Global Structural Design and Results: PepsiCo Case

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As a global company, PepsiCo represents an interesting case study for the review of some theoretical elements of structural design: (1) international development level, from Galbraith (2000), (2) international structure, from Ashkenas, Ulrich, Jick, and Kerr (2002), and (3) healthiness level of its hierarchy. Also, in order to assess the organization’s level of flexibility, the article focuses on PepsiCo’s Mexico Food (PMF) business unit and its Consumer Strategic Insights (CSI) department. PepsiCo is a company that intends to continue its growth by strategically increasing its participation in the healthy food market; in this process, the company has faced many challenges and setbacks that add an interesting perspective for this review.

PepsiCo Global

According to PepsiCo’s SEC (Securities Exchange Commission) filings, it is a multinational food and beverage company, present in more than 200 countries and regions, organized in four business units: (1) PepsiCo Americas Foods (PAF), which includes Frito-Lay North America (FLNA), Quaker Foods North America (QFNA), and all of the Latin American food and snack businesses (LAF); (2) PepsiCo Americas Beverages (PAB), which includes all North American and Latin American beverage businesses; (3) PepsiCo Europe, which includes all beverage, food and snack businesses in Europe; and (4) PepsiCo Asia, Middle East and Africa (AMEA), which includes all beverage, food and snack businesses in AMEA (PepsiCo, 2012). According to Galbraith, there are five levels of international development: (1) seller; (2) local partner; (3) start-up of foreign operations (FO); (4) implementer FO; and (5) contributor/leader of FO (Galbraith, 2000, p. 36). PepsiCo is located in the level five, which has the following characteristics: (1) international product development; (2) international brand management; (3)
international partnering; (4) transfer and modification resource advantage from any country; (5) cross-unit integration; and (6) management of distributed headquarters (p. 46-47). Galbraith contends: “The organizational challenge to a multinational company has always been the integration of activities that take place in different countries” (p. 3).

PepsiCo, as with most organizations, has adopted a geographical division. Galbraith (2000) said that this structural strategy is implemented due to the following reasons: (1) the customary start-up activities of an expansion—sales, distribution, service, and local marketing—are best organized on a geographical basis; (2) to provide emphasis and focus; (3) to signal strategic positions and possible candidates for upper levels; and (4) allocate and conserve scarce resources (p. 71-72).

PepsiCo has almost 300 thousand employees around the world (PepsiCo, 2012b). According to its webpage, their guiding principles are: “We must always strive to: (1) care for our customers, consumers and the world we live in; (2) sell only products we can be proud of; (3) speak with truth and candor; (3) balance short term and long term; (4) win with diversity and inclusion; (5) respect others and succeed together” (PepsiCo, 2012a). The application of these principles includes all the stakeholders of the company, which is, by the way, a complex task to promote and evaluate. In the line of brand value, Pepsi is ranked in the 22nd place on the Interbrand list. This list evaluates the top global brands’ value; it is interesting that Coca-Cola, PepsiCo’s main competitor, has kept its position as the world’s most valuable brand for the past 12 years (Wharton, 2003, p. 3).

Indra Nooyi has been PepsiCo’s CEO since 2006 (PepsiCo, 2012c). Her main strategic goal is to transform the company “from a purveyor of sugar-laden bubbly beverages and salty snacks, into one that has healthier and more wholesome offerings” (Wharton, 2012, p. 1). However, in the implementation of this strategic process there are some financial setbacks that the company is facing nowadays. “Investors are impatient. Some accuse Nooyi of focusing too intensely on her strategy while overlooking PepsiCo’s North American soft drink business,” which is today’s highest source of revenues (p. 1). Some analysts stated that Nooyi should not abandon her plans; but, rather, she needs to develop a strategy that better balances the short term with the long term. According to Yoram (Jerry) Wind, Wharton’s director of the SEI Center for Advanced Studies in Management, “Companies can be socially responsible, provide more nutritional and healthier products and still be profitable, but it requires careful management of board and Wall Street expectations” (p. 4).

**PepsiCo’s Executives’ Income and Hierarchy**

**Heroic leadership style and the statements of the top executives.** Stauffer (1998) said that the heroic leadership style is like “CEO-as Patton genre of leadership.” He also mentioned that it is common for organizations to fall into what he called “the self-reinforcing heroic circle” which has the following elements: (1) the leader feels responsible for the group, directions,
structure, and management; (2) the leader takes the initiative, controls the agenda, makes the important decisions; (3) subordinates agree that the leader is responsible for the overall group; (4) subordinates focus on their own subunits; (5) subordinates contribute, but within limited boundaries, provide weak pushback against the leader’s ideas; (6) leaders sense lack of ownership. Then the circle returns to first element and so on. This is a cycle that has the power to self-reinforce the paradigm with its implied virtues and defects. In the 10K SEC filing report, the board of directors made the following statement: “PepsiCo’s Board of Directors…is responsible for overseeing the company’s risk assessment and mitigation, receives updates on key risks throughout the year” (PepsiCo, 2012b). This statement emphasizes the paradigm of heroic leaders and reinforces the hierarchy paradigm, regardless of if it is a healthy one or not (Ashkenas et al., 2002, p. 42). Ashkenas et al. (2002) said that, in vertical hierarchies, roles are clearly defined and more authority resides higher up in the organization than in lower levels…when rank has its privilege, it is a clear symbol of vertical boundaries (p. 10). They also contend that healthy hierarchies are those that meet the success requirements of organizations for the twenty-first century: speed, flexibility, innovation and integration (p. 42).

**Healthy vs. unhealthy hierarchy.** According to the proxy report, PepsiCo’s CEO earns the highest salary in the company and has access to the greatest compensation package (stock options), followed in amount and access by the immediate inferior organizational ranks and so on (PepsiCo, 2012a, p. 33–38). It seems that this very fact accentuates the hierarchical-heroic paradigm in the company. Traditional hierarchies reward based on positions and levels, and not in superior performance (Ashkenas et al., 2002, p. 50). Despite the fact that hierarchies are required, as Keidel (1995) stated: “No society, organization, or family can ever function without some measure of hierarchical control, role specialization, and sense of limit,” (p. 22), the real question is whether these hierarchies are healthy or unhealthy. Ashkenas et al. (2002) said “there are five warning signals of a dysfunctional hierarchy: (1) slow response time: when an organization takes too long to make decisions, respond to customer requests, or react to changes in market conditions; (2) rigidity toward change: when an organization insists “we have always done this way,” or spend more effort finding ways not to change than on changing; (3) underground activity: when creativity and innovation are driven underground; (4) internal frustration: employees and managers feel dissatisfied with the organization, the way it works and the way it treats them; (5) customer alienation: customers feel frustrated and angry because they feel they are not listened to” (p. 44). Wind pointed out some of the mistakes that have been made under Nooyi’s leadership: “They allowed the firm’s core brand to languish…PepsiCo elected not to advertise during the Super Bowl telecast, one of the most-watched TV events of the year; instead they spent 20 million dollars in a project named the Pepsi refresh project to support local communities; however, according to Advertising Age this project has not had a major influence on the brand’s bottom line. During China’s Olympic Games, Coca-Cola invested heavily in marketing; now they have 17 percent of the market. PepsiCo did not market aggressively in the same period; as a result, PepsiCo’s market share fell to 6 percent. Coca-Cola invested 10 million dollars in the American Idol TV show, after PepsiCo passed on the opportunity to sponsor it;
later on, they sponsored the X Factor, a competing TV show to American Idol, at the cost of 60 million dollars” (Wharton, 2012, p. 3). PepsiCo seems to have been reactive, or at least slow to move in their marketing strategies. The relationship between unhealthy hierarchy and the reward system based on positions are evident. Ashkenas et al. (2002) contend that, in order to create healthy hierarchies, the basis of the reward system must be changed from position to performance with two main objectives: (1) to recognize past performance; and (2) to stimulate competent (or different) performance in the future...people who make good contributions and add to their skills are rewarded (2002, p. 51).

When reviewing these statements in the internal documents of the company, and the observations made by other market analysts, the conclusion is that PepsiCo is a traditional semi-rigid (unhealthy) hierarchy trying to move ahead into a more healthy structure in order to become more competitive in the market. The task is possible, if Wall Street gives them enough time to accomplish it (Wharton, 2012, p. 4). PepsiCo’s third guiding principle is attaining balance with the long and short term, which may be the Achilles’ heel of Nooyi and other PepsiCo top executives (p. 4). The chances to be successful in their plans would increase if the reward system would change from being a reward system based on position to one based on performance.

PepsiCo Foods Mexico and the CSI department

PepsiCo Foods Mexico (PFM). In order to review PepsiCo’s organizational structure in their Mexico business unit, an interview with Jorge Rubio, national director of CSI (Consumer Strategic Insights) for PFM, was conducted. This unit has two main divisions: beverage and foods. Due to the fact that Rubio’s office is situated inside the foods division, this section of the article focuses on PFM and the CSI department.

According to the SEC 10K report, Latin American foods (LAF) represent $7.2 billion in revenues (PepsiCo, 2012b, p. 4); Rubio said that PFM contributes with $5 billion; representing 7 percent of PepsiCo’s total sales (J. Rubio, personal communication, October 25, 2012). There are three business units within PFM division: (1) Gamesa (cookies and crackers) with headquarters in Monterrey; (2) Sabritas (similar to Lay’s chips), with headquarters in Mexico City; and (3) Quaker (cereals and healthy food) with headquarters in Guadalajara. The three business units are in a merger process since March of 2012; at the end of this process, there will be one business unit with three different approaches according to the market category in which they are competing (J. Rubio, personal communication, October 25, 2012). PFM competes with a leading position in cookies and crackers (Gamesa) and in chips (Sabritas); and also has a small market share in candy categories (Sonrics). In all three categories, the main competitor is Bimbo, which is the largest baking products manufacturer in the world (J. Rubio, personal communication, October 25, 2012).

The above-mentioned categories in Mexico have an estimated market value of 15 billion, and PFM has a market share of 5 billion or thirty-three percent of the market (J. Rubio, personal}
communication, October 25, 2012). Rubio pointed out that the core of this strategic market battle is distribution. Eighty percent of sales are made through direct sales to changarros (family-owned small stores). Coca-Cola is the leader in distribution with a scope of 1.2 million of changarros, whereas Gamesa can only reach 700 thousand changarros (J. Rubio, personal communication, October 25, 2012). This means that every day, thousands of vehicles transport these companies’ products nationwide. There is a popular saying among the Mexican people: they say that even in the most remote villages of the sierra, you will find a changarro with Coca-Cola, Bimbo bread, Gamesa cookies, and Sabritas chips on sale. For this to happen, every company needs to have a highly efficient logistics system to deal with transportation, information technologies, storage, label and packaging requirements, to keep the products fresh and the like (J. Rubio, personal communication, October 25, 2012).

Nadler and Tushman said: “No strategy, no matter how dazzling it looks on paper, can succeed unless it is consistent with the structural and cultural capabilities of the organization” (1997, p. 20). The success of these important competing companies shows that they are consistent in their strategies and capabilities, although their distribution methods may differ.

**CSI.** The interview took place in an office named the brain spa, where CSI members carried out customer qualitative studies. For guests and outsiders, there is not a clue that this office belongs to PFM; everything is designed and planned in such a way that it gives visitors the impression that this office belongs to an independent marketing research company. Nothing in the office is uniform; there are different kinds of chairs, pillows, futons and all in different colors and forms. There are no furniture tables in the place. The fact is that the brain spa is actually a Gesell chamber but it does not look like one; a giant picture of a fishbowl disguises the mirror’s surface. On one side of the room there is bookcase with creativity books and table games to promote creative thinking processes; next to the bookcase, there is a poster which explains the rules of the brain spa: (1) strictly business—consumer’s creativity and innovation; (2) keep it cool and keep it clean; (3) be a stranger, leave your ID at the door; (4) thank you for not smoking; (5) spread the word, talk to someone about it; (6) practice curiosity; (7) take risks, make mistakes; (8) be polite, don’t be loud. Jorge Rubio, a marketing veteran in the company with 25 years of experience in the field, proudly explained that their intention was that the brain spa be similar to Google’s corporate creativity center, a place where flexibility and discontinuity carry out to creative processes to find productive ideas (J. Rubio, personal communication, October 25, 2012).

In the interview, Rubio pointed out that they decided to change the name and the strategic structure of the former marketing research department (MRD) in order to make it clear that the department was to be more proactive and flexible, not limited to merely being a distributor of the information obtained from the customers. The aim is that this area becomes a change agent for PFM’s commercial area, leading faster reactions to meet their consumers’ requirements, preferences and likes (J. Rubio, personal communication, October 25, 2012). The steps taken at CSI made it clear that their intention is to increase their value offer to PFM. Handy pointed out
that it is expected that executives not only do all that is required in their job’s description, but in some way that they improve on that, to make the difference, to show responsible and appropriate initiative, to increase the potentiality of the position and its contribution to the organizational strategic goals (Handy, 1989, p. 130).

The structural design of CSI has two main groups: (1) insights BU’s, insights team inside each business unit (Gamesa, Sabritas and Sonrics) that supports in research and brand strategy, and (2) the CSI support center, the insights team which designs and executes, with qualitative and quantitative research methodologies, in-house customer studies to support marketing and sales strategies. Regarding the integration of CSI’s team, Rubio stated: “To integrate the CSI department we followed these steps: (1) establish the vision; (2) define core strategies; (3) build a team; (4) assign positions and responsibilities (structure); (5) execution” (J. Rubio, personal communication, October 25, 2012). Although the elements are presented in a different order, they are similar to Galbraith’s star model which has these five elements: “(1) strategy, which is the company’s formula for winning; (2) structure, which determines the placement of power and authority in the organization; (3) processes, information and decisions across the organization in vertical and horizontal processes; (4) rewards, its purpose is to align the goals of the employees with the goals of the organization; (5) people, human resources policies of recruiting, selection, rotation, training, and development” (Galbraith, 2002, p. 9-14).

CSI’s organizational structure is flexible, with an approach on matrix-like processes. It is expected that every business unit and individual become: (1) fast, (2) flexible, (3) efficient, (4) focused on customers, (5) trustworthy, and (6) motivated (J. Rubio, personal communication, October 25, 2012). These characteristics can become a strategic advantage for this business to cope with the requirements of today’s organizations to be competitive. According to Galbraith, there are six organization’s shapers: (1) buyer power, (2) variety and solutions, (3) the Internet, (4) multiple dimensions, (5) change, and (6) speed (Galbraith, 2002, p. 4-6). If CSI department continues to demand and develop these characteristics on each BU and their individuals, they may maintain their market leadership position in the future.

Near the end of the interview, Rubio said that he encourages CSI’s employees to demand for the kind of training that will be useful for increasing their effectiveness in their jobs (J. Rubio, personal communication, October 25, 2012). This approach is aligned with Handy’s proposition for employees to become responsible for their own development as well as the improvement of their job positions (Handy, 1989, p. 130). In this paradigm of a flexible organization, in which it is expected that employees be more self-responsible, the task of managers is that they be more like a teacher, counselor and friend, as much as or more than being a commander, inspector, and judge (p. 132).

Nadler and Tushman pointed out four imperatives in organizational design, and explained them as follows: “(1) organizational design is an essential and ongoing part of each manager’s job; (2)
organizational design emanates from the overall visions for the organization; (3) as managers make design decisions, they must constantly balance the two aspects of organization—the effectiveness of the design in terms of performing the work required by the strategic objectives and the design’s impact on individuals, group relationships, and the political dynamics of the organization; (4) the ultimate goal of design is to use creatively the new structural materials and collateral technologies to achieve a fundamentally new architecture” (Nadler & Tushman, 1997, p. 14). During the interview, Rubio made it evident that, throughout his career as marketing specialist in the company, he has dealt with these imperatives several times. This theoretical reference seems to be aligned with the practical application inside PFM.

**Conclusions**

Change process implementation becomes more difficult in complex organizations, as is the case of PepsiCo. Unhealthy hierarchies are closely related to reward systems based on position instead of performance. Healthy hierarchies are fast, flexible, innovative and integrative. It is easier to integrate and develop these characteristics in small business units or departments. The attitude of the BU’s leader toward building a healthy hierarchy will determine the unit’s level of flexibility and effectiveness. Strategic and structural changes require from the leaders who promote it, that they consider short and long-term risks, as well as the efforts and consequences implicit in their decisions.

**About the Author**

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**References**


