

Some Do's and Don'ts in Developing Organizational Charts

Students analyzing strategic-management cases are often asked to revise and develop a firm's organizational structure. This section provides some basic guidelines for this endeavor. There are some basic do's and don'ts in regard to devising or constructing organizational charts, especially for midsize to large firms. First of all, reserve the title CEO for the top executive of the firm. Don't use the title "president" for the top person; use it for the division top managers if there are divisions within the firm. Also, do not use the title "president" for functional business executives. They should have the title "chief," or "vice president," or "manager," or "officer," such as "Chief Information Officer," or "VP of Human Resources." Further, do not recommend a dual title (such as "CEO and president") for just one executive. Do not let a single individual be both chairman of the board, although Pfizer's CEO, Ian Read, is also chairman of the board. And Comverse Technology recently named Charles Burdick its president, chief executive officer, and chairman of the board. Actually, "chairperson" is much better than "chairman" for this title.

A significant movement among corporate America is to split the chairperson of the board and the CEO positions in publicly held companies.⁷ The movement includes asking the New York Stock Exchange and Nasdaq to adopt listing rules that would require separate positions. About 50 percent of companies in the S&P 500 stock index have separate positions, up from 22 percent in 2002, but this still leaves plenty of room for improvement. Among European and Asian companies, the split in these two positions is much more common. For example, 79 percent of British companies split the positions, and all German and Dutch companies split the position. South Korea's Samsung Electronics in mid-2013 dissolved its COO position in favor of dual CEO's—but this practice is not common or popular in the USA.

Directly below the CEO, it is best to have a COO (chief operating officer) with any division presidents reporting directly to the COO. On the same level as the COO and also reporting to the CEO, draw in your functional business executives, such as a CFO (chief financial officer), VP of human resources, a CSO (chief strategy officer), a CIO (chief information officer), a CMO (chief marketing officer), a VP of R&D, a VP of legal affairs, an investment relations officer, maintenance officer, and so on. Note in Figure 7-8 that these positions are labeled and placed appropriately. Note that a controller or treasurer would normally report to the CFO.

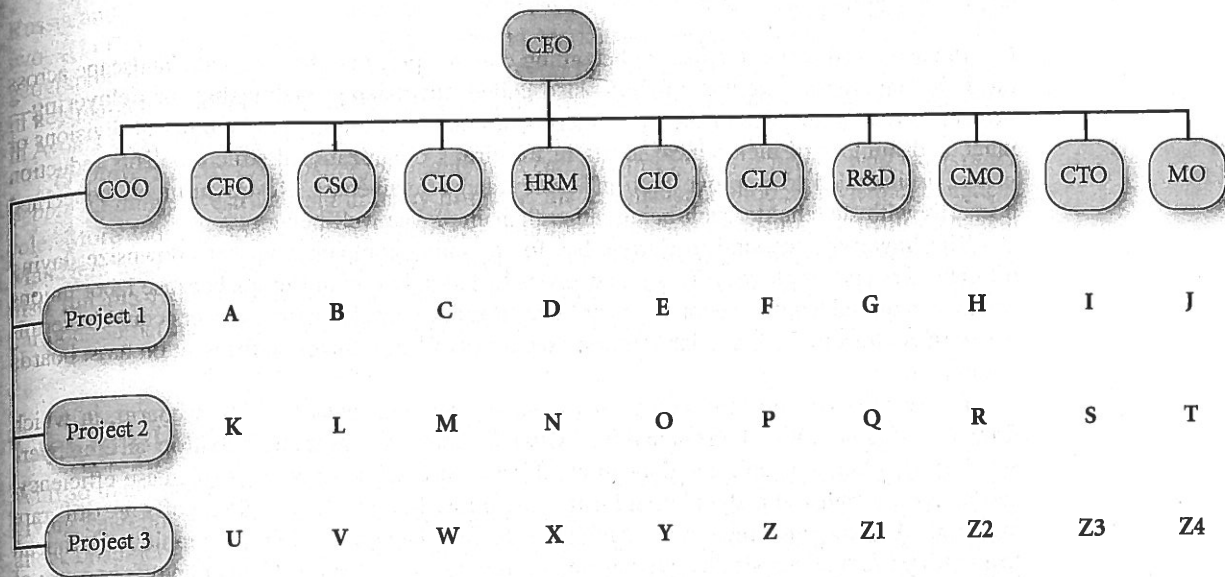
In developing an organizational chart, avoid having a particular person reporting to more than one person in the chain of command. This would violate the unity-of-command principle of management that "every employee should have just one boss." Also, do not have the CFO, CIO, CSO, human resource officer, or other functional positions report to the COO. All these positions report directly to the CEO.

A key consideration in devising an organizational structure concerns the divisions. Note whether the divisions (if any) of a firm presently are established based on geography, customer, product, or process. If the firm's organizational chart is not available, you often can devise a chart based on the titles of executives. An important case analysis activity is for you to decide how the divisions of a firm should be organized for maximum effectiveness. Even if the firm presently has no divisions, determine whether the firm would operate better with divisions. In other words, which type of divisional breakdown do you (or your group or team) feel would be best for the firm in allocating resources, establishing objectives, and devising compensation incentives? This important strategic decision faces many midsize and large firms (and teams of students analyzing a strategic-management case).

As consumption patterns become more and more similar worldwide, the divisional-by-product form of structure is increasingly the most effective. Be mindful that all firms have functional staff below their top executive and often readily provide this information, so be wary of concluding prematurely that a particular firm uses a functional structure. If you see the word *president* in the titles of executives, coupled with financial-reporting segments, such as by product or geographic region, then the firm is divisionally structured.

If the firm is large with numerous divisions, decide whether an SBU type of structure would be more appropriate to reduce the span of control reporting to the COO. One never knows for sure if a proposed or actual structure is indeed most effective for a particular firm. Declining financial performance signals a need for altering the structure.

Some important guidelines to follow in devising organizational charts for companies are provided in Table 7-10.



Note: Titles spelled out as follows.

Chief Executive Officer (CEO)
 Chief Finance Officer (CFO)
 Chief Strategy Officer (CSO)
 Chief Information Officer (CIO)
 Human Resources Manager (HRM)
 Chief Operating Officer (COO)
 Chief Legal Officer (CLO)
 Research & Development Officer (R&D)
 Chief Marketing Officer (CMO)
 Chief Technology Officer (CTO)
 Competitive Intelligence Officer (CIO)
 Maintenance Officer (MO)

FIGURE 7-8
 Typical Top Managers of a Large Firm

TABLE 7-10 Fifteen Guidelines for Developing an Organizational Chart

1. Instead of chairman of the board, make it chairperson of the board.
2. Make sure the board of directors reveals diversity in race, ethnicity, gender, and age.
3. Make sure the chair of the board is not also the CEO or president of the company.
4. Make sure the CEO of the firm does not also carry the title *president*.
5. Reserve the title *president* for the division heads of the firm.
6. Make sure the firm has a COO.
7. Make sure only presidents of divisions report to the COO.
8. Make sure functional executives such as CFO, CIO, CMO, CSO, R&D, CLO, CTO, and HRM report to the CEO, not the COO.
9. Make sure every executive has one boss, so lines in the chart should be drawn accordingly, assuring unity of command.
10. Make sure span of control is reasonable, probably no more than 10 persons reporting to any other person.
11. Make sure diversity in race, ethnicity, gender, and age is well represented among corporate executives.
12. Avoid a functional type structure for all but the smallest firms.
13. Decentralize, using some form of divisional structure, whenever possible.
14. Use an SBU type structure for large, multidivisional firms.
15. Make sure executive titles match product names as best possible in division-by-product and SBU-designated firms.

Restructuring

Restructuring and reengineering are becoming commonplace on the corporate landscape across the USA and Europe. **Restructuring**—also called **downsizing**, **rightsizing**, or **delaying**—involves reducing the size of the firm in terms of number of employees, number of divisions or units, and number of hierarchical levels in the firm's organizational structure. This reduction in size is intended to improve both efficiency and effectiveness. Restructuring is concerned primarily with shareholder well-being rather than employee well-being.

The lingering recession in Europe has forced many companies there to downsize, laying off managers and employees. This practice was historically rare in Europe because labor unions and laws required lengthy negotiations or huge severance checks before workers could be terminated. In contrast to the USA, labor union executives of large European firms sit on most boards of directors.

Job security in European companies is slowly moving toward a U.S. scenario, in which firms lay off almost at will. From banks in Milan to factories in Mannheim, European employers are starting to show people the door in an effort to streamline operations, increase efficiency, and compete against already slim and trim U.S. firms. Massive U.S.-style layoffs are still rare in Europe, but unemployment rates throughout the continent are rising quite rapidly. European firms still prefer to downsize by attrition and retirement rather than by blanket layoffs because of culture, laws, and unions.

In contrast, reengineering is concerned more with employee and customer well-being than shareholder well-being. **Reengineering**—also called *process management*, *process innovation*, or *process redesign*—involves reconfiguring or redesigning work, jobs, and processes for the purpose of improving cost, quality, service, and speed. Reengineering does not usually affect the organizational structure or chart, nor does it imply job loss or employee layoffs. Whereas restructuring is concerned with eliminating or establishing, shrinking or enlarging, and moving organizational departments and divisions, the focus of reengineering is changing the way work is actually carried out. Reengineering is characterized by many tactical (short-term, business-function-specific) decisions, whereas restructuring is characterized by strategic (long-term, affecting all business functions) decisions.

Developed by Motorola in 1986 and made famous by CEO Jack Welch at General Electric and more recently by Robert Nardelli, former CEO of Home Depot, **Six Sigma** is a quality-boosting process improvement technique that entails training several key persons in the firm in the techniques to monitor, measure, and improve processes and eliminate defects. Six Sigma has been widely applied across industries from retailing to financial services. CEO Dave Cote at Honeywell and CEO Jeff Immelt at General Electric spurred acceptance of Six Sigma, which aims to improve work processes and eliminate waste by training “select” employees who are given judo titles such as Master Black Belts, Black Belts, and Green Belts. Target Corp. claims more than \$100 million in savings over the past six years resulting from its Six Sigma program.

Six Sigma was criticized in a *Wall Street Journal* article that cited many example firms whose stock price fell for a number of years after adoption of Six Sigma. The technique's reliance on the special group of trained employees is problematic and its use within retail firms such as Home Depot has not been as successful as in manufacturing firms.⁸

Restructuring

Firms often employ restructuring when various ratios appear out of line with competitors as determined through benchmarking exercises. Recall that **benchmarking** simply involves comparing a firm against the best firms in the industry on a wide variety of performance-related criteria. Some benchmarking ratios commonly used in rationalizing the need for restructuring are headcount-to-sales-volume, or corporate-staff-to-operating-employees, or span-of-control figures.

The primary benefit sought from restructuring is cost reduction. For some highly bureaucratic firms, restructuring can actually rescue the firm from global competition and demise. But the downside of restructuring can be reduced employee commitment, creativity, and innovation that accompanies the uncertainty and trauma associated with pending and actual employee layoffs. Avon Products recently restructured partly as a result of corruption investigations in its

Russia and Brazil operations. The company reduced its six commercial business units down to two—(1) Developed Markets and (2) Developing Markets—in essence going to a divisional by geographic region type structure. Avon has been reporting lower sales and profits amid missteps in key markets. Former CEO Andrea Jung installed five new regional heads and new presidents in Avon's U.S. and Russia markets.

Employers today are looking for people who can do things, not for people who make other people do things. Restructuring in many firms has made a manager's job an invisible, thankless role. More workers today are self-managed, entrepreneurs, interpreneurs, or team-managed. Managers today need to be counselors, motivators, financial advisors, and psychologists. They also run the risk of becoming technologically behind in their areas of expertise. "Dilbert" cartoons sometimes portray managers as enemies or as morons.

Linking Performance and Pay to Strategies

With so many people out of work and executive salaries so large, politicians are more and more giving shareholders greater control over executive pay. The Dodd-Frank Wall Street Reform and Consumer Protection Act grants shareholders advisory votes on compensation. A recent *Bloomberg Businessweek* article says companies should install five policies to improve their compensation practices:

1. Provide full transparency to all stakeholders. Novartis does an excellent job on this.
2. Reward long-term performance with long-term pay, rather than annual incentives. ExxonMobil does an excellent job on this.
3. Base executive compensation on actual company performance, rather than on stock price. Target, for example, bases executive pay on same-store sales growth rather than stock price.
4. Extend the time-horizon for bonuses. Replace short-term with long-term incentives. Goldman Sachs does an excellent job on this.
5. Increase equity between workers and executives. Delete many special perks and benefits for executives. Be more consistent across levels, although employees with greater responsibility must receive greater compensation.¹⁰

As firms acquire other firms in other countries, these pay differences can cause resentment and even turmoil. Larger pay packages of U.S. CEOs are socially less acceptable in many other countries. For example, in Japan, seniority rather than performance is the key factor in determining pay, and harmony among managers is emphasized over individual excellence.

How can an organization's reward system be more closely linked to strategic performance? How can decisions on salary increases, promotions, merit pay, and bonuses be more closely aligned to support the long-term strategic objectives of the organization? There are no widely accepted answers to these questions, but a dual bonus system based on both annual objectives and long-term objectives is becoming common. The percentage of a manager's annual bonus attributable to short-term versus long-term results should vary by hierarchical level in the organization. It is important that bonuses not be based solely on short-term results because such a system ignores long-term company strategies and objectives.

Many companies have recently instituted policies to allow their shareholders to vote on executive compensation policies. Aflac was the first U.S. corporation to voluntarily give shareholders an advisory vote on executive compensation. Aflac did this back in 2007. Apple did this in 2008, as did H&R Block. Several companies that instituted say-on-pay policies more recently were Ingersoll-Rand, Verizon, Motorola, Occidental Petroleum, and Hewlett-Packard. These new policies underscore how the financial crisis and shareholder outrage about top executive pay has affected compensation practice. None of the shareholder votes are binding on the companies, however, at least not so far. The U.S. House of Representatives recently passed a bill to formalize this shareholder tactic, which is gaining steam across the country as a means to combat exorbitant executive pay.

In an effort to cut costs and increase productivity, more and more Japanese companies are switching from seniority-based pay to performance-based approaches. Toyota has switched to a full merit system for 20,000 of its 70,000 white-collar workers. Fujitsu, Sony, Matsushita

Electric Industrial, and Kao also have switched to merit pay systems. This switching is hurting morale at some Japanese companies, which have trained workers for decades to cooperate rather than to compete and to work in groups rather than individually.

Richard Brown, CEO of Electronic Data Systems (EDS), once said,

You have to start with an appraisal system that gives genuine feedback and differentiates performance. Some call it ranking people. That seems a little harsh. But you can't have a manager checking a box that says you're either stupendous, magnificent, very good, good, or average. Concise, constructive feedback is the fuel workers use to get better. A company that doesn't differentiate performance risks losing its best people.¹¹

Profit sharing is another widely used form of incentive compensation. More than 30 percent of U.S. companies have profit-sharing plans, but critics emphasize that too many factors affect profits for this to be a good criterion. Taxes, pricing, or an acquisition would wipe out profits, for example. Also, firms try to minimize profits in a sense to reduce taxes.

For employee (rather than executive) bonuses and incentives, only 16 percent of U.S. companies are now using stock price, down from 29 percent in 2009.¹² Instead, companies are using profit in order to more closely link employees' incentives to spending and budget decisions. PepsiCo, for example, recently began using profit and cash flow instead of stock price to focus managers on profit and cash-flow targets. PepsiCo's CFO, Hugh Johnston, said: "The change allows our employees to make decisions about spending and profit trade-offs themselves, rather than simply being handed a budget to follow; it's something they can wrap their arms around and say, 'Now I understand how I can impact PepsiCo's stock price.'" PepsiCo's new compensation system based on profit enabled the company to lower its capital spending to 4.5 percent of sales in 2012, down from an historical average of about 5.5 percent. For upper-level executives, stock price is still the major variable used for compensation incentives, but for mid-and-lower level managers and employees, stock price is dependent on too many extraneous variables for it to be an effective compensation variable.

The good news for shareholders is that in 2013, over 50 percent of CEO compensation was directly associated with the performance of the firm, rather than salary—up from 35 percent in 2009 (WSJ, 3-21-13, p. B1). Note below that Indra Nooyi of PepsiCo was the third highest paid women CEO in 2012 in the USA:

1. Irene Rosenfeld at Kraft (\$21.9M)
2. Debra Cafaro at Ventas (\$18.5M)
3. Indra Nooyi at PepsiCo (\$17.1M)
4. Meg Whitman at HP (\$16.5M)
5. Ellen Kullman at DuPont (\$15.9M)
6. Angela Braly at WellPoint (\$13.3M)

Still another criterion widely used to link performance and pay to strategies is **gain sharing**. Gain sharing requires employees or departments to establish performance targets; if actual results exceed objectives, all members get bonuses. More than 26 percent of U.S. companies use some form of gain sharing; about 75 percent of gain-sharing plans have been adopted since 1980. Carrier, a subsidiary of United Technologies, has had excellent success with gain sharing in its six plants in Syracuse, New York; Firestone's tire plant in Wilson, North Carolina, has experienced similar success with gain sharing.

Criteria such as sales, profit, production efficiency, quality, and safety could also serve as bases for an effective **bonus system**. If an organization meets certain understood, agreed-on profit objectives, every member of the enterprise should share in the harvest. A bonus system can be an effective tool for motivating individuals to support strategy-implementation efforts. BankAmerica, for example, recently overhauled its incentive system to link pay to sales of the bank's most profitable products and services. Branch managers receive a base salary plus a bonus based both on the number of new customers and on sales of bank products. Every employee in each branch is also eligible for a bonus if the branch exceeds its goals. Thomas Peterson, a top BankAmerica executive, says, "We want to make people responsible for meeting their goals, so we pay incentives on sales, not on controlling costs or on being sure the parking lot is swept."

Five tests are often used to determine whether a performance-pay plan will benefit an organization:

1. **Does the plan capture attention?** Are people talking more about their activities and taking pride in early successes under the plan?
2. **Do employees understand the plan?** Can participants explain how it works and what they need to do to earn the incentive?
3. **Is the plan improving communication?** Do employees know more than they used to about the company's mission, plans, and objectives?
4. **Does the plan pay out when it should?** Are incentives being paid for desired results—and being withheld when objectives are not met?
5. **Is the company or unit performing better?** Are profits up? Has market share grown? Have gains resulted in part from the incentives?¹³

In addition to a dual bonus system, a combination of reward strategy incentives, such as salary raises, stock options, fringe benefits, promotions, praise, recognition, criticism, fear, increased job autonomy, and awards, can be used to encourage managers and employees to push hard for successful strategic implementation. The range of options for getting people, departments, and divisions to actively support strategy-implementation activities in a particular organization is almost limitless. Merck, for example, recently gave each of its 37,000 employees a 10-year option to buy 100 shares of Merck stock at a set price of \$127. Steven Darien, Merck's vice president of human resources, says, "We needed to find ways to get everyone in the workforce on board in terms of our goals and objectives. Company executives will begin meeting with all Merck workers to explore ways in which employees can contribute more."

Managing Resistance to Change

No organization or individual can escape change. But the thought of change raises anxieties because people fear economic loss, inconvenience, uncertainty, and a break in normal social patterns. Almost any change in structure, technology, people, or strategies has the potential to disrupt comfortable interaction patterns. For this reason, people resist change. The strategic-management process itself can impose major changes on individuals and processes. Reorienting an organization to get people to think and act strategically is not an easy task.

Resistance to change can be considered the single greatest threat to successful strategy implementation. Resistance regularly occurs in organizations in the form of sabotaging production machines, absenteeism, filing unfounded grievances, and an unwillingness to cooperate. People often resist strategy implementation because they do not understand what is happening or why changes are taking place. In that case, employees may simply need accurate information. Successful strategy implementation hinges on managers' ability to develop an organizational climate conducive to change. Change must be viewed as an opportunity rather than as a threat by managers and employees.

Resistance to change can emerge at any stage or level of the strategy-implementation process. Although there are various approaches for implementing changes, three commonly used strategies are a force change strategy, an educative change strategy, and a rational or self-interest change strategy. A **force change strategy** involves giving orders and enforcing those orders; this strategy has the advantage of being fast, but it is plagued by low commitment and high resistance. The **educative change strategy** is one that presents information to convince people of the need for change; the disadvantage of an educative change strategy is that implementation becomes slow and difficult. However, this type of strategy evokes greater commitment and less resistance than does the force change strategy. Finally, a **rational change strategy** or **self-interest change strategy** is one that attempts to convince individuals that the change is to their personal advantage. When this appeal is successful, strategy implementation can be relatively easy. However, implementation changes are seldom to everyone's advantage.

The rational change strategy is the most desirable, so this approach is examined a bit further. Managers can improve the likelihood of successfully implementing change by carefully designing change efforts. Jack Duncan described a rational or self-interest change strategy as

consisting of four steps. First, employees are invited to participate in the process of change and in the details of transition; participation allows everyone to give opinions, to feel a part of the change process, and to identify their own self-interests regarding the recommended change. Second, some motivation or incentive to change is required; self-interest can be the most important motivator. Third, communication is needed so that people can understand the purpose for the changes. Giving and receiving feedback is the fourth step: everyone enjoys knowing how things are going and how much progress is being made.¹⁴

Because of diverse external and internal forces, change is a fact of life in organizations. The rate, speed, magnitude, and direction of changes vary over time by industry and organization. Strategists should strive to create a work environment in which change is recognized as necessary and beneficial so that individuals can more easily adapt to change. Adopting a strategic-management approach to decision making can itself require major changes in the philosophy and operations of a firm.

Strategists can take a number of positive actions to minimize managers' and employees' resistance to change. For example, individuals who will be affected by a change should be involved in the decision to make the change and in decisions about how to implement the change. Strategists should anticipate changes and develop and offer training and development workshops so that managers and employees can adapt to those changes. They also need to effectively communicate the need for changes. The strategic-management process can be described as a process of managing change.

Organizational change should be viewed today as a continuous process rather than as a project or event. The most successful organizations today continuously adapt to changes in the competitive environment, which themselves continue to change at an accelerating rate. It is not sufficient today to simply react to change. Managers need to anticipate change and ideally be the creator of change. Viewing change as a continuous process is in stark contrast to an old management doctrine regarding change, which was to unfreeze behavior, change the behavior, and then refreeze the new behavior. The new "continuous organizational change" philosophy should mirror the popular "continuous quality improvement philosophy."

Creating a Strategy-Supportive Culture

Strategists should strive to preserve, emphasize, and build on aspects of an existing culture that support proposed new strategies. Aspects of an existing culture that are antagonistic to a proposed strategy should be identified and changed. Substantial research indicates that new strategies are often market-driven and dictated by competitive forces. For this reason, changing a firm's culture to fit a new strategy is usually more effective than changing a strategy to fit an existing culture. As indicated in Table 7-11, numerous techniques are available to alter

TABLE 7-11 Ways and Means for Altering an Organization's Culture

1. Recruitment
2. Training
3. Transfer
4. Promotion
5. Restructuring
6. Reengineering
7. Role modeling
8. Positive reinforcement
9. Mentoring
10. Revising vision and/or mission
11. Redesigning physical spaces/facades
12. Altering reward system
13. Altering organizational policies, procedures, and practices

an organization's culture, including recruitment, training, transfer, promotion, restructure of an organization's design, role modeling, positive reinforcement, and mentoring.

Schein indicated that the following elements are most useful in linking culture to strategy:

1. Formal statements of organizational philosophy, charters, creeds, materials used for recruitment and selection, and socialization
2. Designing of physical spaces, facades, and buildings
3. Deliberate role modeling, teaching, and coaching by leaders
4. Explicit reward and status system and promotion criteria
5. Stories, legends, myths, and parables about key people and events
6. What leaders pay attention to, measure, and control
7. Leader reactions to critical incidents and organizational crises
8. How the organization is designed and structured
9. Organizational systems and procedures
10. Criteria used for recruitment, selection, promotion, leveling off, retirement, and "excommunication" of people¹⁵

When Volkswagen AG acquired Porsche in late 2012, there was concern that the 75-year-old Volkswagen Chairman and patriarch, Ferdinand Piech's autocratic style would be at odds with Porsche's corporate culture. Porsche had for a long time placed a premium on individual effort among its engineers and designers, often encouraging competition among groups to come up with new design ideas and innovations. Time will tell if Volkswagen and Porsche can meld their cultures into a competitive advantage.

In the personal and religious side of life, the impact of loss and change is easy to see.¹⁶ Memories of loss and change often haunt individuals and organizations for years. Ibsen wrote, "Rob the average man of his life illusion and you rob him of his happiness at the same stroke."¹⁷ When attachments to a culture are severed in an organization's attempt to change direction, employees and managers often experience deep feelings of grief. This phenomenon commonly occurs when external conditions dictate the need for a new strategy. Managers and employees often struggle to find meaning in a situation that changed many years before. Some people find comfort in memories; others find solace in the present. Weak linkages between strategic management and organizational culture can jeopardize performance and success. Deal and Kennedy emphasized that making strategic changes in an organization always threatens a culture:

People form strong attachments to heroes, legends, the rituals of daily life, the hoopla of extravaganza and ceremonies, and all the symbols of the workplace. Change strips relationships and leaves employees confused, insecure, and often angry. Unless something can be done to provide support for transitions from old to new, the force of a culture can neutralize and emasculate strategy changes.¹⁸

Production and Operations Concerns When Implementing Strategies

Apple employs thousands of its own workers in China, but about 700,000 assembly workers at manufacturing contractors like Foxconn put together Apple products. It would be almost impossible to bring those jobs to the USA for at least three reasons. First of all, Foxconn—China's largest private employer and the manufacturer of an estimated 40 percent of the world's consumer electronic devices—pays its assembly workers far less than U.S. labor laws would allow. A typical salary is about \$18 a day. Secondly, unlike U.S. plants, Foxconn and other Chinese manufacturing operations house employees in dormitories and can send hundreds of thousands of workers to the assembly lines at a moment's notice. On the lines, workers are subjected to what most Americans would consider unbearable long hours and tough working conditions. That system gives tech companies the efficiency needed to race products out the door, so speed is a bigger factor than pay. Finally, most of the component suppliers for Apple and other technology giants are also

TABLE 7-12 Production Management and Strategy Implementation

Type of Organization	Strategy Being Implemented	Production System Adjustments
Hospital	Adding a cancer center (Product Development)	Purchase specialized equipment and add specialized people.
Bank	Adding 10 new branches (Market Development)	Perform site location analysis.
Beer brewery	Purchasing a barley farm operation (Backward Integration)	Revise the inventory control system.
Steel manufacturer	Acquiring a fast-food chain (Unrelated Diversification)	Improve the quality control system.
Computer company	Purchasing a retail distribution chain (Forward Integration)	Alter the shipping, packaging, and transportation systems.

in China or other Asian countries. That geographic clustering gives companies the flexibility to change a product design at the last minute and still ship on time.

Production and operations capabilities, limitations, and policies can significantly enhance or inhibit the attainment of objectives. Production processes typically constitute more than 70 percent of a firm's total assets. A major part of the strategy-implementation process takes place at the production site. Production-related decisions on plant size, plant location, product design, choice of equipment, kind of tooling, size of inventory, inventory control, quality control, cost control, use of standards, job specialization, employee training, equipment and resource utilization, shipping and packaging, and technological innovation can have a dramatic impact on the success or failure of strategy-implementation efforts.

Examples of adjustments in production systems that could be required to implement various strategies are provided in Table 7-12 for both for-profit and nonprofit organizations. For instance, note that when a bank formulates and selects a strategy to add 10 new branches, a production-related implementation concern is site location. The largest bicycle company in the USA, Huffy, recently ended its own production of bikes and now contracts out those services to Asian and Mexican manufacturers. Huffy focuses instead on the design, marketing, and distribution of bikes, but it no longer produces bikes itself. The Dayton, Ohio, company closed its plants in Ohio, Missouri, and Mississippi.

Just-in-time (JIT) production approaches have withstood the test of time. JIT significantly reduces the costs of implementing strategies. With JIT, parts and materials are delivered to a production site just as they are needed, rather than being stockpiled as a hedge against later deliveries. Harley-Davidson reports that at one plant alone, JIT freed \$22 million previously tied up in inventory and greatly reduced reorder lead time.

Factors that should be studied before locating production facilities include the availability of major resources, the prevailing wage rates in the area, transportation costs related to shipping and receiving, the location of major markets, political risks in the area or country, and the availability of trainable employees. Some of these factors explain why many manufacturing operations in China are moving back to Mexico, or to Vietnam, or even back to the USA.

Human Resource Concerns When Implementing Strategies

More and more companies are instituting furloughs to cut costs as an alternative to laying off employees. **Furloughs** are temporary layoffs and even white-collar managers are being given furloughs, once confined to blue-collar workers. A few organizations furloughing professional workers include Gulfstream Aerospace, Media General, Gannett, the University of Maryland, Clemson University, and Spansion. Most companies are still using temporary and part-time workers rather than hiring full-time employees, which suggests that high unemployment rates may be a long-term trend. More and more companies may follow Harley-Davidson's lead

TABLE 7-13 Labor Cost-Saving Tactics

Salary freeze
Hiring freeze
Salary reductions
Reduce employee benefits
Raise employee contribution to health-care premiums
Reduce employee 401(k)/403(b) match
Reduce employee workweek
Mandatory furlough
Voluntary furlough
Hire temporary instead of full-time employees
Hire contract employees instead of full-time employees
Volunteer buyouts (Walt Disney is doing this)
Halt production for three days a week (Toyota Motor is doing this)
Layoffs
Early retirement
Reducing or eliminating bonuses

Source: Based on Dana Mattioli, "Employers Make Cuts Despite Belief Upturn Is Near," *Wall Street Journal*, April 23, 2009, B4.

when that firm signed a new union contract recently that creates a tier of "casual workers" with no benefits and no minimum number of hours, allowing Harley to call up workers only as needed.²⁰ Table 7-13 lists ways that companies today are reducing labor costs to stay financially sound.

A well-designed strategic-management system can fail if insufficient attention is given to the human resource dimension. Human resource problems that arise when businesses implement strategies can usually be traced to one of three causes: (1) disruption of social and political structures, (2) failure to match individuals' aptitudes with implementation tasks, and (3) inadequate top management support for implementation activities.²¹

Strategy implementation poses a threat to many managers and employees in an organization. New power and status relationships are anticipated and realized. New formal and informal groups' values, beliefs, and priorities may be largely unknown. Managers and employees may become engaged in resistance behavior as their roles, prerogatives, and power in the firm change. Disruption of social and political structures that accompany strategy execution must be anticipated and considered during strategy formulation and managed during strategy implementation.

A concern in matching managers with strategy is that jobs have specific and relatively static responsibilities, although people are dynamic in their personal development. Commonly used methods that match managers with strategies to be implemented include transferring managers, developing leadership workshops, offering career development activities, promotions, job enlargement, and job enrichment.

A number of other guidelines can help ensure that human relationships facilitate rather than disrupt strategy-implementation efforts. Specifically, managers should do a lot of chatting and informal questioning to stay abreast of how things are progressing and to know when to intervene. Managers can build support for strategy-implementation efforts by giving few orders, announcing few decisions, depending heavily on informal questioning, and seeking to probe and clarify until a consensus emerges. Key thrusts that succeed should be rewarded generously and visibly.

Perhaps the best method for preventing and overcoming human resource problems in strategic management is to actively involve as many managers and employees as possible in the process. Although time consuming, this approach builds understanding, trust, commitment, and ownership and reduces resentment and hostility. The true potential of strategy formulation and implementation resides in people.

Employee Stock Ownership Plans (ESOPs)

An ESOP is a tax-qualified, defined-contribution, employee-benefit plan whereby employees purchase stock of the company through borrowed money or cash contributions. ESOPs empower employees to work as owners; this is a primary reason why the number of ESOPs have grown dramatically to more than 10,000 firms covering more than 14 million employees. ESOPs now control more than \$600 billion in corporate stock in the USA.

Some ESOP companies include:

- W. L. Gore & Associates—maker of medical and industrial products as well as Gore-Tex
- Herman Miller—famous for making innovative office furniture
- KCI—a civil engineering firm
- HCSS—a software manufacturer for the heavy construction industry

Besides reducing worker alienation and stimulating productivity, ESOPs allow firms other benefits, such as substantial tax savings. Principal, interest, and dividend payments on ESOP-funded debt are tax deductible. Banks lend money to ESOPs at interest rates below prime. This money can be repaid in pretax dollars, lowering the debt service as much as 30 percent in some cases. "The ownership culture really makes a difference, when management is a facilitator, not a dictator," says Corey Rosen, executive director of the National Center for Employee Ownership. Fifteen employee-owned companies are listed in Table 7-14.

If an ESOP owns more than 50 percent of the firm, those who lend money to the ESOP are taxed on only 50 percent of the income received on the loans. ESOPs are not for every firm, however, because the initial legal, accounting, actuarial, and appraisal fees to set up an ESOP are about \$50,000 for a small or midsized firm, with annual administration expenses of about \$15,000. Analysts say ESOPs also do not work well in firms that have fluctuating payrolls and profits. Human resource managers in many firms conduct preliminary research to determine the desirability of an ESOP, and then they facilitate its establishment and administration if benefits outweigh the costs.

Wyatt Cafeterias, a southwestern U.S. operator of 120 cafeterias, also adopted the ESOP concept to prevent a hostile takeover. Employee productivity at Wyatt greatly increased since the ESOP began, as illustrated in the following quote:

The key employee in our entire organization is the person serving the customer on the cafeteria line. We now tell the tea cart server, "Don't wait for the manager to tell you how to do your job better or how to provide better service. You take care of it." Sure,

TABLE 7-14 Fourteen Example ESOP Firms

Firm	Headquarters Location
Publix Supermarkets	Florida
Tribune Company	Illinois
Lifetouch	Minnesota
John Lewis Partnership	United Kingdom
Mondragon Cooperative	Spain
Houchens Industries	Kentucky
Amsted Industries	Illinois
Mast General Store	North Carolina
HDR, Inc.	Nebraska
Yoke's Fresh Market	Washington
SPARTA, Inc.	California
Hy-Vee	Iowa
Bi-Mart	Washington
Ferrellgas Partners	Kansas

we're looking for productivity increases, but since we began pushing decisions down to the level of people who deal directly with customers, we've discovered an awesome side effect—suddenly the work crews have this “happy to be here” attitude that the customers really love.²²

Balancing Work Life and Home Life

More women earn both undergraduate and graduate degrees in the USA than men, but a wage disparity still persists between men and women at all education levels.²³ Women on average make 25 percent less than men. The average age today for women to get married in the USA is 30 for those with a college degree, and 26 for those with just a high school degree. About 29 percent of both men and women in the USA today have a college degree, whereas in 1970 only 8 percent of women and 14 percent of men had college degrees.

A recent article in *Wall Street Journal* (12-5-12, A3) revealed that in the USA, women now hold 33.4 percent of legal jobs, including lawyers, judges, magistrates, and other judicial employees, up from 29.2 percent in 2000. Also, the percentage of women physicians and surgeons rose to 32.4 percent from 26.8 percent during that time. This is great news; however, the bad news is that the median salary for women lawyers is \$90,000 versus \$122,000 for men, and the median salary for female physicians is \$112,128 versus \$186,916 for men.

Globally, it is widely acknowledged that the best countries for working women are Norway, Sweden, Finland, and Denmark—that often rate above the USA. According to the World Economic Forum's 2012 report on the global gender gap overall, the USA ranked number 22 overall, and on wage equality, the USA ranked number 61 behind Madagascar, Cambodia, and Guyana. In that report, women in the USA make on average 67 percent of what men make, compared, for example, to 73 percent in Canada. Unmarried women in fact make more than men in many countries. Married women with children, however, usually make considerably lower than men.

Work and family strategies have become so popular among companies today that the strategies now represent a competitive advantage for those firms that offer such benefits as elder care assistance, flexible scheduling, job sharing, adoption benefits, an on-site summer camp, employee help lines, pet care, and even lawn service referrals. New corporate titles such as work and life coordinator and director of diversity are becoming common.

Working Mother magazine annually published its listing of “The 100 Best Companies for Working Mothers” (www.workingmother.com). Three especially important variables used in the ranking were availability of flextime, advancement opportunities, and equitable distribution of benefits among companies. Other important criteria are compressed weeks, telecommuting, job sharing, childcare facilities, maternity leave for both parents, mentoring, career development, and promotion for women. *Working Mother's* top 10 best companies for working women in 2012 are provided in Table 7-15. *Working Mother* also conducts extensive research to determine the best U.S. firms for women of color.

A corporate objective to become more lean and mean must today include consideration for the fact that a good home life contributes immensely to a good work life. The work and family issue is no longer just a women's issue. Some specific measures that firms are taking to address this issue are providing spouse relocation assistance as an employee benefit; providing company resources for family recreational and educational use; establishing employee country clubs, such as those at IBM and Bethlehem Steel; and creating family and work interaction opportunities. A study by Joseph Pleck of Wheaton College found that in companies that do not offer paternity leave for fathers as a benefit, most men take short, informal paternity leaves anyway by combining vacation time and sick days.

Some organizations have developed family days, when family members are invited into the workplace, taken on plant or office tours, dined by management, and given a chance to see exactly what other family members do each day. Family days are inexpensive and increase the employee's pride in working for the organization. Flexible working hours during the week are another human resource response to the need for individuals to balance work life and home life. The work and family topic is being made part of the agenda at meetings and thus is being discussed in many organizations.

TABLE 7-15 Top Ten Companies for Working Women

1. Bank of America—allows employees to define how they work.
2. Deloitte—grants employees four unpaid weeks off annually.
3. Ernst & Young (E&Y)—up to 75 percent of its employees work outside E&Y offices. Breastfeeding moms may rely on lactation rooms at most sites.
4. General Mills—women head five of the seven U.S. retail divisions.
5. Grant Thornton—offers 8 weeks of paid maternity leave and numerous flexible work options.
6. IBM—offers outstanding assistance to children of employees through its Special Care for Children program.
7. KPMG—employees may take 26 (job guaranteed, partially paid) weeks off following the birth or adoption of a child.
8. Procter & Gamble (P&G)—all P&G office employees may adjust the times that they start or finish work by two hours either way; 47 percent of all P&G hires in 2011 were women. Breastfeeding moms may rely on lactation rooms at most sites.
9. PricewaterhouseCoopers—many female partners go through the Breakthrough Leadership Development Program and achieve top executive positions.
10. WellStar Health System—has an in-house concierge service to help moms get things done.

Source: Based on 2012: <http://www.workingmother.com/best-company-list/129110/7271>.

There is great room for improvement in removing the glass ceiling domestically, especially considering that women make up 47 percent of the U.S. labor force. **Glass ceiling** refers to the invisible barrier in many firms that bars women and minorities from top-level management positions. The USA is a leader globally in promoting women and minorities into mid- and top-level managerial positions in business. Only 4.0 percent of Fortune 500 firms have a woman CEO. Table 7-16 gives the 21 Fortune 500 Women CEOs in 2013. These women are wonderful role models for women around the world.

TABLE 7-16 Fortune 500 Women CEOs in 2013

CEO	Company
Angela Braly	WellPoint
Patricia Woertz	Archer Daniels Midland
Marissa Mayer	Yahoo!
Indra Nooyi	PepsiCo
Irene Rosenfeld	Kraft Foods
Carol Meyrowitz	TJX
Virginia Rometty	IBM
Debra Reed	Sempra Energy
Deanna Mulligan	Guardian Life Insurance
Sherilyn McCoy	Avon Products
Denise Morrison	Campbell Soup
Maggie Wilderotter	Frontier Communications
Meg Whitman	Hewlett-Packard
Ilene Gordon	Corn Products
Heather Bresch	Mylan
Gracia Martore	Gannett
Ellen Kullman	DuPont
Ursula Burns	Xerox
Kathleen Mazzeella	Graybar Electric
Beth Mooney	Key Corp
Marilyn Hewson	Lockheed Martin Corp

Benefits of a Diverse Workforce

CEO Rosalind Brewer, the first African American and first woman to lead a Walmart business unit, is turning Walmart's SAM's Club into a \$100 billion business. After taking over of SAM'S in 2012, Brewer says SAM's is raising membership fees, building stores in metropolitan areas instead of rural towns, adding brands like Eddie Bauer, Nautica, and Lucky Brand Jeans that differentiate SAM's from Walmart and other discount retailers. Brewer is also opening SAM's stores earlier to capture small businesspersons who buy the morning of their day's business. CEO Brewer is doing a great job trying to gain ground on Costco Wholesale, which logged nearly double the sales of SAM's Club in 2012.

In late 2012, when CEO Chris Kubasik at Lockheed Martin was fired for having an "improper" relationship with a fellow employee, a long-time Lockheed Martin female executive, Marillyn Hewson, was appointed as the company's new CEO. Three of the six largest Pentagon contractors now have female CEO's. Lockheed Martin is the world's largest defense contractor.

Advertising agencies are an example industry transitioning from being specialist Hispanic, African American, and Asian agencies to becoming multicultural, generalist agencies. Leading executives of culturally specialized agencies are defecting in large numbers to generalist agencies as companies increasingly embrace multicultural marketing using multicultural ad agencies. Companies such as Burger King are shifting their Hispanic and African American ad agencies to generalist firms such as Crispin. Church's Chicken says pooling everything at a generalist agency helps reinforce the multicultural component of its overall market strategy.²⁴

In Latin and South America, the number of women in high office has increased dramatically in recent years. Brazil recently elected its first woman president, Dilma Rouseff. Both Argentina and Chile already have a woman president, Cristina Kirchner and Michelle Bachelet, respectively. Regarding the percent of national congressional seats held by women, Argentina has 38.3 percent followed by Honduras with 23.4 percent, as compared to Europe with 20.0 percent, Nordic countries at 41.6 percent, and Arab states at 11.1 percent.²⁵ Women now make up 53 percent of the work force in Latin and South America.

A recent study by McKinsey & Co. in Asia revealed that Asian companies' average return on equity improves from 15 percent to 22 percent when more and more women hold high-level positions.²⁶ Wang Jin at McKinsey says: "Women tend to be stronger in terms of collaboration and people development, while men tend to be stronger in individual decision making. By having more women at the senior level, companies are helping to improve organizational health as well as financial performance."²⁷ The percentage of women on corporate boards in Australia increased from 8.3 in 2010 to 14 percent in 2012.²⁸ Malaysia and South Korea are also making excellent progress integrating women into upper levels of management and subsidizing companies that build child-care facilities and help women juggle work and family life. In contrast, women in India still are expected to care for their family and extended family; also in India women often unfortunately have an abortion if they know their fetus is a girl. Overall in Asia, women comprise only 6 percent of corporate board seats, compared to 17 percent in Europe and 15 percent in the USA.

An organization can perhaps be most effective when its workforce mirrors the diversity of its customers. For global companies, this goal can be optimistic, but it is a worthwhile goal.

Corporate Wellness Programs

Recent articles detail how companies such as Johnson & Johnson (J&J), Lowe's Home-Improvement, the supermarket chain H-E-B, and Healthwise report impressive returns on investment of comprehensive, well-run employee wellness programs, sometimes as high as six to one.²⁹ A recent study by Fidelity Investments and the National Business Group on Health reports that nearly 90 percent of employers today offer some kind of wellness incentives or prizes to employees who "get healthier," up from 59 percent in 2009. For example, JetBlue Airways offers employees money—\$25 for teeth cleanings and \$400 for completing an Ironman triathlon, etc. Furniture company, KI, has all its employees divided into four groups based on

"healthiness" with the most-healthy people paying \$1,000 less on health insurance premiums than the least-healthy employees.

According to the 2013 National Survey of Employer-Sponsored Health Plans, the percentage of large employers (500+ employees) that offer lower health insurance premiums to nonsmokers increased from 9 percent in 2009 to 15 percent in 2012 (WSJ, 2-10-R5). In addition, 42 percent of large firms now offer onsite exercise or yoga classes, and 35 percent offer onsite Weight Watchers programs. J&J estimates that wellness programs have cumulatively saved the company \$250 million on health-care costs over the past decade. All J&J facilities around the world are tobacco free. At the software firm SAS Institute headquartered in Cary, North Carolina, voluntary turnover of employees has dropped to just 4 percent, largely, the firm says, due to its effective wellness program. On the SAS main campus, 70 percent of employees use the recreation center at least twice a week. SAS is number 3 among *Fortune's* "100 Best Companies to Work For." At Healthwise, CEO Don Kemper's personal commitment to wellness permeates the entire culture of the firm, from monthly staff meetings to an annual Wellness Day. Lowe's offers employees a monthly \$50 discount on medical insurance if they pledge that they and covered dependents will not use any tobacco products.

Chevron is also a model corporate wellness company that sponsors many internal and external wellness activities. Chevron and other companies such as Biltmore that provide exemplary wellness programs think beyond diet and exercise and focus also on stress management by assisting employees with such issues as divorce, serious illness, death and grief recovery, child rearing, and care of aging parents. Biltmore's two-day health fairs twice a year focus on physical, financial, and spiritual wellness. At Lowe's headquarters, an impressive spiral staircase in the lobby makes climbing the stairs more appealing than riding the elevator. Such practices as "providing abundant bicycle racks," "conducting walking meetings," and "offering five minute stress breaks" are becoming common at companies to promote a corporate wellness culture.

Whole Foods Market headquartered in Austin, Texas, is another outstanding corporate wellness company with their employees receiving a 30 percent discount card on all products sold in their stores "if they maintain and document a healthy lifestyle." In addition, Wegman's Food Markets, headquartered in Rochester, New York, is another supermarket chain with an excellent corporate wellness program. More than 11,000 of Wegman's 39,000 employees recently took part in a challenge to eat five cups of fruit and vegetables and walk up to 10,000 steps a day for eight weeks. Wegman recently ranked number 4 among *Fortune's* "100 Best Companies to Work For."

Firms are striving to lower the accelerating costs of employees' health-care insurance premiums. Many firms such as Scotts Miracle-Gro Company (based in Marysville, Ohio), IBM, and Microsoft are implementing wellness programs, requiring employees to get healthier or pay higher insurance premiums. Employees that do get healthier win bonuses, free trips, and pay lower premiums; nonconforming employees pay higher premiums and receive no "healthy" benefits. Wellness of employees has become a strategic issue for many firms. Most firms require a health examination as a part of an employment application, and healthiness is more and more becoming a hiring factor. Michael Porter, coauthor of *Redefining Health Care*, says, "We have this notion that you can gorge on hot dogs, be in a pie-eating contest, and drink every day, and society will take care of you. We can't afford to let individuals drive up company costs because they're not willing to address their own health problems."

Wellness programs provide counseling to employees and seek lifestyle changes to achieve healthier living. For example, trans fats are a major cause of heart disease. Near elimination of trans fats in one's diet will reduce one's risk for heart attack. Saturated fats are also bad, so one should avoid eating too much red meat and dairy products, which are high in saturated fats. Seven key lifestyle habits listed in Table 7-17 may significantly improve health and longevity. Boston Market recently removed all salt shakers off tables in its 476 restaurants. The company is also reducing salt by 20 percent in its rotisserie chicken, macaroni and cheese, and mashed potatoes. CEO George Michel says Boston Market will reduce salt levels by 15 percent menu-wide by the end of 2014. Pepper shakers remain on tables at Boston Market.

TABLE 7-17 The Key to Staying Healthy, Living to 100, and Being a “Well” Employee

1. Eat nutritiously—eat a variety of fruits and vegetables daily because they have ingredients that the body uses to repair and strengthen itself.
2. Stay hydrated—drink plenty of water to aid the body in eliminating toxins and to enable body organs to function efficiently; the body is mostly water.
3. Get plenty of rest—the body repairs itself during rest, so get at least seven hours of sleep nightly, preferably eight hours.
4. Get plenty of exercise—exercise vigorously at least 30 minutes daily so the body can release toxins and strengthen vital organs.
5. Reduce stress—the body’s immune system is weakened when one is under stress, making the body vulnerable to many ailments, so keep stress to a minimum.
6. Do not smoke—smoking kills, no doubt about it anymore.
7. Take vitamin supplements—consult your physician, but because it is difficult for diet alone to supply all the nutrients and vitamins needed, supplements can be helpful in achieving good health and longevity.

Source: Based on Lauren Etter, “Trans Fats: Will They Get Shelved?” *Wall Street Journal*, December 8, 2006, A6; Joel Fuhrman, MD, *Eat to Live* (Boston: Little, Brown, 2003).

Special Note to Students

An integral part of managing a firm is continually and systematically seeking to gain and sustain competitive advantage through effective planning, organizing, motivating, staffing, and controlling. Rival firms engage in these same activities, so emphasize in your strategic-management case analysis how your firm implementing your recommendations will outperform rival firms. Remember to be prescriptive rather than descriptive on every page or slide in your project, meaning to be insightful, forward-looking, and analytical rather than just describing operations. It is easy to *describe* a company but is difficult to *analyze* a company. Strategic-management case analysis is about *analyzing* a company and its industry, uncovering ways and means for the firm to best gain and sustain competitive advantage. So communicate throughout your project how your firm, and especially your recommendations, will lead to improved growth and profitability versus rival firms. Avoid vagueness and generalities throughout your project, as your audience or reader seeks great ideas backed up by great analyses. Be analytical and prescriptive rather than vague and descriptive in highlighting every slide you show an audience.

Conclusion

Successful strategy formulation does not at all guarantee successful strategy implementation. Although inextricably interdependent, strategy formulation and strategy implementation are characteristically different. In a single word, strategy implementation means *change*. It is widely agreed that “the real work begins after strategies are formulated.” Successful strategy implementation requires the support of, as well as discipline and hard work, from motivated managers and employees. It is sometimes frightening to think that a single individual can irreparably sabotage strategy-implementation efforts.

Formulating the right strategies is not enough because managers and employees must be motivated to implement those strategies. Management issues considered central to strategy implementation include matching organizational structure with strategy, linking performance and pay to strategies, creating an organizational climate conducive to change, managing political relationships, creating a strategy-supportive culture, adapting production and operations processes, and managing human resources. Establishing annual objectives, devising policies, and allocating resources are central strategy-implementation activities common to all organizations. Depending on the size and type of the organization, other management issues could be equally important to successful strategy implementation.