
IMPACT OF DECENTRALIZATION ON
EMPLOYEE MOTIVATION, COMMITMENT
ENGAGEMENT AND, MORALE: A CASE
STUDY OF P&G PAKISTAN AND UNILEVER
PAKISTAN.

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ABSTRACT

Over the last four to five decades the importance of human resource has been accepted all across the globe. For this reason, various scholars and researchers have looked into the methods and ways that motivate employees and engage them in their work. There are some monetary and some non-monetary factors by which employees can be engaged and motivated. Non-monetary factors include delegation of power which is a form of decentralization. Decentralization is still a new concept in Pakistan. In some multinational companies in Pakistan the concept is being implemented to some extent. The reason is the same, the need for faster decision making and improved performance. This study attempts to identify the impact of decentralization on the motivation of the employees, to determine what aspects of motivation can be expected by implementing decentralization.

Organizations such as Unilever Pakistan and P&G Pakistan need to ensure that their employees are satisfied, as the more satisfied the employees are, the better they tend to. This research attempts to gauge the results of decentralization and delegation of authority at P&G Pakistan and Unilever Pakistan. The foremost significance of this study is the fact that there has been little research on the impact of decentralization of organizational structures and processes.

Most corporations have felt the need to decentralize as the world evolved into a global market where competition was fiercer than ever. The structure hence becomes decentralized and more interconnectedness is needed. The impacts on the employees of these corporations however may be vast and overwhelming. The change in the reporting relationships and the change in authorities and responsibilities affect different people in different ways.

This research is based on the positivist paradigm where the emphasis is on facts and theory building. It follows the explanatory research where the relationship between decentralization and employee morale and engagement has been studied and is quantitative in nature. Primary data has been used to measure the changes in employee motivation and employee performance as an impact of decentralization and delegation of authority at P&G Pakistan and Unilever Pakistan. The sampling frame for this research is the two companies on whom the research is based, i.e. P&G

Pakistan and Unilever Pakistan. The sampling size is 70 respondents, 35 respondents from each company and the sampling technique used is simple random sampling of the probability sampling technique.

The results of the study show that there is a much diversified meaning of both decentralization and motivation among the employees of P&G and Unilever. Employees of P&G believe that the morale at the workplace will be high if a sense of responsibility exists which can be attributed to factors of trust (of the managers on their subordinates). They also believe that employees will be more committed if they are allowed to be innovative and creative with their tasks. Employees at Unilever on the other hand believe that autonomy in the decision making of tasks and participation in decision making are major factors of motivation.

DEDICATION

I would like to dedicate this thesis to all the special people in my life whose continuous help and encouragement have made the completion of this thesis possible.

I would like to dedicate this thesis to my parents who have never lost their hope once for me, and have always believed in me no matter what. Their constant support and love for me throughout the years has helped me become the person I am today.

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1 INTRODUCTION

This chapter presents and explains the topic of this research with an introduction to the industry and the companies that have been chosen by the researcher as the sample for the research. The problem statement has been discussed in light of literature regarding decentralization and its effects on employee motivation and morale. The chapter further relays the importance of this research and the contribution of this research to the existing literature regarding decentralization in the context of the FMCG sector in Pakistan. The research objectives along with an illustration of the theoretical framework; the research questions and the hypothesis of the study are also stated in this chapter. The chapter ends with a description of the ethical concerns catered to and the limitations of the research.

1.1 BACKGROUND TO THE STUDY

Over the last four to five decades the importance of human capital has been accepted all across the globe. For this reason, various scholars and researchers have looked into the methods and ways that motivate employees and engage them in their work. Employee morale has been discussed by various researchers. There are some monetary and some non-monetary factors by which employees can be engaged and motivated. Non-monetary factors include delegation of power. However, the next question that arises is why is employee motivation and engagement so necessary in today's world? The answer is the changing world and world markets. Only quality workforce can bring you long term and sustainable competitive advantage that is the need of today. Any technological or materialistic advantage can be copied and reused. However, your staff and the functioning of your staff cannot be copied by your competitors.

Decentralization is still a new concept in Pakistan. In some multinational companies in Pakistan the concept is being implemented to some extent. The reason is the same, the need for faster decision making and improved performance. This study attempts to identify the impact of decentralization on the motivation of the employees, to determine what aspects of motivation can be expected by implementing decentralization.

1.2 INTRODUCTION TO THE COMPANIES

The two companies under discussion in this study are Unilever Pakistan and P&G Pakistan. The companies belong to the fast moving consumer goods (FMCG) industry in Pakistan. The organizations have been chosen as they are large in size and the impact of decentralization should be more easily measurable in larger organizations as the affects would be greater in large organizations and the changes in performance more visible.

1.2.1 UNILEVER PAKISTAN

Unilever Pakistan is one of the most renowned brand names in the FMCG sector of Pakistan. The company had a turnover of Rs. 23.3 billion (Euro 309 million) in 2007, and enjoys a leading position in most of its core Home and Personal Care and Foods categories, e.g. Personal Wash, Personal Care, Laundry, Beverages and Ice Cream. Its brands include Energile, Knorr, Blue Band, Lux, Walls, Closeup and Rafhan. It has a workforce of 1,500 employees working all over Pakistan. With such a large workforce and vast operations, it is imperative that the company maintain a valuable workforce that is dedicated and committed to work towards the company's vision.

1.2.2 P&G PAKISTAN

Procter & Gamble Ltd. is currently operating in 180 countries. P&G has been operating in Pakistan since 1991. It deals in Beauty products, Grooming products, Health Care products, Snacks & Pet Care products, Fabric Care & Home Care products, Baby Care & Family Home Care products. Its brands include Pantene, Wella, Ariel, Always, Head & Shoulders, Safeguard and Pampers.

1.3 PROBLEM STATEMENT

Corporations the world over have been subject to globalization and hence a vast amount of competition from all over the world. This translates into competitors having lower costs, higher quality, and lower production time, as their competitive advantage. In such highly evolving times, with the competition more fierce than ever, the need exists for organizations to get things done faster. For this to happen, the organization needs to have faster decision making and which is dependent highly on the interconnectedness and the collaboration between departments. Centralized

decision making, while having its advantage, falls short when it comes to faster decision making and hence becomes a hurdle. The solution to this has been presented in the form of decentralization where the decision making authority is spread lower into the organization to help solve the problem of delays in decision making. The impacts of such changes in the structure of the organizations can bring changes in the employees of the organization and their performance due to the change in the reporting relationships and the change in authorities and responsibilities. These changes affect different people in different ways. Some employees may perform better under a decentralized structure while others may not fare so well.

Organizations such as Unilever Pakistan and P&G Pakistan need to ensure that their employees are satisfied, as the more satisfied the employees are, the better they tend to perform (Kitchener et al., 2008). This research attempts to gauge the results of decentralization and delegation of authority at P&G Pakistan and Unilever Pakistan.

1.4 AIM OF THE RESEARCH

The aim of a research is typically derived from the existing gap in the literature which is identified to be filled by conducting a new research. The aim is identified to define the questions that the research will answer. The aim provides a direction to finding a solution to the problem stated or to identify the existing scenario.

The aim of this study is the latter; to identify the existing scenario. The research aims to study the impact of decentralization in the FMCG sector in Pakistan. The impact of decentralization and delegation of authority on the employee motivation, engagement, morale and satisfaction of the employees as well as on their performance at the job has been targeted specifically, at P&G Pakistan and Unilever Pakistan.

1.5 SIGNIFICANCE OF THE STUDY

The foremost significance of this study is the fact that there has been little research on the impact of decentralization of organizational structures and processes. This study focuses on two organizations from the FMCG sector to conduct a research on how decentralization and delegation of authority affects the motivation, engagement, morale and satisfaction of employees, i.e. whether these elements

increase or decreased due to introduction of delegation of authority and how it affects the overall performance of employees at the organization.

The study takes on a human resource management aspect of decentralization, and studies whether the concept of increased autonomy at the workplace proves to be beneficial for the two organizations chosen from the Pakistani FMCG sector. It looks into the aspects from the point of view of the employees of the organizations so as to provide the organizations with an insight into how the system has been affected or would be affected if the employees were provided with more autonomy.

This study is a quantitative one and is hence somewhat generalizable as it does not take into account the situational factors or the experiences of the employees, but provides an overall picture of the affects that decentralization has on the motivation, engagement, morale and satisfaction of employees which have been known to have an impact on the performance of the employees.

1.6 OBJECTIVES OF THE RESEARCH

Most corporations have felt the need to decentralize as the world evolved into a global market where competition was fiercer than ever. The structure hence becomes decentralized and more interconnectedness is needed. The impacts on the employees of these corporations however may be vast and overwhelming. The change in the reporting relationships and the change in authorities and responsibilities affect different people in different ways. Organizations such as P&G Pakistan and Unilever Pakistan need to ensure that their employees are satisfied, as the more satisfied the employees are, the better they tend to perform (Kitchener et al., 2008).

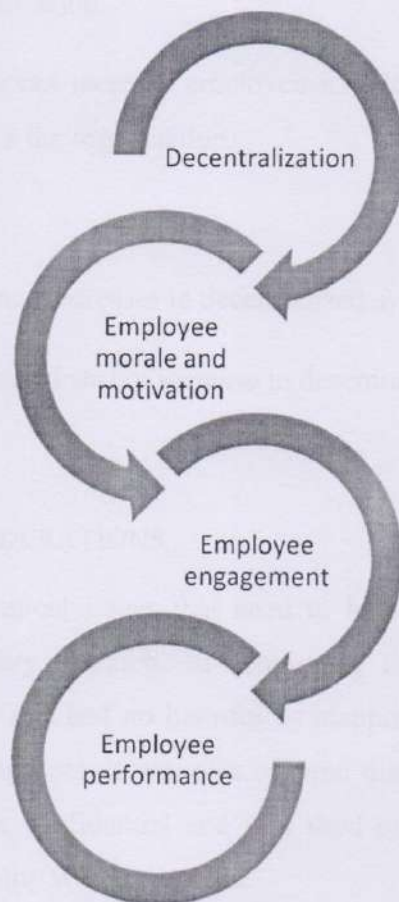
The research objectives for this study are as follows:

1. To determine the meaning of the term "decentralization" to the FMCG industry in Pakistan;
2. To determine the meaning of the term "motivation" to the FMCG industry in Pakistan;
3. To analyse the impact of decentralization and delegation of authority on employee motivation levels, engagement and morale; and

4. To determine the affect decentralization and delegation of authority have on the performance of employees.

1.7 THEORETICAL FRAMEWORK

The theoretical framework is an illustration of the variables of the study. These variables are used in collaboration with the aims of the research to define the questions the research will answer. The variables of this research and their dependencies regarding this study are illustrated below:



1.8 RESEARCH QUESTIONS

The research questions for this study are as follows:

1. What does the term “decentralization” mean to the FMCG industry in Pakistan?

2. What does the term “motivation” mean to the FMCG industry in Pakistan?
3. Does decentralization increase employee morale and motivation and hence employee engagement with the organization?
4. Does employee performance increase in decentralized systems?

1.9 HYPOTHESES

Hypothesis 1:

H_0 : Decentralization increases employee morale and motivation and hence employee engagement with the organization.

H_1 : Decentralization does not increase employee morale and motivation and hence employee engagement with the organization.

Hypothesis 2:

H_0 : Employee’s performance increases in decentralized systems.

H_1 : Employee’s performance does not increase in decentralized systems.

1.10 ETHICAL CONSIDERATIONS

There are several ethical issues that need to be addressed while conducting research, especially primary research. In conducting this research the researcher ensured that the questionnaire had no harmful or inappropriate questions that could potentially harm the respondents. It was also ensured that all personal data gathered from the survey was kept confidential and was used only for the purpose of this research; complete anonymity was maintained.

Consent of the respondents was gained before the administration of the questionnaire and none of the respondents were coerced or forced to be a part of the survey. The respondents were allowed to fill in the questionnaire without any input from the researcher to avoid biased answers, and to ensure that the respondents did not feel the need to give politically correct answers they were allowed privacy while filling in the questionnaire.

2.11 LIMITATIONS

Every research is subject to some limitations due to which the results cannot be a hundred percent accurate. One limitation that this research has is the sample size. Due to time and monetary constraints the sample size in terms of number of respondents is low. A larger sample size would have provided more accurate analysis of the link between decentralization and employee motivation.

Another limitation is that the number of organizations in the study is not adequate enough to show the impact of decentralization on employee motivation in Pakistan. Even though the organizations chosen are among the leading FMCG companies in Pakistan, they have quite a few competitors in the market such as Reckitt Benckiser. With more organizations being surveyed the research could have shown a much clearer and accurate picture of the industry.

2 LITERATURE REVIEW

This chapter presents a review of literature discussing decentralization and motivation and the various factors attached to the two concepts. Studies by various authors from all around the world have been reviewed to provide a background for the study at hand. The literature also explains the relationship between decentralization and motivation with performance of employees at different types of organizations. This chapter also presents the work of authors that was used to identify variables for the study.

2.1 DECENTRALIZATION

Nowadays retention of employees is a big issue. Employee turnover is a hot debated topic in human resource management. Every company tries to keep hold of their best employees. Narang & Sharma (2012) explain that long term competitive advantage can be gained by human resource activities. The idea is to turn competitive advantage in financial performance (Becker & Huselid, 2006). Financial performance is the basic task for any business, unless it is a charity based organization. In another research, Pablos & Lytras (2008) explain that the role of human capital is imperative and vital for the success of an organization. Hasenan (2010) explains that many organizations today consider human capital as their core competency. This explains the importance and vitality of human resource in the operations and success of any organization. Hence, it is imperative that the human capital of an organization remains committed, engaged, and in high morale. The success or failure of the organization is highly dependent on this factor. Decentralization is a fairly new concept; it has been known to improve employee motivation, morale and engagement.

Bloom, Sadun, & Van Reenen (2010a) illustrate that there is a general consensus that companies in the past twenty years have chosen decentralization over centralization. Companies are now allowing employees to take decisions. The research also states that sometimes competition reduces the chances of decentralization. Demmke (2006) highlights that in the last few decades many companies have started to go towards decentralization to achieve greater results. The research states that many companies that were rigid in following centralized systems had to change their management style. They had to change their company's

organizational structure. Various companies changed from vertical chain of command to a horizontal chain of command.

Peckham, Exworthy, Powell & Greener (2008) state that, decentralization is done to delegate power. This delegation of power is done to remove hurdles in work. It is about being swift movers and being able to share responsibility. The main aim is to achieve better results. This can only be achieved when the employees are committed, engaged and are in good spirits. Farmer (2011) state that often managers keep even small decisions power with themselves. The researchers states that especially in organization which are dealing with public this causes problems. The work force faces issues and complications when they are trying to solve problem of the staff as they don't have the decision making capability. It is impossible for them to help the public and this creates friction and problems. Ultimately this leads to employee being dis-interested and his or her morale takes a nose dive. This is highly undesirable and unwanted to for any firm. It is important to avoid such circumstances.

A committed and engaged work force is less likely to apply at other jobs, hence it reduces turnover (Robbins & Judge, 2007). So how does a company build a committed and engaged human resource? There are different methods. One of the modern methods to engage employees is to give them power to make their own decisions. In simple words it means delegation of power and authority. Faguet (2012), states that, decentralization is the most important reform from the previous generation. Acemoglu, Aghion, Lelarge, Reenen, and Zilibotti (2006) explain that in decentralization the decision making power is given to a specialized agent. The specialized agent is the manager. Weshah (2012) conducted a research regarding delegation of powers among teachers. Teachers from two countries, Jordan and Australia, were taken as respondents. The research found that teachers who are highly qualified are allowed to make their own decisions. Hence, the system is decentralized for them. Whereas the school keeps decision making power with the top leadership when dealing with teachers who are not highly qualified. This could be damaging for the schools, as a single school is using a dual system which could have an impact on employee morale and confidence. However, on the other hand it can act as a motivator for the rest of the teachers to go for higher education or other qualifications

which not only adds to their experience but also develops them for better performance of their job.

Lisa & Aitken (2005) study the impact of decentralization on organizations. The research states that when implementing decentralization initially the employees would be somewhat apprehensive. The research found that sometimes employees feel overwhelmed when responsibility and decision making is given to them. They prefer following orders. However, this situation varies from time to time as well as from employee to employee. The research further states that decentralization can only be successful if implemented with due diligence and care. Irregular distribution of power could cause anxiety and feeling of bias among the employees. This is something that is highly undesirable for any company. The level of motivation and morale of employee would go down significantly if such a thing happens. It is imperative to avoid such a situation. Morale and motivation of employee are highly important factor in the performance of the company. The research states during decentralization process, it is important to identify key roles and practices. However, it is not an easy job. Role definition is a complex task. This is where the role of human resource department comes in.

Gagne & Deci (2005) state even if the delegation of power is little, it should be credible. There shouldn't be pseudo decentralization. If the employees believe that the delegation of power is genuine and their ideas will not be thrown out, only then will they work hard on developing the best ideas. Such delegation of power can help improve morale and increase motivation levels among the employees. Foss & Foss (2005) state that if the delegation of power is not seen as being credible, it would not create the desired results. Usually the employees would feel disheartened and consider their senior management to be inconsiderate. In such a scenario, employees wouldn't contribute as much as they would when they feel that delegation of power is being implemented in the true sense. As they lose interest, their problem solving skills would be reduced and value of the employee for the organization is diminished.

Zoghi & Mohr (2011) explain delegation of power in a cultural context. They state that participatory work practices are often used as practices for decentralization. Quality circles and joint consultative committees (also known as JCCs) can help in decentralization in decision making. These steps can increase worker autonomy.

Hence, these steps can be helpful in delegating power to employees. The research points out that Sweden, France, Ireland, Germany, and Netherlands are the countries where decision making is more decentralized in general. The management systems in these countries are such that allow devolution of authority. On the other hand, countries like Spain, Italy and Portugal don't follow the model of decentralization in general. In these countries the management tries to keep authority and decision making power in their own hands.

Bloom, Sadun and Van Reenen (2010b) explain that organizations that have highly skilled staff are generally more decentralized. Hence, this means that organizations which have skilled staff should generally follow decentralized structure. Skilled staff is more likely to be demanding of power and decision making capacity. In a research, Ishida (2012) states that decentralization forms innovation. This could be interpreted as the employees are motivated and their morale is good, hence they are able to think creatively. This means that decentralization is used to make the employees think creatively and feel better at the job.

2.2 MOTIVATION

Petrova (2011) examines the relationship between employee motivation and autonomy. The research states that autonomy in taking decisions inspires employees to perform better at work. It also states that when an employer is selecting a person to delegate power to, employees who are more motivated have a better chance of being chosen for the role. People are engaged to their work desire to have decision making choice. The research concludes that autonomy is one of the conditions due to which employees improve their performance. From the findings of this research it can be concluded that if the organization takes away decision making liberty from motivated employee, they would lose interest. If autonomy is given to employees who are performing well, this could elevate their performance on job (Petrova, 2011).

Phirinyane (2009) explains the advantages and disadvantages related to human resource and decentralization. The research states that a motivated employee shows zeal and determination to get the work done. It states that if employees are not given the power to decide they may feel let down and discouraged. If their own decisions are not considered good enough, they would need other incentive to be highly

appealing. In some cases, getting that autonomy is in the hand of the employee himself/herself. The research states that if an employee is motivated to do better, then the management offers the person a chance to make important decisions. In simpler words, motivation to get the job done can bring you some decision making power.

Boone & Hendricks (2009) states decentralization practices create smaller employee groups to work together for a task or project. A small group is much more able to understand the social and mental needs of each other whereas, if a person compares this model to the centralized or bureaucratic model, things would be very different. It could be stated that organizational culture is developed in a better manner through decentralization. It helps in building employee motivation and boosting their morale. The research further states that due to empowerment work force is much more satisfied. They have a say in the decisions made in the company. A satisfied employee is a motivated and productive employee. Hence, from the finding of this research it could be stated that, decentralization has positive effects on the overall operations of the company.

Ismail, Mohamed, Sulaiman, Mohammad, Yusuf (2011) explain that the empowerment of staff is initiated or in progress when power and authority is delegated from top to bottom levels of the firm; decision making is also shared when the staff is empowered. Abu-Jarad, Yusof&Nikbin (2010) state, that the organizations that are decentralized, and have empowered their work force have better communication channels. Top, middle and lower level management interact regularly. Communication processes is clear and easy. In such circumstances, chances of negativity and issues are reduced. Due to proper and regular communication, people tend to solve their problem between themselves. This causes employee motivation and boost in their morale.

2.3 EMPLOYEE COMMITMENT AND ENGAGEMENT

Bakker &Demerouti (2008) discuss that a committed employee performs better than an employee who is not committed to the firm. There are four reasons due to which committed employees perform better. The 1st reason is that committed employees are source of positivism. They enjoy their work, have interest in what they do, find happiness at work. 2nd reason is that they employ and mobilize resources

better. Efficient and effective use of resources is an important part of any employee's job description. The 3rd reason is the use of personal resources such as social support, autonomy and the last reason is their engagement to the company. These four reasons play a key role in keeping an employee to the job and company. Employee commitment has been a subject of great discussion and debate among scholars. How to keep employees satisfied is still a million dollar question.

Kim (2006) explains that employee's involvement programs are designed to allow employees to be a part of the decision making process. These programs are based on the idea of decentralization. By allowing employees to be a part of decision making process, organizations try to motivate them. These programs are designed to increase the commitment of the employees towards the organization. Another idea based on decentralization is of joint decision making. Employees participate and involve themselves in the key decisions of the company. Another program that is being implemented is the employee stock ownership. This idea is similar to ones mentioned earlier. If the employees are a part of decision making, they would take the organization's success as their own success. This is a key and vital factor. Often problems occur when there is a conflict of interest between organizational benefits and employee's benefits. By setting mutual goals an organization can get rid of this problem. The research discusses examples in which overall performance of various firms has gone higher when power was delegated.

Sharma & Chaudhary (2012) state that one of the major contributing points, in the success of online giant eBay is that, its management structure is decentralized. Its employees feel empowered to make decisions. The power and authority at eBay is divided among the work force and different categories are given to employees and they have the authority to manage each category. Some general categories are toys, cars, collections, etc. By decentralization, eBay has been able to achieve tremendous success. The employees at eBay feel engaged, motivated and their morale is always high. The research also presents the example of Kraft foods which has successfully used programs to empower the employees and to make them feel engaged, and part of the whole group. The success of these companies has allowed them to become a benchmark.