THE OPEN UNIVERSITY OF SRI LANKA
COMMONWEALTH EXECUTIVE MASTER OF BUSINESS/PUBLIC ADMINSITRATION
FINAL EXAMINATION – 2008
MCP 1602 – MANAGEMENT IN ORGANIZATION
DURATION : THREE (03) HOURS

Date : 7.12.2008 | **Time : 9.30 a.m – 12.30 pm**

All answers must be complete and written neatly and to the point. You will lose marks for vague, general and unclear answers.

Answer the first (01) question given at the end of the case study and any three (03) questions from among the balance five questions.

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01. Case study : Pure Ceylon Tea Limited (40 marks)

02. (a) Explain why globalization is important for the performance of contemporary business organization. (10 marks)

(b) How does globalization affect people at work? Illustrate your answer with respect to an example of resistance to change. (10marks)

03. (a) Define perception and attribution and discuss how they influence human behaviour in organizations. (10 marks)

(b) Identify characteristics of the diverse work place and discuss managerial implications of diversity. (10 marks)

04. (a) How do groups differ from teams? Explain under what circumstances teams can be more effective than groups. (10 marks)

(b) Explain the nature of groups and the stages of the group development process. Using relevant examples, illustrate the benefits of using groups for effective decisions making. (10 marks)

05. (a) Define organizational structure and organizational design. Explain why structure and design are important to an organization. (10 marks)

(b) Explain the concept of the learning organization and how it influences organizational performance in a competitive environment. (10 marks)

06. (a) Describe the nature of the communication process in organizations with your own examples. (10 marks)

(b) What factors influence communication in high performing organizations? (10 marks)

Pure Ceylon Tea Limited

Background

Pure Ceylon Tea Limited (PCT) was established in 1960 as a subsidiary of a group of companies engaged in plantation management and supply of goods to the estates. PCT's main line of business during the 1960s and early 70s was manufacturing and selling of tea in bulk. The teas manufactured by PCT included grades such as Broken Orange Pekoe (BOP). Broken Orange Pekoe Fanning (BOPF), and Orange Pekoe (OP). The company owned four tea plantations of which two were in Talawakelle, an area known for high quality up-country tea and another two were in Galle, which is low a country tea producing area. All four plantations had their own factories, which handled the manufacturing and packaging of tea in bulk form to be marketed through the company's sales agents. The company had a continuous supply of high quality tea from the four plantations. The estates in the Galle district also had a supply of 'bought leaf' from the tea smallholders in the area which accounted for nearly 25% of the factory output. In early 1980s PCT's Marketing Director Mr. Ben Fonseka made a convincing proposal to the top management to invest in a tea blending and packaging plant with a view to entering into the value added tea industry. Stemming from this proposal, the company established an Rs.100 million worth tea blending and packaging plant in 1983. Since the setting up of this plant PCT Limited gradually shifted its business from selling of bulk teas through agents, to marketing of value added tea largely in the retail sector. In late 1980s, the company decided to discontinue bulk tea sales in the wholesale market and concentrate on marketing of value added tea in the retail market where there were several competitors.

Although the company entered into the value added tea industry by making a substantial investment, the company did not have a clear marketing plan that guided the business operations. The marketing Director Mr. Fonseka used to take cues from the company's competitors on different aspects of marketing. For instance, where packaging and pricing were concerned, PCT closely followed Dilki Teas, which was one of PCT's leading competitors. By mid 1990s PCT had acquired about 20% of the retail market share for value added tea and Mr. Fonseka was planning to increase the market share by a modest 10% during the next years. The accounts of the company indicated that as at end of 1995 the value of PCT's turnover was in the region of Rs. 400 million. According to the accounts, the company had recorded a net profit of Rs.47 million in 1995 which indicated an increase of 20% compared to the previous year. However, as the estates have been treated as cost centers, the accounts did not reveal whether the tea manufacturing operation was profitable.

The Emerging Problems in PCT

During the period 1995 – 1997 PCT Limited managed to expand its market share by about 12% exceeding the target set by the Marketing Division. Mr. Ben Fonseka the Marketing Director had been following the quality standard of PCT teas carefully as he felt that quality of tea was a critical factor in competing for a higher market share. Mr. Fonseka was a little disturbed about the occasional drop in quality of teas supplied by the plantations owned by the company. He also brought this matter to the notice of the plantation managers when ever the quality tests indicated a drop in quality standards. Mr. Fonseka once suggested that the price of PCT teas in the retail market should be reduced compared to that of the competitors in order to capture a higher market share. However, it was clear to the management that a further reduction in prices compared to the competitors was not a feasible option for increasing the market share mainly due to increasing cost of production.

At a discussion of annual estimates of the four plantations held in December 1997, the Finance Manager of PCT Mr. Lal Batagoda presented a detailed analysis of the cost of production (COP) of the four estates for the past three years and showed how the COP had increased annually. According to Mr. Batagoda's analysis, the COP of the company's estates had increased on average by 20% per year due to reasons like increased labour cost as well as low productivity. The estate managers who were present at the meeting observed that increases in the COP was beyond their control as the plantation industry had to give in to the demand for wage increases put forward by highly unionized workers. The Finance Manager however argued convincingly that the COP of the competitors had not increased in the same pace compared with the COP of PCT owned estates. According to the data presented by the Finance Manager, the cost of production of tea in the two estates in Thalawakelle for the year 1997 had been Rs.102 per kg and Rs. 100 per kg respectively. Mr. Batagoda further observed that compared with the COP of Rs.98 per kg in a comparable tea estate in the same area, the current COP of the PCT owned estates suggested deterioration in standards of estate management. The FM also did a similar analysis of COP with regard to the two estates in Galle and showed that the COP of the company estates was about 30% higher than the COP of the tea small holders who supplied 'bought leaf' to the estates. Although the estate managers cited several reasons that contributed to an increases of COP, they did not disagree with the FM's point that the increasing manufacturing cost had led to an erosion of company's profitability.

According to the points that surfaced during the discussion, the manufacturing operations in PCT owned plantations have been affected due to several problems. The non-availability of adequate labour for plucking as well as factory work, interruptions in the manufacturing process due to breakdown of some of the old machinery and the low level of productivity among tea pluckers appeared to be the key problems that affected the productivity of the estates. At the discussion, the estate managers also observed that although the four estates employed a labour force of 1860 as at end of 1996, the labour shortage in some of the estates was as high as 25%. According to the estate managers, there was a difficulty in attracting the young people living on the estates to do the jobs in which their parents have been engaged for generations. The estates managers pointed out that alternative employment was available in the garment factories that have come up in the nearby towns and this had affected the supply of labour in the plantations. They also stated that availability of pluckers in the estates had been affected due to preference of young females living in the estates to work as housemaids either in the Middle East or in the cities.

The issues that came up at the meeting pointed to the fact that PCT's prospects of growth were dependent to a considerable extent on its ability to control manufacturing costs and improve the productivity of the estates. The Managing Director of PCT Mr. Gamini Madawala thought that it was necessary to set up a task force to look into the problems faced by the estates in more detail. Hence, he appointed a team comprising the Finance Manager Mr. Batagoda and Mr. Nihal Manathunga, an expert on tea manufacturing, to investigate into the current status of management in the four tea estates and identify prospects for improvement.

In the following two weeks the team visited the four plantations on a fact finding mission. During the visits to the two plantations in the Thalwakelle region the team observed several weaknesses in management practices that had affected productivity as well as quality of the tea manufactured. As the leaf plucked had not been weighed on the spot, the pluckers had to carry the plucked leaf packed in gunny bags to the weighing sheds. This seems to have affected the quality of leaf on the one hand and the level of fatigue of the workers on other. Because, the pluckers had to walk about two kilometers from the plucking fields to the weighing shed carrying the plucked leaf. The weighed leaf was transported from the weighing shed to the factory in a tractor. The team also observed that the labourers who attended to loading and un-loading of leaf were sitting on the gunny bags packed with leaf while they were being transported.

Mr. Manatunga, who was an expert in tea manufacture, noted that the process of weighing and transport of leaf affected the quality of leaf fed to the machinery. In one of the estates it was observed that the factory workers were feeding the leaf to the machines manually. As the mechanical system of feeding processed leaf to the tea drier was not working due to a breakdown, the workers were seen feeding the driers manually. Mr. Manatunga also found that due to poor maintenance of factory machinery, there was a smoke leak in one of the driers which had the potential to affect the quality of tea adversely. When inquired from Mr. Attipola, the manager of the estate, as to why the drier had not been repaired, Mr. Attipola's response was, "I do not have a trained mechanic to attend to machinery maintenance, and my Factory Officer attends to maintenance with the help of some labourers. As they could not attend to the smoke leak in the drier, I have contacted an engineer at Colombo Commercial Company to get this job done. However, we do not have a service contract with the company for machinery maintenance as in the past; therefore, it takes a little time to get a job done. You know, after the company was taken over by the government some of the good engineers have left the company and the service standards of the company have also gone down. I know that this smoke leak affects the quality of tea, but I can not stop manufacturing until the drier is repaired".

Having visited the four estates, Mr. Manatunga noted that an immediate action programme was needed for improving the present status of the machinery as well as manufacturing practices if the company was to achieve high standards of quality. He noted that over time the estates have seriously neglected machinery maintenance which had resulted in frequent breakdown of some of the machinery. According to his understanding of the situation, the estate managers have been more concerned with meeting the production targets than meeting the quality standards. He also noted that the estate managers were found to be less aware of the value added tea industry in which the company was engaged and the stringent quality standards applicable to value added tea business.

The other member of the team Mr. Batagoda inquired about the finance management and stock controlling practices adopted by the estates. He found that large stocks of tea were being held in all four estates. In one of the estates, a large stock of semi-processed tea had been held for over 45 days. Mr. Batagoda was surprised to find that at any given time the company had tied up about Rs.50 million in stocks. He found that the tendency to accumulate processed tea stocks in the estates had begun after the company did away with the earlier practice of dealing with bulk tea sales. It appeared that the quantity of tea produced in the four estates had at times exceeded the requirement of the blending and packing department probably due to the fact that Marketing Division, which handled the function of blending and packing, not only used the tea manufactured in company owned estates but also purchased teas of different quality from outside suppliers for the purpose of blending. When inquired about the accumulation of stocks, the estate managers defended themselves by stating that their job was to grow and manufacture tea on behalf of the company and it was the job of the people at the head office to sell the tea.

During his investigation Mr. Batagoda found that the estate managers have adopted the practice of delaying authorization and submission of invoices to the head office for effecting payments to suppliers. Mr. Batagoda noted that the estate managers have adopted the practice of delaying payments to suppliers well over the credit period in order to show a favourable cash flow position, because the head office considered the cash flow in evaluating the performance of individual estates. Although the delay in settling payments had made the suppliers unhappy, Mr Batagoda felt that in order to control costs, the present centralized system of payments should continue. When some of the estate managers expressed the view that the present centralized system of supplies and payments sometimes caused delays in procurement apart from adding un-necessary paperwork, Mr. Batagoda attempted to defend the system. He said that bulk purchase of supplies from reputed suppliers registered with the company not only allowed credit facilities but also ensured competitive prices and discounts. Mr. Batagoda suggested that the system can work well if the estate managers were able to identify their requirements in advance and cooperated with the head office staff by submitting the authorized invoices on time.

Towards Resolving the Issues

At the end of the fact finding mission, both Mr. Manatunga and Mr. Batagoda felt that it would be better if they met the members of the top management individually to find out what they thought about the current situation as well as the future of the company. The meeting they had with Mr. Madawala, the Managing Director of PCT Limited was found to be very useful as the team members were able to brief the MD on the findings of the mission and get a feedback on the thinking of the top management. The MD Mr. Madawala, who happened to be a retired planter, believed that the problems in the estates are created largely by the politically strong trade unions and the estates were vulnerable to trade union pressures due to heavy dependence on labour. Mr. Madawala felt that the only long term solution to problems in the plantation industry was mechanization. The MD agreed with Mr. Manatunga that priority should be given to maintenance of factory machinery and improvement of quality of manufactured tea. However, Mr. Madawala believed that the future of the company depended more on value addition than manufacture of bulk tea.

The team had a meeting with Mr. Joe Brianpillai, Senior Manager – Plantations to brief him about the findings of the mission. Mr. Brianpillai, who was a senior planter with a wealth of experience, emphasized the importance of carrying out a programme of factory modernization in order to improve the quality of tea. According to his opinion, the company's future depended on improvement of quality. Hence, he stressed the importance of new capital investments to replace the old machinery in the estates. When Mr. Batagoda highlighted the evidence of poor management in the estates, Mr. Brianpillai was apparently disturbed. In a defensive mood he said, "Our boys are doing their best to improve the productivity. The problem is the unions which do not allow the management to utilize labour in the best possible manner" Towards end of the discussion Mr. Brianpillai admitted that the standards of management in the plantations have dropped compared with the past and that it was necessary to enforce accountability for results more strongly. He also added that it was necessary to take a fresh look at the current system of performance review and rewarding if one were to get the best out of the people.

The final meeting of the team was with Mr. Ben Fonseka, Marketing Director of the company. Although Mr. Fonseka did not have any professional qualification in marketing, he appeared to be a person well versed in the subject mainly because of his extensive experience in the tea trade. From the very beginning. Mr. Fonseka spoke with a sense of achievement and he said, "We started from scratch in early 1980s and today we have a decent share in the value added tea market. I will not hesitate to push my plans to enter the export market within the next two years. My main problem is the variation in the quality of tea produced in our factories. When quality drops, I have no option but to purchase the right quality teas from out side. I am aware that some of out estates are carrying large stocks of tea, but I can not help it. Because, you know that unlike in the bulk tea trade, in our business of value added tea you can not simply dispose the output, you have to market a product in a competitive environment".

Mr. Fonseka appeared to be little unhappy about the current situation as he thought that the managers and the staff involved in tea production seem to be less sensitive to the quality requirements in the value added tea industry. He even felt that the contribution made by the Marketing Division to sustain the company has not been adequately recognized. In concluding the discussion Mr. Fonseka said, "Tea industry is over hundred years old, so are the management practices in this industry. If one says that these management practices are no longer valid, I will not disagree.

Having concluded the field visits as well as the discussions with the top management of the company the two team members were convinced that PCT Limited needed to take urgent action to arrest the situation that was declining. Being an expert in tea manufacturing, Mr. Manathunga was of the view that any change should start from the basics in machinery maintenance. Although Mr. Batagoda did not disagree with Mr. Manathunga, he still thought that the problem in the company was more complex and it demanded far- reaching changes.

(Source : Sudatta Ranasinghe , In search of Organizational Realities A Journey through Sri Lankan Cases in Management, Postgraduate Institute of Management, 2005)

1) a. Identify the core issues in this case and how it has influenced organizational effectiveness.

(20 marks)

b. What strategy do you recommend if you are asked to reengineer this firm?

(20 marks)