Strategic Management

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Implementing Strategies: Management Operational and Operations Issues

A note from David

The Nature of Strategy Implementation

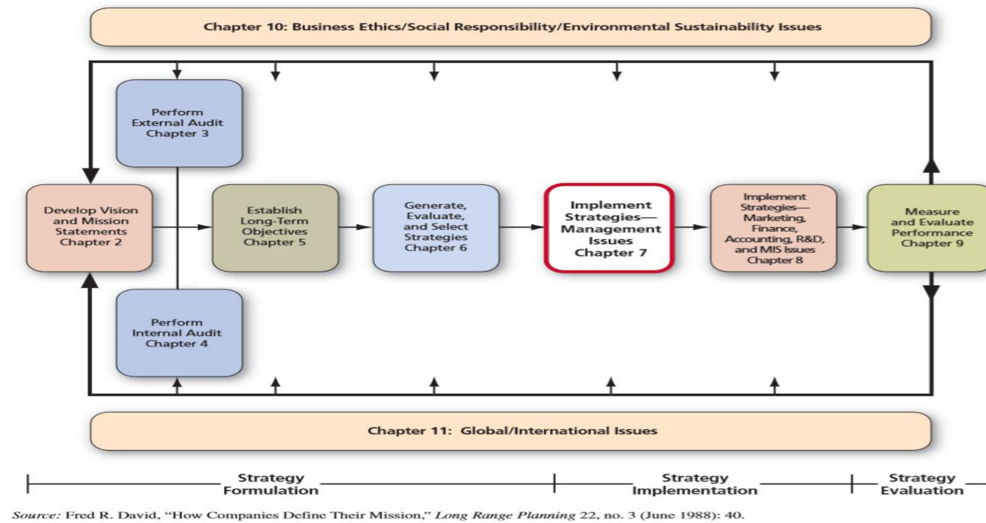
The strategic-management process does not end when the firm decides what strategy or strategies to pursue. There must be a translation of strategic thought into strategic action. This translation is much easier if managers and employees of the firm understand the business, feel a part of the company, and through involvement in strategy-formulation activities have become committed to helping the organization succeed. Without understanding and commitment, strategy-implementation efforts face major problems. Implementing strategy affects an organization from top to bottom; it affects all the functional and divisional areas of a business. It is beyond the purpose and scope of this text to examine all of the business administration concepts and tools important in strategy implementation. This chapter focuses on management issues most central to implementing strategies in 2010–2011 and Chapter 8 focuses on marketing, finance/accounting, R&D, and management information systems issues.
Even the most technically perfect strategic plan will serve little purpose if it is not implemented. Many organizations tend to spend an inordinate amount of time, money, and effort on developing the strategic plan, treating the means and circumstances under which it will be implemented as afterthoughts! Change comes through implementation and evaluation, not through the plan. A technically imperfect plan that is implemented well will achieve more than the perfect plan that never gets off the paper on which it is typed.

The strategy-implementation stage of strategic management is revealed in Figure 7-1. Successful strategy formulation does not guarantee successful strategy implementation. It is always more difficult to do something (strategy implementation) than to say you are going to do it (strategy formulation)! Although inextricably linked, strategy implementation is fundamentally different from strategy formulation. Strategy formulation and implementation can be contrasted in the following ways:

1. Strategy formulation is positioning forces before the action.
2. Strategy implementation is managing forces during the action.
3. Strategy formulation focuses on effectiveness.
4. Strategy implementation focuses on efficiency.
5. Strategy formulation is primarily an intellectual process.
6. Strategy implementation is primarily an operational process.
7. Strategy formulation requires good intuitive and analytical skills.
8. Strategy implementation requires special motivation and leadership skills.
9. Strategy formulation requires coordination among a few individuals.
10. Strategy implementation requires coordination among many individuals.

Strategy-formulation concepts and tools do not differ greatly for small, large, for-profit, or nonprofit organizations. However, strategy implementation varies substantially among different types and sizes of organizations. Implementing strategies requires such actions as altering sales territories, adding new departments,

closing facilities, hiring new employees, changing an organization's pricing strategy, developing financial budgets, developing new employee benefits, establishing cost-control procedures, changing advertising strategies, building new facilities, training new employees, transferring managers among divisions, and building a better management information system. These types of activities obviously differ greatly between manufacturing, service, and governmental organizations.



Source: Fred R. David, "How Companies Define Their Mission," *Long Range Planning* 22, no. 3 (June 1988): 40.

Management Perspectives

In all but the smallest organizations, the transition from strategy formulation to strategy implementation requires a shift in responsibility from strategists to divisional and functional managers. Implementation problems can arise because of this shift in responsibility, especially if strategy-formulation decisions come as a surprise to middle- and lower-level managers. Managers and employees are motivated more by perceived self-interests than by organizational interests, unless the two coincide. Therefore, it is essential that divisional and functional managers be involved as much as possible in strategy-formulation activities. Of equal importance, strategists should be involved as much as possible in strategy-implementation activities.

As indicated in Table 7-1, management issues central to strategy implementation include establishing annual objectives, devising policies, allocating resources, altering an existing organizational structure, restructuring and reengineering, revising reward and incentive plans, minimizing resistance to change, matching managers with strategy, developing a strategysupportive culture, adapting production/operations processes, developing an effective human resources function, and, if necessary, downsizing. Management changes are necessarily more extensive when strategies to be implemented move a firm in a major new direction.

TABLE 7-1 Some Management Issues Central to Strategy Implementation

Establish annual objectives
Devise policies
Allocate resources
Alter an existing organizational structure
Restructure and reengineer
Revise reward and incentive plans
Minimize resistance to change
Match managers with strategy
Develop a strategy-supportive culture
Adapt production/operations processes
Develop an effective human resources function
Downsize and furlough as needed
Link performance and pay to strategies

Managers and employees throughout an organization should participate early and directly in strategy-implementation decisions. Their role in strategy implementation should build upon prior involvement in strategy-formulation activities. Strategists' genuine personal commitment to implementation is a necessary and powerful motivational force for managers and employees. Too often, strategists are too busy to actively support strategy-implementation efforts, and their lack of interest can be detrimental to organizational success. The rationale for objectives and strategies should be understood and clearly communicated throughout an organization. Major competitors' accomplishments, products, plans, actions, and performance should be apparent to all organizational members. Major external opportunities and threats should be clear, and managers' and employees' questions should be answered. Topdown flow of communication is essential for developing bottom-up support.

Firms need to develop a competitor focus at all hierarchical levels by gathering and widely distributing competitive intelligence; every employee should be able to benchmark her or his efforts against best-in-class competitors so that the challenge becomes personal. For example, Starbucks Corp. in 2009–2010 is instituting "lean production/operations" at its 11,000 U.S. stores. This system eliminates idle employee time and unnecessary employee motions, such as walking, reaching, and bending. Starbucks says 30 percent of employees' time is motion and the company wants to reduce that. They say "motion and work are two different things."

Annual Objectives

Establishing annual objectives is a decentralized activity that directly involves all managers in an organization. Active participation in establishing annual objectives can lead to acceptance and commitment. Annual objectives are essential for strategy implementation because they (1) represent the basis for allocating resources; (2) are a primary mechanism for evaluating managers; (3) are the major instrument for monitoring progress toward achieving long-term objectives; and (4) establish organizational, divisional, and departmental priorities. Considerable time and effort should be devoted to ensuring that annual objectives are well conceived, consistent with long-term objectives, and supportive of strategies to be implemented. Approving,

revising, or rejecting annual objectives is much more than a rubber-stamp activity. The purpose of annual objectives can be summarized as follows:

Annual objectives serve as guidelines for action, directing and channeling efforts and activities of organization members. They provide a source of legitimacy in an enterprise by justifying activities to stakeholders. They serve as standards of performance.
They serve as an important source of employee motivation and identification. They give incentives for managers and employees to perform. They provide a basis for organizational design.

Clearly stated and communicated objectives are critical to success in all types and sizes of firms. Annual objectives, stated in terms of profitability, growth, and market share by business segment, geographic area, customer groups, and product, are common in organizations. Figure 7-2 illustrates how the Stamus Company could establish annual objectives based on long-term objectives. Table 7-2 reveals associated revenue figures that correspond to the objectives outlined in Figure 7-2. Note that, according to plan, the Stamus Company will slightly exceed its long-term objective of doubling company revenues between 2010 and 2012.

FIGURE 7-2

The Stamus Company's Hierarchy of Aims

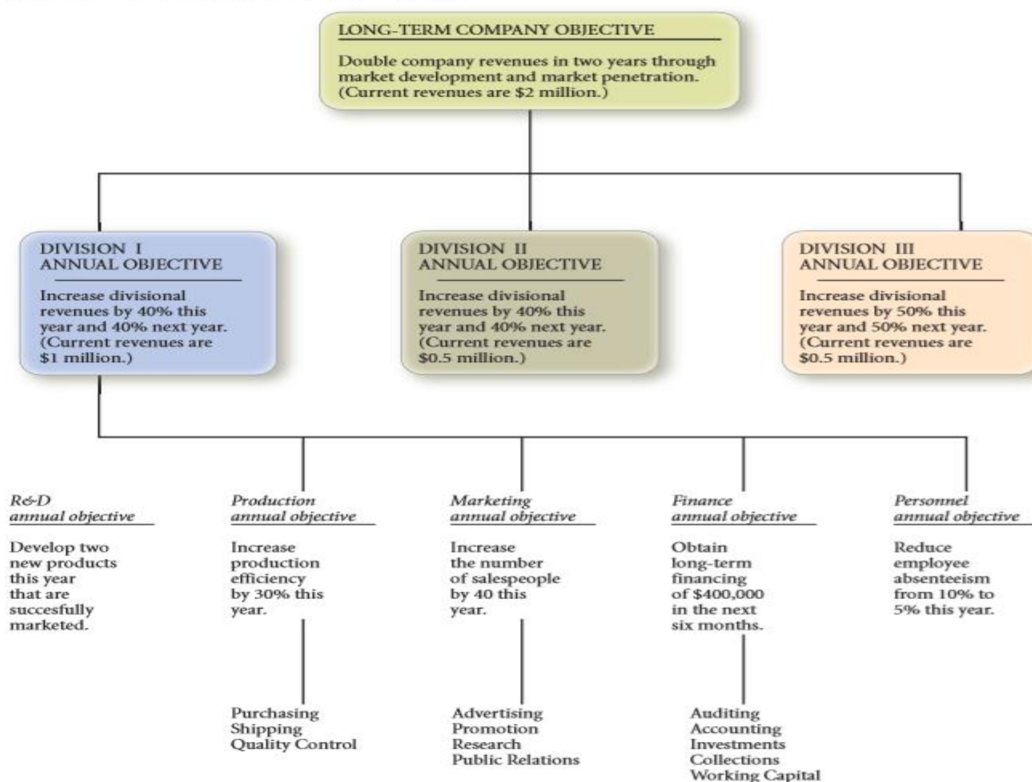


TABLE 7-2 The Stamus Company's Revenue Expectations (in $Millions)

	2010	2011	2012
Division I Revenues	1.0	1.400	1.960
Division II Revenues	0.5	0.700	0.980
Division III Revenues	0.5	0.750	1.125
Total Company Revenues	**2.0**	**2.850**	**4.065**

Figure 7-2 also reflects how a hierarchy of annual objectives can be established based on an organization's structure. Objectives should be consistent across hierarchical levels and form a network of supportive aims. Horizontal consistency of objectives is as important as vertical consistency of objectives. For instance, it would not be effective for manufacturing to achieve more than its annual objective of units produced if marketing could not sell the additional units.
Annual objectives should be measurable, consistent, reasonable, challenging, clear, communicated throughout the organization, characterized by an appropriate time dimension, and accompanied by commensurate rewards and sanctions. Too often, objectives are stated in generalities, with little operational usefulness. Annual objectives, such as "to improve communication" or "to improve performance," are not clear, specific, or measurable. Objectives should state quantity, quality, cost, and time—and also be verifiable. Terms and phrases such as maximize, minimize, as soon as possible, and adequate should be avoided.

Annual objectives should be compatible with employees' and managers' values and should be supported by clearly stated policies. More of something is not always better. Improved quality or reduced cost may, for example, be more important than quantity. It is important to tie rewards and sanctions to annual objectives so that employees and managers understand that achieving objectives is critical to successful strategy implementation. Clear annual objectives do not guarantee successful strategy implementation, but they do increase the likelihood that personal and organizational aims can be accomplished. Overemphasis on achieving objectives can result in undesirable conduct, such as faking the numbers, distorting the records, and letting objectives become ends in themselves. Managers must be alert to these potential problems.

Policies

Changes in a firm's strategic direction do not occur automatically. On a day-to-day basis, policies are needed to make a strategy work. Policies facilitate solving recurring problems and guide the implementation of strategy. Broadly defined, policy refers to specific guidelines, methods, procedures, rules, forms, and administrative practices established to support and encourage work toward stated goals. Policies are instruments for strategy implementation. Policies set boundaries, constraints, and limits on the kinds of administrative actions that can be taken to reward and sanction behavior; they clarify what can and cannot be done in pursuit of an organization's objectives. For example, Carnival's Paradiseship has a no smoking policy anywhere, anytime aboard ship. It is the first cruise ship to ban smoking comprehensively. Another example of corporate policy relates to surfing the Web while at work. About

40 percent of companies today do not have a formal policy preventing employees from surfing the Internet, but software is being marketed now that allows firms to monitor how, when, where, and how long various employees use the Internet at work.

Policies let both employees and managers know what is expected of them, thereby increasing the likelihood that strategies will be implemented successfully. They provide a basis for management control, allow coordination across organizational units, and reduce the amount of time managers spend making decisions. Policies also clarify what work is to be done and by whom. They promote delegation of decision making to appropriate managerial levels where various problems usually arise. Many organizations have a policy manual that serves to guide and direct behavior. Wal-Mart has a policy that it calls the "10 Foot" Rule, whereby customers can find assistance within 10 feet of anywhere in the store. This is a welcomed policy in Japan, where Wal-Mart is trying to gain a foothold; 58 percent of all retailers in Japan are mom-and-pop stores and consumers historically have had to pay "top yen" rather than "discounted prices" for merchandise.

Policies can apply to all divisions and departments (for example, "We are an equal opportunity employer"). Some policies apply to a single department ("Employees in this department must take at least one training and development course each year"). Whatever their scope and form, policies serve as a mechanism for implementing strategies and obtaining objectives. Policies should be stated in writing whenever possible. They represent the means for carrying out strategic decisions. Examples of policies that support a company strategy, a divisional objective, and a departmental objective are given in Table 7-3. Some example issues that may require a management policy are provided in Table 7-4.

TABLE 7-3 A Hierarchy of Policies

Company Strategy

Acquire a chain of retail stores to meet our sales growth and profitability objectives.

Supporting Policies

1. "All stores will be open from 8 A.M. to 8 P.M. Monday through Saturday." (This policy could increase retail sales if stores currently are open only 40 hours a week.)
2. "All stores must submit a Monthly Control Data Report." (This policy could reduce expense-to-sales ratios.)
3. "All stores must support company advertising by contributing 5 percent of their total monthly revenues for this purpose." (This policy could allow the company to establish a national reputation.)
4. "All stores must adhere to the uniform pricing guidelines set forth in the Company Handbook." (This policy could help assure customers that the company offers a consistent product in terms of price and quality in all its stores.)

Divisional Objective

Increase the division's revenues from $10 million in 2009 to $15 million in 2010.

Supporting Policies

1. "Beginning in January 2010, each one of this division's salespersons must file a weekly activity report that includes the number of calls made, the number of miles traveled, the number of units sold, the dollar volume sold, and the number of new accounts opened." (This policy could ensure that salespersons do not place too great an emphasis in certain areas.)
2. "Beginning in January 2010, this division will return to its employees 5 percent of its gross revenues in the form of a Christmas bonus." (This policy could increase employee productivity.)
3. "Beginning in January 2010, inventory levels carried in warehouses will be decreased by 30 percent in accordance with a just-in-time (JIT) manufacturing approach." (This policy could reduce production expenses and thus free funds for increased marketing efforts.)

Production Department Objective

Increase production from 20,000 units in 2009 to 30,000 units in 2010.

Supporting Policies

1. "Beginning in January 2010, employees will have the option of working up to 20 hours of overtime per week." (This policy could minimize the need to hire additional employees.)
2. "Beginning in January 2010, perfect attendance awards in the amount of $100 will be given to all employees who do not miss a workday in a given year." (This policy could decrease absenteeism and increase productivity.)
3. "Beginning in January 2010, new equipment must be leased rather than purchased." (This policy could reduce tax liabilities and thus allow more funds to be invested in modernizing production processes.)

TABLE 7-4 Some Issues That May Require a Management Policy

- To offer extensive or limited management development workshops and seminars
- To centralize or decentralize employee-training activities
- To recruit through employment agencies, college campuses, and/or newspapers
- To promote from within or to hire from the outside
- To promote on the basis of merit or on the basis of seniority
- To tie executive compensation to long-term and/or annual objectives
- To offer numerous or few employee benefits
- To negotiate directly or indirectly with labor unions
- To delegate authority for large expenditures or to centrally retain this authority
- To allow much, some, or no overtime work
- To establish a high- or low-safety stock of inventory
- To use one or more suppliers
- To buy, lease, or rent new production equipment
- To greatly or somewhat stress quality control
- To establish many or only a few production standards
- To operate one, two, or three shifts
- To discourage using insider information for personal gain
- To discourage sexual harassment
- To discourage smoking at work
- To discourage insider trading
- To discourage moonlighting

Resource Allocation

Resource allocation is a central management activity that allows for strategy execution. In organizations that do not use a strategic-management approach to decision making, resource allocation is often based on political or personal factors. Strategic management enables resources to be allocated according to priorities established by annual objectives.
Nothing could be more detrimental to strategic management and to organizational success than for resources to be allocated in ways not consistent with priorities indicated by approved annual objectives.

All organizations have at least four types of resources that can be used to achieve desired objectives: financial resources, physical resources, human resources, and technological resources. Allocating resources to particular divisions and departments does not mean that strategies will be successfully implemented. A number of factors commonly prohibit effective resource allocation, including an overprotection of resources, too great an emphasis on short-run financial criteria, organizational politics, vague strategy targets, a reluctance to take risks, and a lack of sufficient knowledge.

Below the corporate level, there often exists an absence of systematic thinking about resources allocated and strategies of the firm. Yavitz and Newman explain why:

Managers normally have many more tasks than they can do. Managers must allocate time and resources among these tasks. Pressure builds up. Expenses are too high. The CEO wants a good financial report for the third quarter. Strategy formulation and implementation activities often get deferred. Today's problems soak up available energies and resources. Scrambled accounts and budgets fail to reveal the shift in allocation away from strategic needs to currently squeaking wheels.

The real value of any resource allocation program lies in the resulting accomplishment of an organization's objectives. Effective resource allocation does not guarantee successful strategy implementation because programs, personnel,

controls, and commitment must breathe life into the resources provided. Strategic management itself is sometimes referred to as a "resource allocation process."

TABLE 7-5 Some Management Trade-Off Decisions Required in Strategy Implementation

To emphasize short-term profits or long-term growth
To emphasize profit margin or market share
To emphasize market development or market penetration
To lay off or furlough
To seek growth or stability
To take high risk or low risk
To be more socially responsible or more profitable
To outsource jobs or pay more to keep jobs at home
To acquire externally or to build internally
To restructure or reengineer
To use leverage or equity to raise funds
To use part-time or full-time employees

Managing Conflict

Interdependency of objectives and competition for limited resources often leads to conflict. Conflict can be defined as a disagreement between two or more parties on one or more issues. Establishing annual objectives can lead to conflict because individuals have different expectations and perceptions, schedules create pressure, personalities are incompatible, and misunderstandings between line managers (such as production supervisors) and staff managers (such as human resource specialists) occur. For example, a collection manager's objective of reducing bad debts by 50 percent in a given year may conflict with a divisional objective to increase sales by 20 percent.

Establishing objectives can lead to conflict because managers and strategists must make trade-offs, such as whether to emphasize short-term profits or long-term growth, profit margin or market share, market penetration or market development, growth or stability, high risk or low risk, and social responsiveness or profit maximization. Trade-offs are necessary because no firm has sufficient resources pursue all strategies to would benefit the firm. Table 7-5 reveals some important management trade-off decisions required in strategy implementation.

Conflict is unavoidable in organizations, so it is important that conflict be managed and resolved before dysfunctional consequences affect organizational performance. Conflict is not always bad. An absence of conflict can signal indifference and apathy. Conflict can serve to energize opposing groups into action and may help managers identify problems.

Various approaches for managing and resolving conflict can be classified into three categories: avoidance, defusion, and confrontation. Avoidance includes such actions as ignoring the problem in hopes that the conflict will resolve itself or physically separating the conflicting individuals (or groups). Defusion can include playing down differences between conflicting parties while accentuating similarities and common interests, compromising so that there is neither a clear winner nor loser, resorting to majority rule, appealing to a higher authority, or redesigning present positions.

Confrontation is exemplified by exchanging members of conflicting parties so that each can gain an appreciation of the other's point of view or holding a meeting at which conflicting parties present their views and work through their differences.

Matching Structure with Strategy

Changes in strategy often require changes in the way an organization is structured for two major reasons. First, structure largely dictates how objectives and policies will be established. For example, objectives and policies established under a geographic organizational structure are couched in geographic terms. Objectives and policies are stated largely in terms of products in an organization whose structure is based on product groups. The structural strategy-implementation activities.
The second major reason why changes in strategy often require changes in structure is that structure dictates how resources will be allocated. If an organization's structure is based on customer groups, then resources will be allocated in that manner. Similarly, if an organization's structure is set up along functional business lines, then resources are allocated by functional areas. Unless new or revised strategies place emphasis in the same areas as old strategies, structural reorientation commonly becomes a part of strategy implementation.

Changes in strategy lead to changes in organizational structure. Structure should be designed to facilitate the strategic pursuit of a firm and, therefore, follow strategy. Without a strategy or reasons for being (mission), companies find it difficult to design an effective structure. Chandler found a particular structure sequence to be repeated often as organizations grow and change strategy over time; this sequence is depicted in Figure 7-3.

There is no one optimal organizational design or structure for a given strategy or type of organization. What is appropriate for one organization may not be appropriate for a similar firm, although successful firms in a given industry do tend to organize themselves in a similar way. For example, consumer goods companies tend to emulate the divisional structure-by-product form of organization. Small firms tend to be functionally structured (centralized). Medium-sized firms tend to be divisionally structured (decentralized). Large firms tend to use a strategic business unit (SBU) or matrix structure. As organizations grow, their structures generally change from simple to complex as a result of concatenation, or the linking together of several basic strategies.

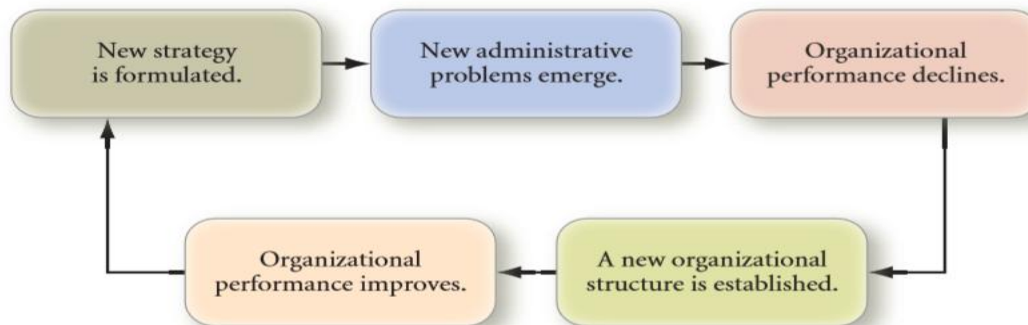
Numerous external and internal forces affect an organization; no firm could change its structure in response to every one of these forces, because to do so would lead to chaos. However, when a firm changes its strategy, the existing organizational structure may become ineffective. As indicated in Table 7-6, symptoms of an ineffective organizational structure include too many levels of management, too many meetings attended by too many people, too much attention being directed toward solving interdepartmental conflicts, too large a span of control, and too many unachieved objectives. Changes in structure can facilitate strategy-implementation efforts, but changes in structure should not be expected to make a bad strategy good, to make bad managers good, or to make bad products sell.

Structure undeniably can and does influence strategy. Strategies formulated must be workable, so if a certain new strategy required massive structural changes it would not

be an attractive choice. In this way, structure can shape the choice of strategies. But a more important concern is determining what types of structural changes are needed to implement new strategies and how these changes can best be accomplished. We examine this issue by focusing on seven basic types of organizational structure: functional, divisional by geographic area, divisional by product, divisional by customer, divisional process, strategic business unit (SBU), and matrix.

FIGURE 7-3

Chandler's Strategy-Structure Relationship



Source: Adapted from Alfred Chandler, *Strategy and Structure* (Cambridge, MA: MIT Press, 1962).

TABLE 7-6 Symptoms of an Ineffective Organizational Structure

1. Too many levels of management
2. Too many meetings attended by too many people
3. Too much attention being directed toward solving interdepartmental conflicts
4. Too large a span of control
5. Too many unachieved objectives
6. Declining corporate or business performance
7. Losing ground to rival firms
8. Revenue and/or earnings divided by number of employees and/or number of managers is low compared to rival firms

The Functional Structure

The most widely used structure is the functional or centralized type because this structure is the simplest and least expensive of the seven alternatives. A functional structure groups tasks and activities by business function, such as production/operations, marketing, finance/accounting, research and development, and management information systems. A university may structure its activities by major functions that include academic affairs, student services, alumni relations, athletics, maintenance, and accounting. Besides being simple and inexpensive, a functional structure also promotes specialization of labor, encourages efficient use of managerial and technical talent, minimizes the need for an elaborate control system, and allows rapid decision making.

Some disadvantages of a functional structure are that it forces accountability to the top, minimizes career development opportunities, and is sometimes characterized by low employee morale, line/staff conflicts, poor delegation of authority, and inadequate planning for products and markets.
A functional structure often leads to short-term and narrow thinking that may undermine what is best for the firm as a whole. For example, the research and development department may strive to overdesign products and components to achieve technical elegance, while manufacturing may argue for low-frills products that can be mass produced more easily. Thus, communication is often not as good in a functional structure. Schein gives an example of a communication problem in a functional structure:

The word "marketing" will mean product development to the engineer, studying customers through market research to the product manager, merchandising to the salesperson, and constant change in design to the manufacturing manager. Then when these managers try to work together, they often attribute disagreements to personalities and fail to notice the deeper, shared assumptions that vary and dictate how each function thinks.

Most large companies have abandoned the functional structure in favor of decentralization and improved accountability. However, two large firms that still successfully use a functional structure are Nucor Steel, based in Charlotte, North Carolina, and Sharp, the $17 billion consumer electronics firm. Table 7-7summarizes the advantages and disadvantages of a functional organizational structure.

The Divisional Structure

The divisional or decentralized structure is the second most common type used by U.S. businesses. As a small organization grows, it has more difficulty managing different products and services in different markets. Some form of divisional structure generally becomes necessary to motivate employees, control operations, and compete successfully in diverse locations. The divisional structure can be organized in one of four ways: by geographic area, by product or service, by customer, or by process. With a divisional structure, functional activities are performed both centrally and in each separate division.

TABLE 7-7 Advantages and Disadvantages of a Functional Organizational Structure

Advantages	Disadvantages
1. Simple and inexpensive	1. Accountability forced to the top
2. Capitalizes on specialization of business activities such as marketing and finance	2. Delegation of authority and responsibility not encouraged
3. Minimizes need for elaborate control system	3. Minimizes career development
4. Allows for rapid decision making	4. Low employee/manager morale
	5. Inadequate planning for products and markets
	6. Leads to short-term, narrow thinking
	7. Leads to communication problems

Cisco Systems recently discarded its divisional structure by customer and reorganized into a functional structure. CEO John Chambers replaced the threecustomer structure based on big businesses, small businesses, and telecoms, and now the company has centralized its engineering and marketing units so that they focus on technologies such as wireless networks. Chambers says the goal was to eliminate duplication, but the change should not be viewed as a shift in strategy. Chambers's span of control in the new structure is reduced from 15 to 12 managers reporting directly to him. He continues to operate Cisco without a chief operating officer or a number-two executive.

Sun Microsystems recently reduced the number of its business units from seven to four. Kodak recently reduced its number of business units from seven by-customer divisions to five by-product divisions. As consumption patterns become increasingly similar worldwide, a by-product structure is becoming more effective than a by-customer or a by-geographic type divisional structure. In the restructuring, Kodak eliminated its global operations division and distributed those responsibilities across the new by-product divisions.

A divisional structure has some clear advantages. First and perhaps foremost, accountability is clear. That is, divisional managers can be held responsible for sales and profit levels. Because a divisional structure is based on extensive delegation of authority, managers and employees can easily see the results of their good or bad performances. As a result, employee morale is generally higher in a divisional structure than it is in a centralized structure. Other advantages of the divisional design are that it creates career development opportunities for managers, allows local control of situations, leads to a competitive climate within an organization, and allows new businesses and products to be added easily.

The divisional design is not without some limitations, however. Perhaps the most important limitation is that a divisional structure is costly, for a number of reasons. First, each division requires functional specialists who must be paid. Second, there exists some duplication of staff services, facilities, and personnel; for instance, functional specialists are also needed centrally (at headquarters) to coordinate divisional activities. Third, managers must be well qualified because the divisional design forces delegation of authority; better-qualified individuals require higher salaries. A divisional structure can also be costly because it requires an elaborate, headquarters-driven control system. Fourth, competition between divisions may become so intense that it is dysfunctional and leads to limited sharing of ideas and resources for the common good of the firm. Table 7-8 summarizes the advantages and disadvantages of divisional organizational structure.

TABLE 7-8 Advantages and Disadvantages of a Divisional Organizational Structure

Advantages	Disadvantages
1. Accountability is clear	1. Can be costly
2. Allows local control of local situations	2. Duplication of functional activities
3. Creates career development chances	3. Requires a skilled management force
4. Promotes delegation of authority	4. Requires an elaborate control system
5. Leads to competitive climate internally	5. Competition among divisions can become so intense as to be dysfunctional
6. Allows easy adding of new products or regions	6. Can lead to limited sharing of ideas and resources
7. Allows strict control and attention to products, customers, and/or regions	7. Some regions/products/customers may receive special treatment

Ghoshal and Bartlett, two leading scholars in strategic management, note the following: As their label clearly warns, divisions divide. The divisional model fragments companies' resources; it creates vertical communication channels that insulate business units and prevents them from sharing their strengths with one another. Consequently, the whole of the corporation is often less than the sum of its parts. A final limitation of the divisional design is that certain regions, products, or customers may sometimes receive special treatment, and it may be difficult to maintain consistent, companywide practices. Nonetheless, for most large organizations and many small firms, the advantages of a divisional structure more than offset the potential limitations.5 A divisional structure by geographic area is appropriate for organizations whose strategies need to be tailored to fit the particular needs and characteristics of customers in different geographic areas. This type of structure can be most appropriate for organizations that have similar branch facilities located in widely dispersed areas.

A divisional structure by geographic area allows local participation in decision making and improved coordination within a region. Hershey Foods is an example of a company organized using the divisional by geographic region type of structure. Hershey's divisions are United States, Canada, Mexico, Brazil, and Other. Analysts contend that this type of structure may not be best for Hershey because consumption patterns for candy are quite similar worldwide. An alternative—and perhaps better—type of structure for Hershey would be divisional by product because the company produces and sells three types of products worldwide: (1) chocolate, (2) nonchocolate, and (3) grocery.

The divisional structure by product (or services) is most effective for implementing strategies when specific products or services need special emphasis. Also, this type of structure is widely used when an organization offers only a few products or services or when an organization's products or services differ substantially. The divisional structure allows strict control over and attention to product lines, but it may also require a more skilled management force and reduced top management control. General Motors, DuPont, and Procter & Gamble use a divisional structure by product to implement strategies. Huffy, the largest bicycle company in the world, is another firm that is highly decentralized based on a divisional-by-product structure. Based in Ohio, Huffy's divisions are the Bicycle division, the Gerry Baby Products division, the Huffy Sports division, YLC Enterprises, and Washington Inventory Service.

Harry Shaw, Huffy's chairman, believes decentralization is one of the keys to Huffy's success.

Eastman Chemical established a new by-product divisional organizational structure. The company's two new divisions, Eastman Company and Voridian Company, focus on chemicals and polymers, respectively. The Eastman division focuses on coatings, adhesives, inks, and plastics, whereas the Voridian division focuses on fibers, polyethylene, and other polymers. Microsoft recently reorganized the whole corporation into three large divisions-by-product. Headed by a president, the new divisions are (1) platform products and services, (2) business, and (3) entertainment and devices. The Swiss electrical-engineering company ABB Ltd. recently scrapped its two core divisions, (1) power technologies and (2) automation technologies, and replaced them with five new divisions: (1) power products, (2) power systems, (3) automation products, (4) process automation, and (5) robotics.

When a few major customers are of paramount importance and many different services are provided to these customers, then a divisional structure by customercan be the most effective way to implement strategies. This structure allows an organization to cater effectively to the requirements of clearly defined customer groups. For example, book publishing companies often organize their activities around customer groups, such as colleges, secondary schools, and private commercial schools. Some airline companies have two major customer divisions: passengers and freight or cargo services.

Merrill Lynch is organized into separate divisions that cater to different groups of customers, including wealthy individuals, institutional investors, and small corporations. Motorola's semiconductor chip division is also organized divisionally by customer, having three separate segments that sell to (1) the automotive and industrial market, (2) the mobile phone market, and (3) the data-networking market. The automotive and industrial segment is doing well, but the other two segments are faltering, which is a reason why Motorola is trying to divest its semiconductor operations. A divisional structure by process is similar to a functional structure, because activities are organized according to the way work is actually performed. However, a key difference between these two designs is that functional departments are not accountable for profits or revenues, whereas divisional process departments are evaluated on these criteria. An example of a divisional structure by process is a manufacturing business organized into six divisions: electrical work, glass cutting, welding, grinding, painting, and foundry work. In this case, all operations related to these specific processes would be grouped under the separate divisions. Each process (division) would be responsible for generating revenues and profits.

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structure by process can be particularly effective in achieving objectives when distinct production processes represent the thrust of competitiveness in an industry.

The Strategic Business Unit (SBU) Structure

As the number, size, and diversity of divisions in an organization increase, controlling and evaluating divisional operations become increasingly difficult for strategists. Increases in sales often are not accompanied by similar increases in profitability. The span of control becomes too large at top levels of the firm. For example, in a large conglomerate organization composed of 90 divisions, such as ConAgra, the chief executive officer could have difficulty even remembering the first names of divisional presidents. In multidivisional organizations, an SBU structure can greatly facilitate strategy-implementation efforts. ConAgra has put its many divisions into three primary SBUs: (1) food service (restaurants), (2) retail (grocery stores), and (3) agricultural products.

The SBU structure groups similar divisions into strategic business units and delegates authority and responsibility for each unit to a senior executive who reports directly to the chief executive officer. This change in structure can facilitate strategy implementation by improving coordination between similar divisions and channeling accountability to distinct business units. In a 100-division conglomerate, the divisions could perhaps be regrouped into 10 SBUs according to certain common characteristics, such as competing in the same industry, being located in the same area, or having the same customers.

Two disadvantages of an SBU structure are that it requires an additional layer of management, which increases salary expenses. Also, the role of the group vice president is often ambiguous. However, these limitations often do not outweigh the advantages of improved coordination and accountability. Another advantage of the SBU structure is that it makes the tasks of planning and control by the corporate office more manageable.

Citigroup in 2009 reorganized the whole company into two SBUs: (1) Citigroup, which includes the retail bank, the corporate and investment bank, the private bank, and global transaction services; and (2) Citi Holdings, which includes Citi's asset management and consumer finance segments, CitiMortgage, CitiFinancial, and the joint brokerage operations with Morgan Stanley. Citigroup's CEO, Vikram Pandit, says the restructuring will allow the company to reduce operating costs and to divest (spin off) Citi Holdings.

The huge computer firm Dell Inc., reorganized in 2009 into two SBUs. One SBU is Consumer Products and the other is Commercial. As part of its reorganization, Dell deleted the geographic divisions within its Consumer Products segment. However within its Commercial segment, there are now three worldwide units: (1) large enterprise, (2) public sector, and (3) small and midsize businesses. Dell is also closing a manufacturing facility in Austin, Texas, and laying off more employees as the company struggles to compete. Computer prices and demand are falling as competition increases. Atlantic Richfield Fairchild Industries, and Honeywell International are examples of firms that successfully use an SBU-type structure.
As illustrated in Figure 7-4, Sonoco Products Corporation, based in Hartsville, South Carolina, utilizes an SBU organizational structure. Note that Sonoco's

SBUs—Industrial Products and Consumer Products—each have four autonomous divisions that have their own sales, manufacturing, R&D, finance, HRM, and MIS functions.

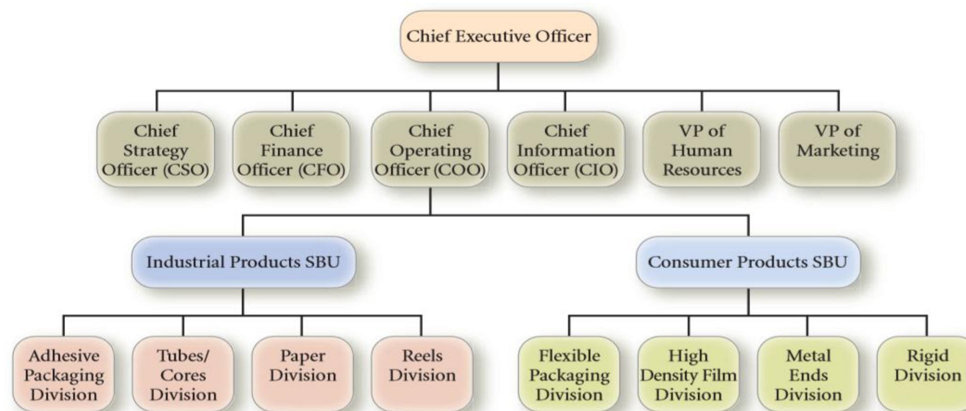
The Matrix Structure

A matrix structure is the most complex of all designs because it depends upon both vertical and horizontal flows of authority and communication (hence the term matrix). In contrast, functional and divisional structures depend primarily on vertical flows of authority and communication. A matrix structure can result in higher overhead because it creates more management positions. Other disadvantages of a matrix structure that contribute to overall complexity include dual lines of budget authority (a violation of the unity-of-command principle), dual sources of reward and punishment, shared authority, dual reporting channels, and a need for an extensive and effective communication system.

Despite its complexity, the matrix structure is widely used in many industries, including construction, health care, research, and defense. As indicated in Table 7-9, some advantages of a matrix structure are that project objectives are clear, there are many channels of communication, workers can see the visible results of their work, and shutting down a project can be accomplished relatively easily. Another advantage of a matrix structure is that it facilitates the use of specialized personnel, equipment, and facilities. Functional resources are shared in a matrix structure, rather than duplicated as in a divisional structure. Individuals with a high degree of expertise can divide their time as needed among projects, and they in turn develop their own skills and competencies more than in other structures. Walt Disney Corp. relies on a matrix structure.

FIGURE 7-4

Sonoco Products' SBU Organizational Chart



A typical matrix structure is illustrated in Figure 7-5. Note that the letters (A through Z4) refer to managers. For example, if you were manager A, you would be responsible for financial aspects of Project 1, and you would have two bosses: the Project 1 Manager on site and the CFO off site.

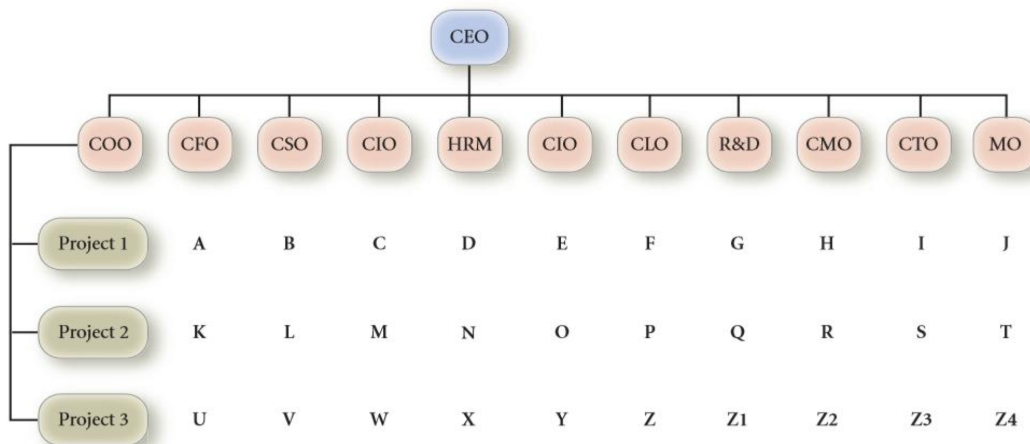
TABLE 7-9 Advantages and Disadvantages of a Matrix Structure

Advantages	Disadvantages
1. Project objectives are clear	1. Requires excellent vertical and horizontal flows of communication
2. Employees can clearly see results of their work	2. Costly because creates more manager positions
3. Shutting down a project is easily accomplished	3. Violates unity of command principle
4. Facilitates uses of special equipment/ personnel/facilities	4. Creates dual lines of budget authority
5. Functional resources are shared instead of duplicated as in a divisional structure	5. Creates dual sources of reward/punishment
	6. Creates shared authority and reporting
	7. Requires mutual trust and understanding

For a matrix structure to be effective, organizations need participative planning, training, clear mutual understanding of roles and responsibilities, excellent internal communication, and mutual trust and confidence. The matrix structure is being used more frequently by U.S. businesses because firms are pursuing strategies that add new products, customer groups, and technology to their range of activities. Out of these changes are coming product managers, functional managers, and geographic-area managers, all of whom have important strategic responsibilities. When several variables, such as product, customer, technology, geography, functional area, and line of business, have roughly equal strategic priorities, a matrix organization can be an effective structural form.

FIGURE 7-5

An Example Matrix Structure



Notes: 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)

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. The chairman of the board and CEO of Bristol-Myers Squibb, Peter Dolan, recently gave up his title as chairman. However, Pfizer's CEO, Jeffrey Kindler, recently added chairman of the board to his title when he succeeded Hank McKinnell as chairman of Pfizer's board. And Comverse Technology recently named Andre Dahan as its president, chief executive officer, and board director. Actually, "chairperson" is much better than "chairman" for this title.

A significant movement began among corporate America in mid-2009 to split the chairperson of the board and the CEO positions in publicly held companies.6 The movement includes asking the New York Stock Exchange and Nasdaq to adopt listing rules that would require separate positions. About 37 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.
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 7-6 that these positions are labeled and placed appropriately. Note that a controller and/or treasurer would normally report to the CFO.

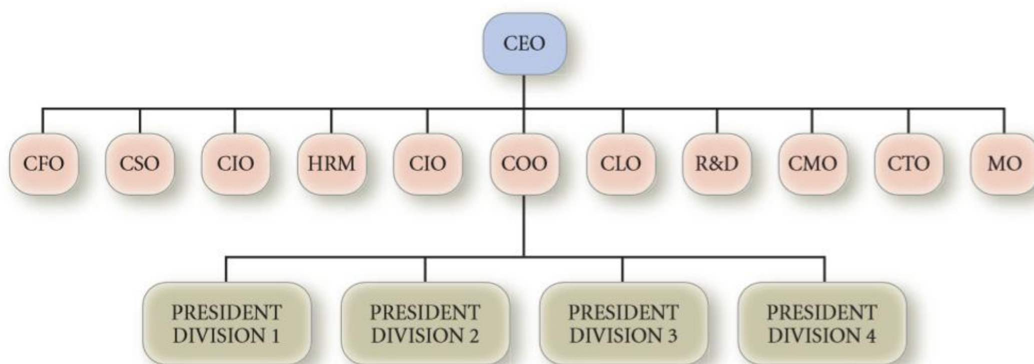
In developing an organizational chart, avoid having a particular person reporting tomore than one person above in the chain of command. This would violate the unity-of-command principle of management that "every employee should have just one boss." Also, do not have the CFO, CIO, CSO, human resource 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 upon 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 divisionalby-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 utilizes 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. Note in Figure 7-4 that the Sonoco Products' strategic business units (SBUs) are based on product groupings. An alternative SBU structure would have been to base the division groupings on location. One never knows for sure if a proposed or actual structure is indeed most effective for a particular firm. Note from Chandler's strategy-structure relationship (p. 221) illustrated previously in this chapter that declining financial performance signals a need for altering the structure.

FIGURE 7-6

Typical Top Managers of a Large Firm



Notes: Titles spelled out as follows.

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Chief Marketing Officer (CMO)
Chief Technology Officer (CTO)
Competitive Intelligence Officer (CIO)
Maintenance Officer (MO)

Restructuring, Reengineering, and E-Engineering

Restructuring and reengineering are becoming commonplace on the corporate landscape across the United States and Europe. Restructuring—also called downsizing, rightsizing, or delayering—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.

Recessionary economic conditions have forced many European companies to downsize, laying off managers and employees. This was almost unheard of prior to the mid-1990s because European labor unions and laws required lengthy negotiations or huge severance checks before workers could be terminated. In contrast to the United States, 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. Six Sigma was criticized in a 2007 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.7

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 performancerelated 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. In 2009, Walt Disney merged its ABC television network with its ABC Studios television production as part of a restructuring to cope with declining advertising and shrinking viewership. Disney also is laying off employees and offering buyouts to more than 600 executives. The Disney restructuring is paralleled by rival General Electric Company's merger of its NBC Network with its Universal Media Studios, which is also a bid to cut costs. Ad revenues at the four largest television networks in the United States fell 3 percent in 2009.

Another downside of restructuring is that many people today do not aspire to become managers, and many present-day managers are trying to get off the management track.8 Sentiment against joining management ranks is higher today than ever. About 80 percent of employees say they want nothing to do with management, a major shift from just a decade ago when 60 to 70 percent hoped to become managers. Managing others historically led to enhanced career mobility, financial rewards, and executive perks; but in today's global, more competitive, restructured arena, managerial jobs demand more hours and headaches with fewer financial rewards. Managers today manage more people spread over different locations, travel more, manage diverse functions, and are change agents even when they have nothing to do with the creation of the plan or disagree with its approach. 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 commonly portray managers as enemies or as morons.

Reengineering

The argument for a firm engaging in reengineering usually goes as follows: Many companies historically have been organized vertically by business function. This arrangement has led over time to managers' and employees' mind-sets being defined by their particular functions rather than by overall customer service, product quality, or corporate performance. The logic is that all firms tend to bureaucratize over time. As routines become entrenched, turf becomes delineated and defended, and politics takes precedence over performance. Walls that exist in the physical workplace can be reflections of "mental" walls.

In reengineering, a firm uses information technology to break down functional barriers and create a work system based on business processes, products, or outputs rather than on functions or inputs. Cornerstones of reengineering are decentralization, reciprocal interdependence, and information sharing. A firm that exemplifies complete information sharing is Springfield Remanufacturing Corporation, which provides to all employees a weekly income statement of the firm, as well as extensive information on other companies' performances.

The Wall Street Journal noted that reengineering today must go beyond knocking down internal walls that keep parts of a company from cooperating effectively; it must also knock down the external walls that prohibit or discourage cooperation with other firms—even rival firms.9 A maker of disposable diapers echoes this need differently when it says that to be successful "cooperation at the firm must stretch from stump to rump."

Hewlett-Packard is a good example of a company that has knocked down the external barriers to cooperation and practices modern reengineering. The HP of today shares its forecasts with all of its supply-chain partners and shares other critical information with its distributors and other stakeholders. HP does all the buying of resin for its many manufacturers, giving it a volume discount of up to 5 percent. HP has established many alliances and cooperative agreements of the kind discussed in Chapter 5.

A benefit of reengineering is that it offers employees the opportunity to see more clearly how their particular jobs affect the final product or service being marketed by the firm. However, reengineering can also raise manager and employee anxiety, which, unless calmed, can lead to corporate trauma.

Linking Performance and Pay to Strategies

Caterpillar Inc. is slashing its executive compensation by roughly 50 percent in 2009 and cutting pay for senior managers by up to 35 percent. Wages of other Caterpillar managers and employees are being lowered 15 percent. The company is cutting 20,000 more jobs amid a global slowdown in construction. Caterpillar's sales for 2009 are projected to be $40 billion, down sharply from $51.32 billion in 2008.

CEOs at Japanese companies with more than $10 billion in annual revenues are paid about $1.3 million annually, including bonuses and stock options.10 This compares to an average CEO pay among European firms of $6 million and an average among U.S. firms of $12 million. As firms acquire other firms in other countries, these pay differences can cause resentment and even turmoil. Larger pay packages of American CEOs are socially less acceptable in many other countries. For example, in Japan, seniority rather than performance has been 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. A chief executive officer's annual bonus could, for example, be determined on a 75 percent shortterm and 25 percent long-term basis. It is important that bonuses not be based solely on short-term results because such a system ignores long-term company strategies and objectives.

Wal-Mart Stores recently revamped its bonus program for hourly employees as the firm began paying bonuses based on sales, profit, and inventory performance at

individual stores on a quarterly, rather than annual, basis. The average full-time employee at WalMart in the United States is paid $10.51 per hour, but this is significantly below the $17.46 average paid to Costco Wholesale Corp. employees.11
One aspect of the deepening global recession is that companies are instituting policies to allow their shareholders to vote on executive compensation policies. A “sayon-pay” policy was installed at 14 large companies in 2008–2009. 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 in 2009 were Ingersoll-Rand, Verizon, and Motorola. In 2010 and 2011, Occidental Petroleum and Hewlett-Packard are expected to institute such policies. 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.

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.

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, agreedupon 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?

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."

Many countries worldwide are curbing executive pay in the wake of a global financial crisis. For example, the German cabinet recently imposed a $650,000 annual salary cap on banks that receive any government-backed capital injections. The German cabinet also imposed a ban on bank executive bonuses, stock options, and severance payments through 2012. Companies worldwide that participate in government bailouts or capital infusions are increasingly being constrained in executive compensation. The U.S. House of Representatives and Senate members severely criticized the CEOs of Ford, GM, and Chrysler for being paid so much in the face of failing companies.

There is rising public resentment over executive pay, and there are government restrictions on compensation. Based in Thousand Oaks, California, Amgen recently directed all shareholders to a 10-item questionnaire asking them what they think about the firm's compensation plan. Schering-Plough Corp. was going to use a similar

survey just as it agreed to be acquired by Merck & Co. Home Depot now meets with shareholders regularly to hear their concerns. In April 2009, Royal Bank of Scotland Group PLC voted 9-to-1 against the bank's 2008 compensation package.

Executive pay declined slightly in 2008 and is expected to decrease somewhat substantially in 2009 as pressure for shareholders and government subsidy constraints lower payouts. The five CEOs who in 2008 received the highest compensation in a recent survey are Sanjay Jha at Motorola ($104 million), Ray Irani at Occidental Petroleum ($49.9 million), Robert Iger at Walt Disney ($49.7 million), Vikram Pandit at Citigroup ($38.2 million), and Louis Camilleri at Philip Morris ($36.4 million).

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 changecan 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 upon 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 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.

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 upon 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 7-10, numerous techniques are available to alter 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, buildings.
3. Deliberate role modeling, teaching, and coaching by leaders.
4. Explicit reward and status system, 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 people.

TABLE 7-10 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/practices

In the personal and religious side of life, the impact of loss and change is easy to see. 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." 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

Production/Operations Concerns When Implementing Strategies

Production/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 7-11 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 United States, Huffy, recently ended its own production of bikes and now contracts out those services to Asian and Mexican manufacturers. Huffy focuses instead onthe 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.

TABLE 7-11 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.

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.

For high-technology companies, production costs may not be as important as production flexibility because major product changes can be needed often. Industries such as biogenetics and plastics rely on production systems that must be flexible enough to allow frequent changes and the rapid introduction of new products. An article in the Harvard Business Review explained why some organizations get into trouble:

They too slowly realize that a change in product strategy alters the tasks of a production system. These tasks, which can be stated in terms of requirements for cost, product flexibility, volume flexibility, product performance, and product consistency, determine which manufacturing policies are appropriate. As strategies shift over time, so must production policies covering the location and scale of manufacturing facilities, the choice of manufacturing process, the degree of vertical integration of each manufacturing facility, the use of R&D units, the control of the production system, and the licensing of technology.

A common management practice, cross-training of employees, can facilitate strategy implementation and can yield many benefits. Employees gain a better understanding

of the whole business and can contribute better ideas in planning sessions. Cross-training employees can, however, thrust managers into roles that emphasize counseling and coaching over directing and enforcing and can necessitate substantial investments in training and incentives.

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 in 2009 included Gulfstream Aerospace, Media General, Gannett, the University of Maryland, Clemson University, and Spansion. Recent research shows that 11 percent of larger U.S. companies implemented furloughs during the global economic recession.21 Winnebago Industries, for example, required all salaried employees to take a week-long furlough, which saved the company $850,000. The Port of Seattle saved $2.9 million by furloughing all of its 800 nonunion workers, mostly professionals, for two weeks. Table 7-12 lists ways that companies today are reducing labor costs to stay financially sound.

The job of human resource manager is changing rapidly as companies continue to downsize and reorganize. Strategic responsibilities of the human resource manager include assessing the staffing needs and costs for alternative strategies proposed during strategy formulation and developing a staffing plan for effectively implementing strategies. This plan must consider how best to manage spiraling health care insurance costs. Employers' health coverage expenses consume an average 26 percent of firms' net profits, even though most companies now require employees to pay part of their health insurance premiums. The plan must also include how to motivate employees and managers during a time when layoffs are common and workloads are high.

TABLE 7-12 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 3 days a week (Toyota Motor is doing this)
Layoffs
Early retirement
Reducing/eliminating bonuses

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

The human resource department must develop performance incentives that clearly link performance and pay to strategies. The process of empowering managers and employees through their involvement in strategic-management activities yields the greatest benefits when all organizational members understand clearly how they will benefit personally if the firm does well. Linking company and personal benefits is a major new strategic responsibility of human resource managers. Other new responsibilities for human resource managers may include establishing and administering an employee stock ownership plan (ESOP), instituting an effective child-care policy, and providing leadership for managers and employees in a way that allows them to balance work and family.

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.

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.

It is surprising that so often during strategy formulation, individual values, skills, and abilities needed for successful strategy implementation are not considered. It is rare that a firm selecting new strategies or significantly altering existing strategies possesses the right line and staff personnel in the right positions for successful strategy implementation. The need to match individual aptitudes with strategy-implementation tasks should be considered in strategy choice.

Inadequate support from strategists for implementation activities often undermines organizational success. Chief executive officers, small business owners, and government agency heads must be personally committed to strategy implementation and express this commitment in highly visible ways. Strategists' formal statements

about the importance of strategic management must be consistent with actual support and rewards given for activities completed and objectives reached. Otherwise, stress created by inconsistency can cause uncertainty among managers and employees at all levels.

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 10 million employees. ESOPs now control more than $600 billion in corporate stock in the United States.

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 7-13.

TABLE 7-13 Fifteen Example ESOP Firms

Firm	Headquarters Location
Publix Supermarkets	Florida
Science Applications	California
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

Source: Based on Edward Iwata, “ESOPs Can Offer Both Upsides, Drawbacks,” *USA Today* (April 3, 2007): 2B.

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 United States 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. In the past, because of high employee turnover and entry-level wages for many line jobs, these employees received far less attention and recognition than managers. We now tell the tea cart server, "You own the place. 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, 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.

Balancing Work Life and Home Life

Work/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/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 eight best companies for working women in 2009 are provided in Table 7-14. Working Mother also conducts extensive research to determine the best U.S. firms for women of color.

TABLE 7-14 A Few Excellent Workplaces for Women

1. Abbott—An elaborate child care center at headquarters serves 670 infants, toddlers, and pre-schoolers; employees can visit their children during the day.
2. Allstate Insurance—Child care centers are abundant: all employees have access to discounted child care.
3. American Express—Flex scheduling and tuition reimbursement enable most employees to continue their education.
4. Citi—Telecommuting for employees makes caring for family a priority.
5. Fannie Mae—Reimburses tuition-related expenses up to $10,000 per child; provides four weeks of paid maternity leave.
6. IBM—Work/life balance is an integral part of the IBM culture.
7. Johnson & Johnson—Nearly all employees say you never have to choose between family and work at J&J.
8. Merck & Company—Flextime and tuition reimbursement are available to nearly all Merck employees.

Source: Based on 2009 Web site, http://www.workingmother.com/web?service=direct/1/ViewArticlePage/dlinkFullArticle&sp=1780&sp=94.

Human resource managers need to foster a more effective balancing of professional and private lives because nearly 60 million people in the United States are now part of two-career families. 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/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/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/family topic is being made part of the agenda at meetings and thus is being discussed in many organizations.

Only 2.6 percent of Fortune 500 firms have a woman CEO. However, recent studies have found that companies with more female executives and directors outperform other firms.24 Judy Rosener at the University of California, Irvine, says, "Brain scans prove that men and women think differently, so companies with a mix of male and female executives will outperform competitors that rely on leadership of a single sex." It is not that women are better than men, Rosener says. It is the mix of thinking styles that is key to management effectiveness.

During the first week of 2009, Ellen Kullman replaced Chad Holliday as CEO of DuPont, which brought to 13 the number of female CEOs running the 500 largest public firms in the United States. Thirteen is a record number, but only one more than the total for the prior year. Lynn Elsenhans became CEO of Sunoco in 2008. In 2008, two Fortune 500 women CEOs departed: Meg Whitman at eBay and Paula Reynolds at Safeco.
USA Today tracks the performance of women CEOs versus male CEOs, and their research shows virtually no difference in the two groups.25 The year 2008 saw the S&P 500 stocks fall 38.5 percent, its worst year since 1937. The stock of firms that year with women CEOs fell 42.7 percent, but some firms run by women CEOs did much better, such as Kraft Foods, down only 18 percent under Irene Rosenfeld. Two firms doing great under woman CEOs are Avon under Andrea Jung and Reynolds American under Susan Ivey. Those stocks are up 65.4 percent and 20.8 percent, respectively, since those women became CEO. Table 7-15 gives the 13 Fortune 500 Women CEOs in 2009.

TABLE 7-15 Fortune 500 Women CEOs in 2009

CEO	Company	Fortune 500 Rank
Angela Braly	WellPoint	33
Patricia Woertz	Archer Daniels Midland	52
Lynn Elsenhans	Sunoco	56
Indra Nooyi	PepsiCo	59
Irene Rosenfeld	Kraft Foods	63
Carol Meyrowitz	TJX	132
Mary Sammons	Rite Aid	142
Anne Mulcahy	Xerox	144
Brenda Barnes	Sara Lee	203
Andrea Jung	Avon Products	265
Susan Ivey	Reynolds American	290
Christina Gold	Western Union	473

There is great room for improvement in removing the glass ceilingdomestically, 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 United States leads the world in promoting women and minorities into mid- and top-level managerial positions in business.

Boeing's firing of CEO Harry Stonecipher for having an extramarital affair raised public awareness of office romance. However, just 12 percent of 391 companies surveyed by the American Management Association have written guidelines on office dating.26 The fact of the matter is that most employers in the United States turn a blind eye to marital cheating. Some employers, such as Southwest Airlines, which employs more than 1,000 married couples, explicitly allow consensual office relationships. Research suggests that more men than women engage in extramarital affairs at work, roughly 22 percent to 15 percent; however, the percentage of women having extramarital affairs is increasing steadily, whereas the percentage of men having affairs with co-workers is holding steady.27 If an affair is disrupting your work, then "the first step is to go to the offending person privately and try to resolve the matter. If that fails, then go to the human-resources manager seeking assistance."28 Filing a discrimination lawsuit based on the affair is recommended only as a last resort because courts generally rule that co-workers' injuries are not pervasive enough to warrant any damages.

Benefits of a Diverse Workforce

Toyota has committed almost $8 billion over 10 years to diversify its workforce and to use more minority suppliers. Hundreds of other firms, such as Ford Motor Company and CocaCola, are also striving to become more diversified in their workforces. TJX Companies, the parent of 1,500 T. J. Maxx and Marshall's stores, has reaped great benefits and is an exemplary company in terms of diversity.

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 A recent BusinessWeek cover story article details how firms are striving to lower the accelerating costs of employees' health-care insurance premiums.29 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."

Slightly more than 60 percent of companies with 10,000 or more employees had a wellness program in 2008, up from 47 percent in 2005.30 Among firms with wellness programs, the average cost per employee was $7,173. However, in the weak economy of late, companies are cutting back on their wellness programs. Many employees say they are so stressed about work and finances they have little time to eat right and exercise. PepsiCo in 2008 introduced a $600 surcharge for all its employees that smoke; the company has a smoking-cessation program. PepsiCo's smoking quit rate among employees increased to 34 percent in 2008 versus 20 percent in 2007.

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 by as much as 19 percent, according to a recent article. New York City now requires restaurants to inform customers about levels of trans fat being served in prepared foods. Chicago is considering a similar ban on trans fats. Denmark in 2003 became the first country to strictly regulate trans fats.

Restaurant chains are only slowly reducing trans fat levels in served foods because (1) trans fat oils make fried foods crispier, (2) trans fats give baked goods a longer shelf life, (3) trans fat oils can be used multiple times compared to other cooking oils, and (4) trans fat oils taste better. Three restaurant chains have switched to oils free of trans fat—Chili's, Ruby Tuesday, and Wendy's—but some chains still may use trans fat oils, including Kentucky Fried Chicken, McDonald's, Dunkin' Donuts, Taco Bell, and Burger King. Marriott International in February 2007 eliminated trans fats from the food it serves at its 2,300 North American hotels, becoming the first big hotel chain to do so, although the 18-hotel Lowes luxury chain is close behind. Marriott's change includes its Renaissance, Courtyard, and Residence Inn brands.
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 7-16 may significantly improve health and longevity.