Chapter 45

An Old Dog Does New Tricks

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The narrative:

This episode took place a number of years ago in a major retail organization that operated stores throughout a seven-state area. As is customary in retailing, the organization operated under a geographical organizational structure wherein each retail store was assigned to a “district” that operated under the direction of a district manager. These districts were further assigned to the various operating “divisions” of the organization, each division being comprised of between three and six districts under the oversight of a division manager.

Historically, store managers were being promoted from the ranks of the store employees, having routinely started their retail careers as entry-level employees and advancing to the rank of assistant manager before their promotion to the coveted position of store manager. Only the top performing store managers in the districts were considered when an opening occurred for promotion to district manager or another position in the district office.

A triggering event was a number of changes in senior management intended to position the organization for enhanced present and future success in the highly competitive markets in
which it operated. This was at a time when the mantra of success in the world of business was to become “lean and mean.” This goal was particularly desirable, given the fairly low profit margins in the industry and the resulting importance of generating the sales volume required to yield the desired financial performance.

Rumors that the business practices of the organization were going to drastically change rapidly spread throughout the organization. While the origin of these rumors was corporate headquarters, they were routinely fleshed out with additional speculation as they traveled from corporate office, through the divisions and districts, to the organization’s web of retail stores. In reality, the district and store managers were not really sure what changes were planned and how they would impact them, other than hearing that “budgetary control” would be central to position the organization to fully attain its present and future potential.

The various levels of management were intrigued with what “budgetary control” might involve, given the organization’s traditional business practices. Under these practices, only division managers had been expected to develop and operate under a budget, in the interest of maximizing the sales and profitability of their divisions through the management of both revenues and expenses. The new approach to management would extend such budgeting not only to the districts, but also to each of the stores within a district. This new approach recognized that the overall success of the organization would derive from the aggregate success of each of its divisions, districts, and stores.

It was recognized that if this new approach to budgeting and accountability was extended only to the district level, the organization would be losing a key opportunity to address building of sales revenues and controlling operating expenses at the operational level of the organization. An example of this would be instilling in a store manager and personnel the importance of maximizing sales, managing operating costs, and reducing “shrinkage.” It was thus recognized that it was at the store level that “the rubber meets the road” in retailing and thus that it was imperative that the store managers assume the expected budgetary responsibility under which they would operate their store as a “profit center,” contributing to the financial performance of their district, division, and the overall organization.