

Master1 CCA

Examen

Session 1

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Matière : Organizational Theory

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Amazon, a company not so relaxed

In 10 years, Amazon's turnover has increased 12 times to reach \$74.4 billion in 2013 (in 2012, its turnover exceeded that of its 12 direct competitors combined!). Amazon was founded in July 1995 by J. Bezos and now employs over 180,000 people worldwide. Its success relies on the Internet revolution and offers a wide range of services and low prices, the margin is achieved on volume. To sell a lot, you have to price your products right and lower than the competition. Thus, J. Bezos has organized his company in search of efficiency.

Since 1995, the company has diversified considerably, initially offering books in paper format, Amazon now markets a wide range of products and services including clothing, food, high-tech products, car parts but also online video games or book publishing by anyone via *Amazon Publishing*.

To develop its sales, the firm suggests to its 250 million monthly visitors' new products or products similar to orders placed or acquired by other customers. This operation is possible thanks to secret algorithms allowing to anticipate the desires of the customers. To further reduce its costs, Amazon has also relocated its call centers to countries with low labor costs such as India.

To deliver ordered products to customers' homes, Amazon's logistics rely on an international network of 89 warehouses close to major roads and airports. Algorithms identify the most suitable location to optimize the delivery time to the customer.

Amazon's low prices are also ensured by hard-negotiated agreements with distributors. In a few years, Amazon would like to develop "Prime Air", a system of mini-drones with a capacity of autonomous delivery within a radius of 16 km around the warehouses for packages up to 2.3 kilos!

Maintaining attractive prices is thus present at every link of the company's value chain. The organization of work in the warehouses is particularly illustrative in this respect.

Behind the scenes of the warehouses

They are the invisible part of the company. For its 152 million customers, it's difficult to imagine that beyond their computer screens, employees are busy in the group's immense warehouses preparing orders. This work involves receiving and storing the products marketed on the website in huge storage racks with cells where each product is stored. Then, depending on the order, the products are picked and packed before being shipped by transporters.

Specifically, the organization of work in the warehouses is as follows (Appendix 1):

- The stock employees ("eachers" and "stowers") receive the goods: the "eachers" receive the products that have been delivered and enter them into a software program while the "stowers" take trays on pallets and empty them into the cells of the shelves that are free (taking 2 seconds maximum per item to check that they are not damaged);
- The "pickers" are in charge of removing the products from the cells of the storage shelves. They are equipped with a cart, a basket and a scanning machine connected to a computer which calculates in real time - and imposes a countdown - where to pick the next article according to their geographical position in order to optimize their movements (they can walk up to 22 km per day). Their goal is to do better each day than the day before (i.e. to constantly beat their "personal record");
- The goods are then brought to the "packers" who take care of the packing of the parcels - with the invoice - in order to send them;

- The "*leads*" (their superiors) monitor the speed of each employee through computer tracking, especially the "*pickers*" who must constantly scan the products they take from the shelves.

Employees have to keep up with high work rates. In the period leading up to Christmas, employees can work 7 days a week - including at night. The pace is optimized to ensure that as many products as possible are shipped in the shortest possible time. For example, in a British warehouse in 2008, employees had to pack 140 video game consoles per hour (i.e. one console every 26 seconds). Break time is reduced (two 20-minutes breaks and the obligation to ask permission from the manager to go to the bathroom). The Director of the Montélimar warehouse encourages the multi-skilling of employees to increase the flexibility of the teams and involve them in the search for solutions to problems to increase efficiency (Appendix 2).

To motivate these employees, a system of collective bonuses has been set up (if an employee of the team doesn't reach his quota, the whole team is penalized). Each month, an "employee of the month" is designated for the best performance and wins a voucher worth several dozen euros on the company's website. The firm also offers "stock options" to employees in permanent contract after a few years of seniority, which makes them, according to J. Bezos, "*associates*" before being employees. Moreover, the company organizes moments of conviviality, for example by playing music in the warehouses, during breaks (organization of quizzes or access to free food) or outside working hours (bowling, cinema, etc.). These activities bring employees together, help to integrate newcomers and create strong extra-professional ties between members of the company. New ties that sometimes replace - with the help of shifting hours and night work - the friendships and marital relationships established previously. Employees of the firm with the smiling logo are not contractually allowed to talk about their work to their relatives or to journalists.

A model that works... for some more than others

As a result of this organization, Amazon's products remain on its shelves for an average of 33 days, compared to 70 days for its competitor BestBuy (US). This optimization will continue with the increased use of mechanization of some operations - the company bought Kiva Systems (2012), a manufacturer of robots that can fetch products from storage racks at a rate 3 to 4 times higher than that of employees.

Yet many warehouse workers are joining unions (especially in Germany) demanding better working conditions (Appendix 3). To face competition and maintain low prices, Amazon practices low wages to reduce "logistical" costs. French warehouse employees earn barely more than the SMIC even after several years. German employees, earn less than the agreed minimum. This policy is accompanied by a massive recruitment of temporary workers, a precarious status used to increase the flexibility and absorb the high number of orders at the end of the year (Amazon achieves 70% of its turnover around Christmas). A warehouse can suddenly go from 1500 to more than 4000 employees in the 4th quarter.

Amazon's location in geographic areas hit by mass unemployment allows the existence of a "reserve army" ready to replace employees who are worn out by the arduousness of the work (the average age of the workforce is between 25-35 years old) or who feel that the company doesn't give them a fair wage.

In reaction of these conditions, a strike was undertaken in 2009 at the Orléans warehouse with the following demands: "higher wages, meal tickets, team bonuses and a 10-minute increase in daily break time". The difficulty encountered by the strikers in mobilizing their temporary colleagues put an end to the mobilization without any concession being made by Amazon. Another strike, undertaken in 2011

on the Montélimar site, was more successful even if it only concerned the turning on of the heating (because of the cold, the employees were obliged to work in the warehouse with gloves, jackets and hats).

Amazon is rather hostile to unions. An email was sent to Seattle managers asking them to inform employees about the disadvantages of union membership. According to J. Bezos, there is no need for unions since everyone is an "associate" thanks to their stock options. Except that in practice, the French "associates" of the Guyancourt site who were fired in 2004 were not able to get theirs because of a clever legal arrangement made by the company.

Conclusion

Amazon represents a success that is more and more contested: even if the firm is showing profits; its race to the lowest prices is raising criticisms that go far beyond its own warehouses.

Some independent bookstores in France, the actors of e-commerce or more globally of mass distribution (eg. Walmart, USA) have a negative view of Amazon's permanent diversification (beyond cultural products, Amazon offers almost every possible product, from moisturizing creams to garden furniture and even artisanal objects with "Handmade at Amazon"). Finally, an article published in the New York Times (2015) denouncing the excesses of a management by pressure on the employees forced J. Bezos to publish a letter explaining to his employees that he did not recognize the company described in this article. Will the company's leader, now considered one of the most charismatic and visionary on the planet, be able to continue his rise despite the multiplication of sources of contestation?

Questions (your answers must be justified):

1. Among the organization theories of the classical, human relations and contingency schools, which one do you think is the most appropriate to analyze the organization of work in Amazon's warehouses? Justify?
2. What in the organization of work in the warehouses can explain the discontent of the employees?
3. What would you advise Jeff Bezos to do to improve the motivation of warehouse employees and avoid strikes?
4. Using the case and your knowledge on organizational theory you'll develop the following question: Why is understanding organizational behavior important to be a good manager? *(Your answer will take the form of a detailed dissertation)*

Appendix 1: Work in Amazon's warehouses

(...) In the "reception" unit, the "eachers" workers unpack the pallets from the trucks and list the goods. The "stowers", place the items where they can on the huge shelves, in order to create a bazaar that can only be indexed by a WiFi barcode scanner. To counter the vertiginous geography of the kilometers of shelves, modern technology guides, controls and measures the productivity of employees performing exhausting and repetitive tasks. In the "production" unit, the "pickers", also guided by their

scanners, tirelessly pick items. They walk more than 20 kilometers per shift, this official figure from temporary employment agencies is contested by the trade unionists, who believe it to be an understatement.

As soon as a product is extracted, a countdown is displayed on the scanner, instructing the worker to pick the next one. His choice is determined by computer in order to optimize the distance of the route. When their cart is full, the “pickers” bring it to the “packers”. They are static and pack the products on the line, before pushing the packages on huge computerized conveyors. The “packers” weigh the boxes, stick the addresses and then distribute them to the postal services or international carriers.

Source: extracts from the article "Amazon, the other side of the screen", Le Monde Diplomatique, November 2013.

Appendix 2: Guided tour of the Montélimar warehouse manager

S. Mugniot, the site manager who leads the visit, doesn't hide the arduous nature of the work done - *"it's a logistics job so it's necessarily repetitive"*. The strong amplitude between the number of employees in low and high periods is explained by the increase in orders during the holiday season. At the peak of activity in December 2013, 850 000 items were shipped in 24h from all centers in France. A constraint that forces the company to monitor and constantly push the limits of efficiency.

(...) *"If we can manage the increase in volumes during peak periods, it's because we are interested in the productivity of our teams,"* explains S. Mugniot and he doesn't deny that there are controls in the factory. The workforce on the site is large *"we have profitability objectives but a productivity defect reflects an anomaly in the process or a need for training, which we must identify"*.

(...) Clean, clear, ventilated, the factory operates according to a well-oiled machine. The cafeterias are moderns, the site reception opens onto a training area - *"to integrate the temporary workers as well as possible and to obtain a homogeneous quality of service"* - the pathways reserved for carts or pedestrians are clearly marked out... The parts, tools and processes are precisely identified and designated using numerous anglicisms and color codes.

The employee must be quickly operational and be able to achieve a certain level of multi-tasking. The objective is to rotate employees through the site's 4 jobs, to *"improve the flexibility of the teams"*, and to *"solicit different parts of the body"* allowing to reduce musculoskeletal disorders inherent to shift work. The teams, two in low season, three in high season works for 7 hours.

(...) *"Each workstation is attached to a computer, which you have to know how to use,"* says Mugniot, to challenge the idea that this is unskilled work. The employees in charge of picking move around the warehouse with a cart and a "scanner" which lists the objects to be picked up *"without making mistakes and paying attention to the others"*, says a picker. Algorithms work to "densify" the zones of the warehouse as much as possible (for example, a product in high demand is spread over several locations) to reduce the picker's movements and improve its performance. In the same way, items are not classified by nature (toys are next to books, USB keys) but according to their dimensions and the relevance of their placement in the warehouse.

Amazon's organization of work is done according to a reverse schedule fixed by the date of guaranteed delivery to the customer. This constraint is an essential quality indicator: *"Delivering on December 26 is not possible"*. Everything is done to ensure that the deadline is met: algorithms identify the nearest and/or best site to meet the customer's order, other programs guide the *picker* to prepare the order quickly... It is even possible for the employees in charge of receiving to set aside products when the computer says that they are part of an order to be processed within a short time.

This concern to eliminate unnecessary tasks and to constantly adjust to volumes is assumed by Mr. Mugniot. *"I believe in continuous improvement and I also believe that the teams are in the best position to detect problems and bring them up"*. Small groups of employees work on the problems

identified to find solutions. This is a way of involving employees, but also of adapting the teams to the growth of the business.

Source: extract from the article "Amazon a necessary productivity", Le Monde, April 2014.

Appendix 3: Working conditions criticized

"The smile on the package is not ours," says Mr. Brumma, "stower" since 2003. Having alternated between unemployment and many temporary contracts for 7 years, Amazon refuses to offer him a permanent contract. Like every employee in the world, his contracts forbid him to talk about his job to his family, friends or journalists. The silence imposed on us "is not to protect industrial secrets, to which we do not have access: it is to silence our extremely difficult working conditions."

During the peak period known as "Q4" (4th quarter), night shifts are set up and each warehouse makes extensive use of temporary labor to ship holiday orders. During this period, explains one of the staff members seconded by Ver.di (a German trade union organization) *"the number of workers suddenly increases. Temporary workers from all over Europe arrive and are housed in terrible conditions."*

(...) A former German IT executive who was fired in 2010, had to accept to become a temporary picker. *"In winter, I stayed for 3 months with 5 foreigners in a bungalow normally used by tourists (in summertime) and which was not equipped with heating. Here, the eventual signing of a permanent contract represents the end of a succession of short contracts during which it is hardly wise to join a union, nor to go on strike."* The massive use of temporary immigrant labor before the Christmas holidays counteracts the effect of the strikes launched by Ver.di during this last quarter when Amazon, for once vulnerable, achieves 70% of its annual turnover.

(...) *"The pace is exhausting", reveals Mohamed. "In return, what do they offer? Some "have fun": distribution of chocolates, candies... But I can't get used to the idea of coming to unload trucks dressed as a clown". Depending on the themes chosen by managers, employees are regularly invited to show up dressed as witches or basketball players. "Our productivity is recorded by computer, we are asked to be "top-performers", to constantly beat our productivity records."*

The internal policy requires that individual productivity be constantly increased. Real-time recording of workers' performance allows foremen to locate them at any time in the warehouse, to obtain their performance curves and history. Mr. Reimann (German trade unionist) recently discovered that this measurement, *"which is personal data, is sent every day by computer from the German warehouses to Seattle in the United States where it is stored. This is completely illegal!"*.

If employees are challenged, the in-house terminology also invites them to "report anomalies." *"It could be a cardboard box blocking an entrance," explains Mohamed. "But it can also be a colleague talking. Then you have to report it. It's a good way to move up and become a foreman."* "One day," he recalls, *"to a colleague who asked me about J. Bezos' fortune, I replied that it made me want to vomit. He denounced me and I was summoned to order for having criticized the "Amazon spirit"! The work atmosphere is poisonous. Temporary workers are treated like meat. I know the industrial world very well but my experience at Amazon is the most violent of my engineering career."*

Falls, cut fingers on the conveyor belt, exhaustion syndromes: work-related accidents are numerous at Amazon. The press, however, prefers to praise the stock market performance of the multinational. It praises the creation of precarious jobs that will reduce the number of jobs in local commerce.

Source: extracts from the article "Amazon, the other side of the screen", Le Monde Diplomatique, November 2013.