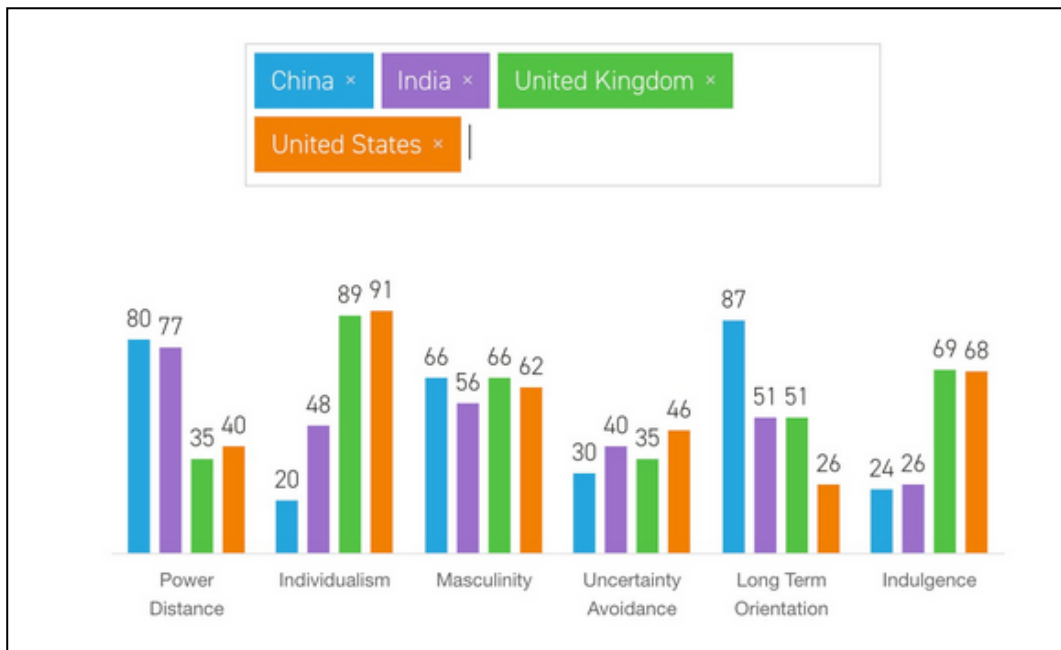
pressure by business organisations to make employees comply to the culture of a foreign business has often been met with resistance as people try and hold onto their national identities. This is because the national culture is so ingrained in that it can't easily be erased or replaced. This is one of the reasons why Tesco failed to succeed in China, USA and Japan. Fatehi (1996), noted that potential of an organisation to manage and reconcile cultural differences can give it a competitive advantage while failure can result in lower productivity.

In his research on national cultures, Hofstede (1984) identified four cultural dimensions;

- power distance (physical difference between superiors and subordinates).
- Uncertainty avoidance (willingness to take the initiative and assume some risk)
- Individualism/ collectiveness.
- Masculine/ femininity (Gender role differences)

These four dimensions provide a framework for considering the effects of cultural differences on management and organisation. However, Makhoul (2017) has noted that the more widespread the operations of a firm, the greater the diversity encountered by managers along these dimensions, and the greater the incidents of cultural clashes and shocks that expatriate managers encounter as they are given a foreign assignment or are rotated from one foreign subsidiary to another.

Figure 2: Cross culture comparison



Source: Hofstede country comparison

As shown above, there are major discrepancies between China's and UK culture as well as USA and UK. For instance, when it comes to power distances, UK has a very low score at 35 while China's score is the highest which signifies very flat power structure which results in open communication, an open door policy to senior managers and little regard paid to one's position in UK. The opposite is true in China.

As a multinational company, Tesco's failure to manage the differences between its culture and national cultures resulted to multiple failures in countries like Japan, USA and China. As noted by Kivrak et al (2008), it is very important to understand, respect and accept cultural differences in order to succeed as a multinational organisation. When Tesco started its operations in China, it failed to study cultural differences which resulted in failure. Whereas the company believed that its Clubcard would lead to success in the country, it resulted to failure. For the very same reasons, Tesco's success in the USA became a total failure. Despite the company carrying out research on the US market, it failed to put into consideration the national culture as well as the culture of shoppers which is totally different from that of UK (Faisal and Landon 2019). However, Fatehi (1996)

has argued that cultural training is vital as it can reduce the cultural shock that people experience when entering a new culture.

According to different analysts, there is a great relationship between organisational structure and culture in that just a simple change in an organisation's structure and processes can also change its culture, by changing its values (Huczynski and Buchanan 2013). Whereas a tall organisational structure encourages caution, obeying authority, respecting tradition, predictability, and stability, a flat one in contrast, gives employees freedom to choose and control their own activities, creating a culture of innovation, creativity and risk-taking (Huczynski and Buchan 2013). Mullin 2016 believes that organisations should always try to maintain fewer levels of command because many levels are likely to lead to increased span of control, hierarchical authority resulting in risk of empire building and the creation of unnecessary work in justification leading to increased costs among other issues. This explains why Tesco has had a series of restructuring in order to increase efficiency.

In conclusion, this essay has discussed the importance organisational culture and structure in the success of Tesco. Culture and structure are vital in an organisation's performance because they shape the behaviour and values of organisation employees. However, it has been discovered that national culture most often determines the values of organisational members in multinational organisations which in turn affects performance. Due to failure to study culture differences, Tesco has experienced failure in its expansion efforts in China, USA and Japan. It should thus be noted that a strong culture can shape a company's success but can also lead to failure in multinational settings.

Reference List

Mullins, L, (2016) Management and Organisational Behaviour 11th Edition, Pearson

Armstrong Michael (2009) "Armstrong's handbook of management and leadership" 2nd Edition; Kogan Page, London and Philadelphia.

Armstrong, M., Taylor, S., (2017) Armstrong's Handbook of Human Resource Management Practice, 14th Edition, Kogan Page

Buttler Sarah and Farrell Sean (2014) "Tesco must change culture and reinvent brand, new boss tells employees" The Guardian [Online] at <https://www.theguardian.com/business/2014/sep/26/tesco-must-change-culture-reinvent-brand>

Faisal and Landon (2019) "Why Tesco failed in the U.S" Global Marketing Professor [Online] at <https://globalmarketingprofessor.com/why-tesco-failed-in-the-u-s/>

Fatehi, Kamal. 1996. International management: A cross- cultural and functional perspective. Upper Saddle River, NJ: Prentice Hall.

Felsted Andria (2015) "Cultural pressure at Tesco to over-reach caused crisis" Financial Times [Online] at <https://www.ft.com/content/75bd6bf2-781e-11e5-a95a-27d368e1ddf7>

Huczynski, A., Buchanan, D (2013) Organisational Behaviour (8th edition) Harlow: Pearson

Hofstede, G. (2001) *Culture's Consequences: International Differences in Work-Related Values* (2nd edn), London: Sage Publications.

Huczynski, A., & Buchanan, D. (2013) "Organizational Behaviour" 8th ed., Pearson Education

KamCity (2017) "Tesco, Aldi, And Lidl Ranked Amongst The World's Most Customer-Centric Retailers" [Online] at <https://www.kamcity.com/namnews/uk-and-ireland/supermarkets/tesco-aldi-and-lidl-ranked-amongst-the-worlds-most-customer-centric-retailers/>

Lorsch, J.W. (1977) 'Organizational design: a situational perspective', *Organizational Dynamics*, 6(2), pp. 2–14.

Mullins, J. Laurie (2016) "*Management and Organizational Behaviour*" 11th ed., Pearson Education

Makhlouf H, Hany (2017) "Managing the Organization Culture in Domestic and Foreign Operations" *World Journal of Social Sciences*; Vol.4; No.1.

Ruddick Graham (2014) "Tesco boss pledges to change culture" *The Telegraph* [Online] at <https://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/11124114/Tesco-boss-pledges-to-change-culture.html>

Schein, H. Edgar (2004) "*Organizational Culture and Leadership*" 3rd ed., Wiley; Jossey-Bass

Serkan Kivrak, S ,Ross, A and Arslan G. (2017) " Effects of cultural differences in construction projects: An investigation among UK construction professional" *International Conference on Multinational Construction Projects*; Shanghai, China.