THE ORGANIZATIONAL CHANGE PROCESS
ANALYSIS THROUGH TWO CASE STUDIES

by

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ABSTRACT

Because of the rapidly changing business environment which
faces companies today, managers are increasingly interested in the
process of organizational change. Worldwide competition, the
increasing pace of technology development, increased government
regulations, and the changing relationship between employees and
their organizations, put demands on today's corporations which did
not exist 10 or 20 years ago. Corporations must become more flexi-
ble, more able to change their strategies, structures and cultures,
to maintain growth and profitability.

This thesis examines the process of organizational change
through a literature survey and two case studies - Bausch & Lomb,
Inc., and Hershey Foods Corporation. Information on these two
companies was collected through business periodicals, annual
reports, and interviews with management personnel.

Three key results are discussed in this thesis. First, in
each case, one individual emerged as a strong leader, and critical
element of the change process. Secondly, that individual developed,
over a period of time, a very clear vision of what the company
needed to do to turn around and improve growth and profitability.
Thirdly, they were then able to share their vision with others in
the organization in such a way that enthusiasm and a drive for
change was developed among many people in the organization. In both
cases, a specific strategic management process was developed, the
structure of the management hierarchy was changed, and steps were
taken to push the vision of the future down into the organization,
thereby addressing needs for cultural change among employees.

Due to the particular challenges which a company faces,
each change situation is unique. Its market position in the indus-
try, competitors, the possibility of substitute products or services,
the internal strengths of management personnel, and the skills of
operational employees, all contribute to the determination of a
strategy with which the company can meet challenges to sustain growth and profitability. The two cases studied faced unique situations; the solutions to those situations are described.

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INTRODUCTION

Background

Today's rapidly changing environment is requiring organizations to change at a more rapid pace than they have in the past. Technological advances are occurring at an astounding pace, government and regulatory issues are becoming more complex, the marketplace has become worldwide rather than regional, and societal values and needs are changing rapidly. In order to maintain a competitive advantage and to have higher growth and profitability than the average of a given industry, a company must meet these challenges effectively.

American corporations are at a critical watershed because they face a transforming economic and social environment which has emerged since the 1960's. This new context for corporate America makes past responses less effective; it changes the tasks for management at all levels and encourages the search for better ways to involve the entire work force in innovative problem solving. (Kanter, 1983)

Thesis Objective

This thesis will examine the elements of the organizational change process through the use of a literature search plus two case studies. The purpose of this work is to contribute to the
development of theory targeted at understanding the process of organizational change. It focuses on the roles of the CEO and top executives of the firm, the steps which they go through to bring about a significant redirection of a company, the change tools which they employ, and their interactions with the strategy, structure, and culture of the firm.

The two companies being used as case studies in this thesis are Bausch and Lomb, Inc. and Hershey Foods Corporation. The fact that two case studies are included is not meant to imply any direct comparison of the two. Rather, common and unique elements in the two cases will be examined in light of the literature on organizational change. Because the sample of two is very small, some of the conclusions drawn may change as further case studies on this topic are carried out.

**Major Findings**

Three key points stood out in these cases: 1) a single strong leader emerged to lead the change effort; 2) that person saw very clearly the need for change, which in both cases resulted from a combination of external forces and the realization that internal strengths in key areas were lacking; and 3) these leaders were able to share their vision with many others in the organization to drive
the change process. In both cases, a formal strategic management
process was used to translate the vision into actions, and to
enhance communications among managers and among various levels of
management within the organization.

Looking at these cases, there was a period of high activity
or momentum. At Hershey it was 1976-1980, and at Bausch and Lomb it
was 1980-1984. Thus, the outcome can be assessed in the case of
Hershey, whereas it will be 4 to 5 years before the real impact of
the organizational changes at Bausch and Lomb can be evaluated.

When combined with both other case work and statistical
analysis of larger groupings of companies, these two case studies
should contribute to future, more comprehensive theory development.

Need for Organizational Change Theory

Within the last 10 to 15 years, dramatic changes have
forced a look at organizations facing nongrowth and declining
situations. The 1970's and early 1980's brought four recessions
to the United States and most of the world. Japan rose as a
significant competitor in many consumer goods and raw materials
fields; they did not participate in the recessions, continuing to
export throughout this period of time. The emphasis on product
quality/high volume/low cost gave Japanese companies a competitive advantage in several segments of the worldwide marketplace. The availability of inexpensive labor in developing countries, combined with fluctuating strength of the dollar, made it difficult for companies to justify capital investments to improve plants and equipment.

Changing societal values focused on improved quality of work life, desire for increased leisure time, and more worker protection by government, putting pressure and added expense on U.S. companies. The entrance of females into the work force and the emphasis on equal employment opportunities for females and minorities added to the issues which managements faced.

Following a period of unprecedented growth, the industrial world has experienced the rapid maturation of entire sectors, due partially to the export of traditional manufacturing activities to the developing countries and partially to severe recessions. (Thietart, 1983–84)

Now, many industries including the automotive and steel industries, and most recently consumer electronics, are facing extremely efficient overseas competition. Japanese plants are newer and more automated than American plants. The amount of personal savings in Japan, as compared with the United States, has a positive effect on their capital investment and investment in research and
development. The current strong dollar is forcing American companies
to move high labor content operations to other countries. The United
States has a huge national deficit which it will have to reduce even-
tually.

Tichy (1983) makes this point:

Rare is the American chief executive who, in
a philosophical moment, away from the daily fray,
will not say that corporations should focus more
on the future. However, in the next breath, many
of these same executives will say that the ver-
dict of Wall Street – and hence, their survival
in office – depends on producing the steady
quarter-to-quarter increases in profits that so
please the financial community.

To date, some books and several articles have addressed
parts of the issues facing stagnant or declining businesses and
firms. Much of the initial focus in the late 1970's was on Japanese
management – what accounted for their success? 'Corporate culture'
became the buzz words of the early 1980's; this element was pin-
pointed as the missing element in American management's portfolio.

Most recently, authors appear to be stepping back to take
a broader look, recognizing that strategy, structure, culture, and
management ability and vision are all critical elements to the
success of a firm. In most cases, focus cannot be placed on one
element, but an integration of all elements must be made effectively.
Practices cannot be lifted from one culture or firm and placed into another without much thought about the rationale of trying to apply those practices and how they will blend in with the existing culture and strategy of the firm.
DISCUSSION OF LITERATURE

Organizational Change

Organizational change is the process used to carry out a new direction of a firm. It includes the identification of a vision of the future, and an all-encompassing strategy which addresses the financial, product and service, and human resource issues, which will make that vision a reality.

Much of the recent literature is drawn together in Kilmann's book, Beyond the Quick Fix. While many authors address specific elements of the change process needed to develop and maintain a successful company, Kilmann draws all of the elements together into an integrated approach. He defines success as:

achieving both high performance and high morale over an extended period of time - an outcome that is only possible by managing all controllable variables in the organization.

Kilmann's program includes five tracks: 1) the culture track, 2) the management skills track, 3) the team-building track, 4) the strategy-structure track, and 5) the reward system track. All of these tracks must be implemented simultaneously, otherwise efforts to improve performance and morale will be jeopardized.

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...Essentially it is not the single approach of culture, strategy or restructuring that is inherently effective. Rather each is ineffective only if it is applied by itself – as a quick fix. It is time to stop the myth of simplicity. The only alternative is to develop a truly integrated approach. (Kilmann, 1984)

Tichy (1983) refers to 'strategic change' as:

the nonroutine, nonincremental, and discontinuous change which alters the overall orientation of the organization and/or components of the organization. ...The process of strategic change is started when problems, crises, or opportunities are recognized. ...Problems, crises, or opportunities occur in the following areas: environment, diversification, technology, people.

A major premise of Tichy's book, Managing Strategic Change, is that change must be viewed from three perspectives: technical, political, and cultural. Tichy likens the elements of change to three strands of a rope. From a distance, they cannot be separated one from the other, but on closer examination, they can be separated, and indeed, they can become unraveled, triggering change to get them back into phase. The nine change levers which Tichy says are available to managers to trigger change are listed in Figure 1.
General Survey Findings

Most authors have discussed various parts of the organizational change process, or discussed the process from various points of view. A few authors, including Thietart, Hambrick, and Schecter, have focused on the quantitative or statistical analysis of groups of companies which have gone through significant changes. They have tried to draw conclusions about successful versus unsuccessful turnarounds using PIMS (Profit Impact of Market Strategies) data about a large sample of companies. These authors draw interesting conclusions and make useful points, but the companies are grouped in such large bundles that the uniqueness of each situation is impossible to examine.

Others, including Schein, Peters, Waterman, Wilkins, and Ouchi, have focused on the cultural and human relations aspects of organizational change, both from the perspective of the managers and the perspective of the employees. These authors focus on a key element, but not the only element contributing to a successful change process.

Still another group, including Beckhard and Harris, Tichy, Nadler, and Anderson, Phillips and Kaible, has discussed the key steps involved in bringing about a change in a firm. These are addressing in the broad sense the strategy or the game plan which
management must develop. Many authors (Hax, Porter, Chandler, etc.) discuss specific techniques involved in the strategic planning process.

The next sections will briefly address each of these areas and integrate the key points made by the authors discussed.

Quantitative Studies

Thietart (1984) evaluates the effectiveness of turnaround strategies in achieving increases in market share, cash flow and ROI, using a sample of approximately 220 turnaround candidates from the PIMS database.

This research indicates that the effectiveness of a given turnaround strategy depends on the firm's objective - market share, cash flow or ROI - and that these strategies are contingent upon the nature and competitive characteristics of the business.

Two criteria are used to identify turnaround candidates: low profitability and declining market share. He uses groupings of companies based on their product or service (consumer durable, consumer nondurable, capital goods, raw or semi-finished materials, components for incorporation into finished products, and supplies or other consumable products).
Two of Thietart's conclusions are: 1) strategic turnaround actions depend on the objective pursued by the business: growth versus profitability, and 2) strategic turnaround actions differ depending on the business and the characteristics of the sector in which it is competing. These actions should depend on the relative market position of the business and the competitive relationships which exist in the marketplace. The joint impacts of several strategies seem to be the most effective. He emphasizes that his research shows that no unique turnaround strategy exists, and that there are potential conflicts in pursuing both growth and profitability objectives at once.

Another quantitative examination of turnarounds was made by Hambrick and Schecter (1983) in their examination of product business units within 260 businesses. They determined that efficiency-oriented changes, rather than entrepreneurial moves, were responsible for successful business turnarounds. Their regression analysis indicated that:

various forms of belt-tightening and productivity improvements were associated with ROI improvements. A shift to a newer mix of fixed assets also helped ROI for this sample. This is an especially noteworthy finding. New fixed assets place a downward pressure on ROI, strictly because of arithmetic. Gains in market share also were associated with gains in ROI. This finding suggests that market share and profitability at times can be pursued in tandem, even in the short term.
These findings are important to this thesis because in both case studies, some relatively mature businesses had to be turned around or otherwise dealt with as part of the overall company revitalization. In these businesses, changes had to be made from a manufacturing and/or a marketing standpoint. Only after the core businesses were dealt with, could management focus on broader strategic issues involving expansion into newer, high growth areas.

The Game Plan - Strategic Management

Strategic management is the marriage of strategic business planning with a purposeful shaping of the company's corporate culture.

The word strategic means an act of great value or importance to an organization. The term strategic planning refers to the explicit process of developing organization-wide statements of policy, strategies, and goals so communicated that various parts of the organization function as a unified whole to attain them. (Anthony, Dearden, and Bedford, 1984)

Strategic management has, as an ultimate objective, the development of corporate values, managerial capabilities, organizational responsibilities, and administrative systems which link strategic and operational decision-making, at all hierarchical levels, and across all businesses and functional lines of authority in a firm. (Hax and Majluf, 1984)
This definition of strategic management makes the connection between the former theories of strategic planning and the theories of corporate culture. The highlighting of corporate values, i.e., culture, is a fairly recent, but key element in the definition of strategic management. The second key element is a clear statement of the firm's mission and methods for accomplishing that mission in light of external forces.

Beckhard and Harris (1977) describe the process of managing complex change as a few broad, basic steps: defining the present and future states, and defining the 'transition state,' which is the plan of how to get from here to there. They emphasize that the transition state may be very different from the present state and the future state; that the managers needed to carry through the transition state, their skills, goals, and subsequent rewards, may not be what is needed in the future state. Thus, management should consider very carefully the strategy they use to eventually arrive at the future state.

They recommend defining the future state by:

developing a scenario, or extended wide-angle 'photograph,' of what the organization would look like in its new state. ...When coupled with an assessment of the present state, this 'picture' of the future condition provides the information
necessary for management to develop realistic action plans and timetables for managing the change.

Beckhard and Harris emphasize that there are two conditions which are critical to any change effort: First, the organization leadership must be aware of the need for change and its consequences for their actions. Second, a desired end state must be relatively explicit.

Tichy and Ulrich (1984), in "The Leadership Challenge: A Call for the Transformational Leader," show a model similar to that discussed by Beckhard and Harris. Tichy and Ulrich describe a model of transformation which accounts for the transitions of the organization and those of the individuals within the organization as shown in Figure 2. Their model calls for three programs of activity which are associated with transformations: 1) Creation of a Vision, 2) Mobilization of Commitment, and 3) Institutionalization of Change.

Tichy and Ulrich's vision, which is equivalent to Beckhard's future state, is identified as the core responsibility of the transformational leader, although the task of developing the vision precisely may be shared with other key members of the organization. Each leader must create a vision which gives direction to the organization while being congruent with the leader's and the organization's philosophy and style.
Mobilization of commitment occurs when a critical mass of individuals within the firm accept the new vision or mission, and then make it happen. Institutionalization, then, is the actual adoption of new patterns of behavior by individuals within the organization. As Tichy and Ulrich describe:

Transformational leaders need to transmit their vision into reality, their mission into action, their philosophy into practice. New realities, action and practices must be shared throughout the organization. Alterations in communication, decision making, and problem-solving systems are tools through which transitions are shared so that visions become a reality. At a deeper level, institutionalization of change requires shaping and reinforcement of a new culture that fits with the revitalized organization. The human resource systems of selection, development, appraisal, and reward are major levers for institutionalizing change.

Nadler (1982) addresses the problem of managing toward an uncertain future state; while companies are trying to manage a transition to a future state which deals with current and projected environmental pressures and opportunities, that environment is changing – not always in the projected directions.

Nadler (1982) describes change, using a model developed with Michael L. Tushman, and emphasizing the key elements as shown in Figure 3. Events from the outside trigger the change; the pace or time frame of each step in the change will depend on the particular situation. Once the organization moves through the key phases
depicted in the figure, there are usually a number of unresolved issues which must be focused on.

First, the organizational arrangements have not been fully adjusted for the new strategy and task, particularly the measures, rewards, and coordinating devices. Second, the informal organization or culture may be a poor fit with the new task and organizational arrangements. Third, the individuals may not fit the new task or organizational arrangements. These problems of fit then plague the new organization. (Nadler, 1982)

Building on Beckhard and Harris, Nadler emphasizes three predictable implementation problems.

The first involves power; change disturbs the political balance within an organization and leads to increased political activity. The second involves individual anxiety; as Brown says, people wonder "What's going to happen to me?" The third involves control, or maintaining organizational control amid the turbulence of the transition state. (Nadler, 1982)

To deal with a changing future state, Nadler recommends the formation of a small, cohesive group at the senior level of the organization to monitor movement toward the future. It can be argued that this should be the top management team itself, with some help from staff; this task is so important it cannot be delegated. As Nadler suggests, regular meetings with an agenda aimed specifically at this monitoring task should be held – it should be unacceptable
behavior to miss one of these meetings. Rewards for managers must be focused on achieving the corporate objectives rather than sub-optimizing at a lower level.

The leaders of change must then be visible within the organization, explaining to employees the causes for change, the expected results, and making clear to individuals their own roles in the change. Managers often think they are being clear about objectives and tasks, but subordinates do not understand; this results in wasted time and effort and personal frustration. People should be challenged to deal with future uncertainty as well as the vision of the future state which does exist. Increased communication among all levels will improve the chances that everyone is headed toward the same goal.

Management should guard against the development of a fantasy that stability will return, old times will come back - the uncertainty of the transition and the uncertainty of dealing in today's fast paced, worldwide, complex business community will never subside. A series of small transition steps toward the future, attacking the most pressing problems one at a time, will move a company along a solid path toward the future.
Culture

Organizational culture is the pattern of basic assumptions that a given group has invented, discovered, or developed in learning to cope with its problems of external adaptation and internal integration, and that have worked well enough to be considered valid, and therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems. (Schein, 1984)

It can be seen that there are two elements of Schein's description of culture which coincide with the successful planning and implementation of organizational change - a focus on the external environment, i.e., adapting to it, and a focus on the internal group.

Schein (1984) describes three levels of culture, including visible artifacts, values, and underlying assumptions, as shown in Figure 4.

It is very difficult to describe the culture of an organization. Consider the complexity of each individual and his/her personality, values, motivations, etc. within the group. A corporate culture is the sum of those elements of each member's motivations, values, beliefs, and personality which show themselves in the work environment. Often, certain of these elements combine in such a way as to become evident to outsiders - these are the glue
which hold the company together, often expressed through company slogans, which we see discussed in the literature. For example,

DuPont: "Better things for better living through chemistry"
Sears, Roebuck: "Quality at a good price"
Dana Corp.: "Productivity through people" (Deal and Kennedy, 1982)

One could postulate that the strength, clarity, and degree of integration of a corporate culture or subculture is directly proportional to the stability of the membership of the group, the length of time the group has been together, and the intensity of the collective learning which has taken place during that history. ...Any group within an organization has the potential of developing its own culture if it has stable membership and a history of joint problem solving. Thus we would expect to find within a given organization a variety of functional, geographic, rank level, project team, and other cultures which, from the point of view of the total organization, can be thought of validly as 'subcultures.' (Schein, 1983)

Thus, corporate cultures will vary in strength, will always have subcultures operating within, and will change over time as the members of the group change. Particularly during a period of significant organizational change, the subgroups within the company will change significantly. People will have new job definitions and new responsibilities; their interfaces and modes of communication, both laterally and vertically, will change. As large proportions of the corporate population change position at once, each individual must
deal with the new job itself plus the uncertainties of working with new people who themselves have changed jobs, and also the overall uncertainties of the changing corporate position in the marketplace.

Management must be aware of the fear and uncertainty which is being experienced by employees within the company, and must be particularly clear in defining the goals, objectives, and tasks of the groups and individuals within the organization.

Peters and Waterman (1982) emphasize the importance of culture:

The rational model causes us to denigrate the importance of values. We have observed few, if any, bold new company directions that have come from goal precision or rational analysis. While it is true that the good companies have superb analytic skills, we believe that their major decisions are shaped more by their values than by their dexterity with numbers. The top performers create a broad, uplifting, shared culture, a coherent framework within which charged-up people search for appropriate adaptations. Their ability to extract extraordinary contributions from very large numbers of people turns on the ability to create a sense of highly valued purpose. Such purpose invariably emanates from love of product, providing top-quality services, and honoring innovation and contribution from all.
Schein, in "Corporate Culture: What It Is and How to Change It," describes the cultural development of a new or merged organization as follows:

This new social unit must develop, if it is to survive in its external environment: 1) a sense of its own mission or primary task, some reason for existing. From this are typically evolved 2) some concrete goals, 3) some means for accomplishing those goals, by which I mean the organizational structures and decision processes which are developed, 4) some means of monitoring progress, the information and control systems that are utilized, and 5) some means of repairing structures and processes if they are not accomplishing the goals.

Whether strong or weak, culture has a powerful influence throughout an organization; it affects practically everything – from who gets promoted and what decisions are made, to how employees dress and what sports they play. Because of this impact, we think that culture also has a major effect on the success of the business. (Deal and Kennedy, 1982)

The interrelationship of culture and strategy is evident here; each affects the other, and neither can be addressed separately.

Peters (1978) in "Symbols, Patterns and Settings: An Optimistic Case for Getting Things Done," discusses a 4-part framework for thinking about change: 1) high control, low speed, 2) high control, high speed, 3) low control, high speed, and 4) low control, low speed. He points out that historically, planning
systems were the most important and typical change tool in category 1 (high control, low speed). Structural changes toward centralization or decentralization were often the solution for category 2 changes (high control, high speed). Category 4 (low control, low speed) often relied on human resource development, particularly typified by bottom-up team building. Peters postulates that there are a variety of tools which can be used to bring about organizational change - some are old and some are new. The key is to assemble or package the necessary tools in such a way as to address the problems at hand.

The important day-to-day role of top management as transitional leaders is emphasized by Peters:

By definition, managing the daily stream of activities might be said to consist of the manipulation of symbols, the creation of patterns of activity, and the staging of occasions for interaction. The mundane tools are proposed as direct alternatives to structural manipulation and other grand solutions to strategic organization needs. Conscious experimentation with these tools can provide a sound basis for controlled, purposive change. ...To signal watchers, which includes nearly everyone in his organization, there is no truer test of what he really thinks is important than the way he spends his time. ...What kinds of questions is the executive asking? Does he seem to focus on control of operating costs, quality, market share? How is his memory about what was "assumed" last month? Last quarter? What kinds of feedback is he giving? What sorts of issues get onto his agenda? ...Since consistency becomes a driving force in inducing major change over time, the executive committed to change ought to be constantly on the lookout
for opportunities to reinforce activities, even trivial activities, that are congruent with his eventual purpose.

Wilkins and Ouchi (1983) argue that local cultures as distinct from the more generally shared background culture, rarely exist at the level of the whole organization, but rather, exist as subcultures within the organization. Organizational performance, they argue, depends on particular properties of the local organizational cultures. They conclude by arguing that changing organizational cultures is not as difficult as many people suggest; groups of people are very adaptive given the right goals and incentives.

Three types of cultural groups are discussed in this work – the clan, the market, and the bureaucracy – these are the three modes of governing exchanges or transactions between people. The market deals with an exchange of fair value items, e.g., giving labor and receiving money. Bureaucracy addresses the social problems associated with the market transactions, dealing with legal and regulatory impacts, future day-to-day uncertainty, and evaluation of performance. These two exchange situations work well in transactions of low complexity.

The clan is able to be efficient in governing transactions under conditions of relatively high uncertainty and complexity. To do so, however, it
requires relatively high levels of goal congruence and the sharing of some general paradigm that helps participants determine collective interest. ...Of the three governing mechanisms, the clan, of course, requires the greatest amount of work to develop a locally shared social knowledge, or culture. (Wilkins and Ouchi, 1983)

The conditions that encourage the development of clans are: long history and stable membership (Schein), the absence of institutional alternatives, and interactions among members.

Clan control that can efficiently govern uncertain and complex transactions requires the development of shared social knowledge in two areas: (1) a general paradigm that helps participants determine what is in the best interest of the collective; and (2) the perception of goal congruence (the belief in a general or long-term equity, as discussed previously). (Wilkins and Ouchi, 1983)

The paradigm basically gives members of the clan a way to solve problems — that is, a process of thinking. It includes examples of good and bad solutions to previous problems, and methods to categorize problems and information. It also provides methods of communication which are accepted and indeed expected, by the members of the group; a common language is developed among members which may sound very foreign to individuals who are not a part of the clan. The paradigm is the element which allows individuals to make a correct decision on the spot without consulting the boss — he/she knows what the boss would do.
What does all this imply, then, about the relationship between culture and change? Popular thinking says that culture is very difficult to change; great trauma and distress are caused when organizational change takes place. Based on the point of view developed in this paper, the authors offer some specific observations about the relationship between change and culture:

1. Our previous argument suggests that organizations will not often, if ever, reach the depth and richness of socially shared understanding characteristic of the paradigmatic cultures studied by anthropologists.

2. Our observation of clan forms of control in organizations suggests that clans are remarkably adaptive within quite a wide band of activities. The necessarily general and abstract nature of the clan paradigm seems to allow members to use it to deal with considerable variation in organizational conditions. Further, the loyalty produced by assumptions about goal congruence provides tremendous energy and willingness to adapt. The change problems come when organizational conditions are so radically altered that clan members must clearly violate their basic assumptions. Thus, the problem of understanding change in clans is one of defining in some meaningful way the kind and amount of change required.

3. Given our perspective, it is critical to ask what is being changed. Our observation of change in clans suggests that change in assumptions about goal congruence and general equity is much more disruptive than change in the general paradigm.

4. ...The questions of how much and what kind of change ought to be addressed and may be addressed using our perspective. (Wilkins and Ouchi, 1983)

As companies become more dispersed, through internationalization of marketing and manufacturing, and as people
have less personal contact with one another because of improved computer and telecommunication systems, developing and maintaining a strong culture will become more important. Deal and Kennedy (1982) give the examples of McDonalds, the Forest Service and the Catholic Church as organizations which have achieved strong cultural ties, although their members are disperse. They say:

Strong cultures are not only able to respond to an environment, but they also adapt to diverse and changing circumstances. When times are tough, these companies can reach deeply into their shared values and beliefs for the truth and courage to see them through. When new challenges arise, they can adjust. This is exactly what companies are going to have to do as we begin to experience a revolution in the structure of modern organizations.
METHODOLOGY

Each case study included in this thesis is organized as follows. First, a brief general background of the company is given, including its products, locations, and key financial figures. Secondly, the history of the company is broken down into significant "eras", which can be distinguished from one another by differing financial performance, differing product offerings, differing marketing strategies, etc. Following a description of each era, several sections of analysis tie the eras together for each company, looking at changes in the management of the company, the corporate structure, the culture, and the use of formal strategic planning or strategic management systems. Following the case studies, a concluding chapter ties the two case studies together with the literature survey included in this thesis.

The approach taken to obtain information about Bausch & Lomb, Inc. and Hershey Foods Corporation for the case studies included reading public literature about the companies, obtaining published company documents, and interviewing various people within the company. This information was then assembled to look at the history of the company before the change being examined, and then to highlight the key events during the change process.
Sources for reading published literature were primarily annual reports, articles appearing in business periodicals over the past fifteen years, and the Wall Street Journal abstracts. Published company documents, such as organization charts and statements of principles, were obtained during the interview process.

Interviews of 1-2 hours in length were held with approximately ten people at each company. The group of individuals included the chief executive officer, division presidents, the vice president of planning, the vice president of human relations, and several individuals who had been with the company throughout the change period. A specific set of questions was not used; rather, leading questions were asked to encourage the individual, in his/her own words, to describe the change which the company underwent, focusing on his or her perception of the causes of those changes, the key milestones, and their own roles in the change. Individuals were asked to identify other people whom they felt were key players or champions of specific critical efforts. The effects of environmental influences, the roles of leaders, the changes in strategies, and the relationships of organizational structures with the strategies of the times were sought.

As expected, each individual saw a set of events from his/her perspective. Thus, the multiple interview approach was used to piece together a picture of the past. Nonetheless, much
consistency was seen in the way individuals viewed and described key stages in each company's history; in fact, many people used identical words to describe certain portions of the history.

Using methodological ideas from "Tracking Strategy in an Entrepreneurial Firm," by Mintzberg and Waters (1982), the case studies were put together and are in the following two chapters. A look at the changes in several dimensions (business portfolio expansion, geographical expansion, marketing strategy, financing strategy, new product introductions, advertising, backward/forward integration, etc.) are followed over time. Organizational structures, values, and performance measures (sales growth, profit, etc.) are then examined in light of the major changes in organizational strategy.

These case histories are not comprehensive looks at the companies involved, but rather brief assessments of the strategies, structures and cultures of the various eras of each company's history, focusing on the revitalization of that company. Anderson, Phillips, and Kaible define revitalization as: a substantial improvement in profitability, growth, and return to stockholders during a well defined period of time.
This thesis examines specifically the period before the revitalization of each company, looking at market position, competitors, management strengths and weaknesses, and financial performance. It then examines the change period - that is, the changes management made in these areas, and the resulting market position, relationship with competitors, financial performance, etc.
HERSHEY FOODS CORPORATION CASE STUDY

Background

The Hershey Foods Corporation is in the business of manufacturing, distributing, and selling food and food-related items. Their major products are chocolate and confectionery products, in the form of bars, kisses and chips, baking ingredients, syrups, etc. The company also manufactures pasta products such as macaroni, spaghetti, noodles, and lasagne. Friendly Ice Cream Corporation is a wholly-owned subsidiary of the Hershey Foods Corporation; it owns and operates approximately 700 restaurants in the northeast and midwest United States. Cory Corporation, a coffee service unit, is a small part of Hershey's overall business.

The company headquarters is located in Hershey, Pennsylvania, where two major chocolate and candy factories are located. Confectionery and pasta plants are located in several states, in Canada and in Brazil.

Sales in 1984 were approximately $1.9 billion with a profit after tax of approximately $109 million. Chocolate and confectionery products accounted for 68 percent of sales; restaurant operations for 22 percent, and other foods and services for 10 percent.
History

The history of Hershey Foods Corporation, formerly Hershey Chocolate Company, spans a period of approximately 80 years. Several eras, which are characterized by differing goals, structures and leaders, are evident. These are diagramed in Figure 5, and described below. Throughout all periods, a strong culture was developed and basic values were maintained. Although business conditions and subsequent business strategies varied significantly from era to era, the underlying principles and values remained surprisingly constant.

1900-1955: The Milton S. Hershey Era

Milton S. Hershey came from a humble beginning. After several failed attempts at business, Hershey was successful at making caramels in Lancaster, Pennsylvania. In 1900, he sold out for $1 million. He returned to the part of Pennsylvania where he grew up and went into the chocolate business. Although chocolate was available at that time, it was very expensive, being imported from Europe, and was not available to the majority of people. His vision was to make a chocolate candy bar which everyone could enjoy at a reasonable price.
At that time, Hershey was told, 'A million dollars is too much money to put in a factory in a cornfield. In the first place you'll never be able to sell enough chocolate to make the factory self-supporting. It will eat its head off.' His reply was, 'What I want to do is find a practical use for what I have and put it to work in a way that will benefit others.' (Hershey, 1982)

As the first candymaker to produce small, inexpensive bars of uniform size and flavor, Hershey became the Henry Ford of the confectionery field, with one major difference: He had no major competition for 40 years. (Business Week, 2/7/70)

He built a chocolate factory, and he built an idyllic community - 'a community designed for the good life.' It was a company town unlike others - workers' homes were not all drab look-alikes. There were lawns and trees, and workers could buy or rent. There was parkland, a beautiful garden area, a museum, a community theater, an arena, and more. Milton Hershey wanted happy people. (Altman, 1983)

In 1906, the hamlet of Derry Church was renamed Hershey. The thing that made Hershey, Pennsylvania different from other small industrial towns, was that it was founded on humanitarian principles; the enterprise existed for the people, not vica versa. (Hershey, 1982)

Mr. Hershey used to liken the company, the town and its 10,000 inhabitants to a large farm, with him as the owner. If residents wanted something - like a bank - they asked him and he built it. Among other things, he built a hotel - Hotel Hershey - an airport, a sports arena, two golf courses, an amusement park, a zoo, a huge public garden, and a professional hockey team, the Hershey Bears, which locals often call the Hershey Bars. (New York Times, 7/22/84)

Hershey was an entrepreneur, and had an entrepreneural/dictatorial style. He made the decisions for the company; the
people employed by the company enjoyed the security that Hershey's style provided. Mr. Hershey was a man who cared about his people. During the Depression, rather than laying people off, he had work projects – building the Hershey Hotel, and many other town buildings – to keep everyone busy. Hershey's courage and fortitude throughout his life can be admired and emulated today; his values are indeed the underlying values encompassed in the Hershey Foods Corporation today. Hershey had the characteristic of being tough on one hand (he'd fire someone for not doing his job), and benevolent on the other.

Milton S. Hershey and his wife, Catherine, had no children, but were very interested in the well-being of children who did not have the proper home life. In 1909, the Milton Hershey School was founded for boys who had lost one or both parents. The school was put on 10,000 acres of land in Hershey, to provide a wholesome atmosphere for both learning and daily living.

In 1918, Hershey's chocolate business was donated to a trust for the Milton Hershey School. The school owned all of the interest in Hershey Chocolate Company until 1927, when 20 percent of the stock was sold to the public. Until 1927, the company, town, and school were not separated; a reorganization gave the chocolate business to the Hershey Chocolate Company, the public services and
town businesses to the Hershey Estates (now Hershey Entertainment & Resort Co., Inc. [HERCO Inc.]), and the school to the Hershey Trust Company.

Milton Hershey believed that he had good products to sell, and that the quality of those products would make them sell themselves. Thus, he established no marketing or advertising arm in the company. Indeed, the consumer's belief in Hershey products sustained the company through Hershey's reign, and into the 1950's and 1960's.

Rather than using mass consumer advertising, Hershey focused his promotion on mass distribution — availability of Hershey products in every type of retail outlet, large and small. During World War II, the company's market increased sharply when Hershey chocolate became a 'D Ration' for servicemen. Then, with the development of supermarket chains in the late 1940's, the company's distribution grew with both food chain and wholesale groceries.

Although Milton Hershey wrote and spoke little about his beliefs, the company has found the heritage left by him to be extremely important as the foundations of its culture. In 1983, the company compiled and published a list of the basic beliefs which guided his life. These are seen in Figure 6.
The period from 1946-1955, following Hershey's death, can be characterized as a slow growth, stable period for Hershey Chocolate Company. Management were essentially "caretakers", focusing on maintaining the business as opposed to growing it or expanding into nontraditional areas. Staples, the CEO who followed Hershey, tried to emulate his style, but the company was developing to the point where it needed something different.

1955-1965: The Seeds of Change

John Gallagher became Chairman of Hershey Chocolate Company in 1956 and Samuel Hinkle was then made president and CEO. They were the first to realize that the company had to make a jump from the 1920's and 1930's into the present, and that the company could be much more than it was. Gallagher and Hinkle were responsible for hiring Harold Mohler, William Dearden, and Richard Zimmerman, who were to be the key change agents of the future. They gave these younger men the opportunity to pursue Mr. Hershey's vision of greatness.

Dearden came to the company in 1957 as Gallagher's assistant - a job that was created for Dearden to learn the business. Dearden, years earlier at the age of 13, had become a student at the Milton Hershey School, where he was allowed to get
a decent education. His mother had died, and his father, who was a
struggling millworker, could not provide all that young Dearden
needed. Dun's Review (March, 1976) describes Dearden's reaction to
the school:

To say that Bill Dearden found a home at the
Hershey School is putting it mildly. He also
found the embodiment of the American dream.
...After the poverty of his Philadelphia home,
the tranquil, pastoral setting of the school
deep in the Amish country of Pennsylvania was a
revelation to Dearden. Rooming with two dozen
orphan boys in one of the pin-neat homes run by
house parents, he learned mathematics and milking
cows, won letters in football and basketball and
developed a sense of pride. 'None of us ever had
the feeling that we were oddballs,' says Dearden.

He went on to college, receiving a BS degree in economics
from Albright College and then did graduate work at the Harvard
Business School. During WWII he served as a Navy supply officer,
and then went to Dun & Bradstreet, where he spent 5 years as a
credit reporter, salesman, and as manager of the Trenton, New Jersey
office. In 1953, he accepted an invitation to work at the Milton
Hershey School, following service in the Korean conflict; he felt
this was an opportunity to repay a deep-seated debt which he felt to
the school and Mr. Hershey. He was assistant business manager there
for 4 years, before being asked to become assistant to the chairman
of the chocolate company, John Gallagher.
John Hershey, head of the school, described Dearden's success:

'He wasn't here any length of time when everybody wanted him. He had all the moves of a leader. He was a take-charge kind of guy — a planner, highly organized. Bill looks ahead and sets goals — everything has to be out there so you can see where you're going. He gets a lot of people involved. He's always asking, 'What do you think?'' Also, John Hershey says, Dearden 'is a fantastic salesman. He can sell anything.' (Nation's Business, 6/83)

In 1961, Dearden became a product manager in the Chocolate Company, another learning experience. Dearden did not see what needed to be done within the company overnight. His ideas developed over years of watching the company and talking with its employees. It wasn't until about 1962 that Dearden had real influence at the corporate level. He tells how Hinkle would say, "Okay, what do you think ought to be done?" Dearden built on the thoughts of others; he believed in a team approach, following much participation and experience in team sports; his unique contributions were perhaps his sense of urgency to get on with a better future and his ability to communicate his vision to others.

In 1963 Hershey made its first acquisition. The H. B. Reese Candy Company, a family owned business located in Hershey, Pennsylvania, which bought its chocolate from the Hershey Chocolate Company, was purchased from the family which was fighting over who
should own and run it. Business Week (2/7/70) describes this event: "This marked Hershey's first excursion beyond 'solid' chocolate and, to hear Hersheyites talk, was roughly akin to some of their Amish neighbors tossing their hats in the air and buying a snappy sports car."

Dearden questioned Mr. Hershey's philosophy that a quality product would sell itself; he agreed that it was true in his day, but also thought that a lot more would sell with the correct marketing approach. In 1964, John Rawley was hired from Scott Paper Company, to start a marketing department. When Rawley arrived, he found that indeed there was essentially no marketing - no budgets, objectives, plans, or understanding of the marketplace.


In 1965, Samuel Hinkle retired and Harold Mohler became president and CEO of the company.

Mohler as a youth, had worked hard selling products door-to-door, delivering newspapers and working as a store clerk. He served in the Air Force in WWII, and then received an industrial engineering degree from Lehigh University in 1948. His entire career was at Hershey where he moved from industrial engineering to manufacturing, engineering, and administration positions, and finally into general management. (Annual Report, 1983)
He is described as a gentle, unassuming man who saw the need for change, but couldn't lead a change effort himself.

In this year, when Mohler became president, the company was the most profitable major U.S. food company and one of the most profitable enterprises of any kind. Its return on stockholders' equity averaged 21 percent, remarkable for a food processor. (Dun's Review, 3/76)

The late 1960's were plagued by high cocoa prices, which rose from $0.16/pound to $0.40/pound in 6 years. Even though sales increased, profits dropped significantly. The 5-cent candy bar was dropped; the 10-cent bar was in. Hershey began its first U.S. mass advertising in 1970, in an attempt to communicate directly with the customer and improve market share.

In 1970, Business Week wrote:

At a time when total company sales are approaching a record $300 million, profits have slid from a peak of $24.9 million in 1966 to $19.9 million in 1968, and for the 9 months ending September 30, were down to $8.6 million, a 43 percent drop under the same period the year before. ...As yet, Hershey is still number one in the chocolate candy field, with three of the country's four top-selling candy products.

The Marketing Magazine (1969) writes:
During the late 1960's it was recognized by industry analysts that Hershey was missing opportunities in the marketplace. A quick walk down most supermarket aisles is all it takes to see that Hershey has missed out in convenience foods, chocolate drinks, and snacks—all growing markets. Carnation, Nestle, and Borden, to name three, dominate the shelves, while Hershey's familiar brown chocolate syrup and cocoa cans are harder and harder to find.

Until the mid 1960's, Hershey was the only large, publicly held company in the candy field. However, many companies, including Kraft Food Company, Standard Brands, Inc., and others, moved into the marketplace in the next 5 or 6 years. At the same time, M&M/Mars was reducing its dependence on Hershey as a supplier of chocolate, producing more bulk chocolate on its own. Analysts believed that Hershey's market share was slipping.

Early in 1970, Hershey began marketing a chocolate covered wafer called "KIT KAT", under an agreement with an English manufacturer, Roundtree Mackintosh.

During this period, Hershey began to get into non-chocolate businesses through acquisitions. The first were two regional producers of pasta products acquired in 1966: San Giorgio Macaroni, Inc., located in Lebanon, Pennsylvania, and Delmonico Foods, Inc., of Louisville, Kentucky. The next year it purchased Cory Corp., a maker of coffee brewing equipment, etc. for $25 million. The Hershey Chocolate Company became the Hershey Foods Corporation in
1968, enforcing its change in direction. In 1969, Portion Control Industries, a producer of convenience foods for institutions, was acquired in a $36 million stock swap. In each case, the previous management of these acquisitions was retained, and for the most part, left to run their companies the way they saw fit.

_Sales Management_ (1969) wrote:

While the company's recent acquisitions and entrance into advertising are certainly signs of a more dynamic marketing philosophy, more attention will have to be paid to the consumer if Hershey's fortunes are to be markedly transported from the cocoa plantations of Africa.

By 1972, a reduction in cocoa bean prices, Hershey's advertising and sales programs, and product diversification had led to a recovery of profitability in the chocolate and confectionery businesses. Nonconfectionery businesses accounted for approximately one fourth of sales, and 10 percent of earnings.

High sugar and cocoa costs, plus federal price controls, plagued the company in 1973–74, and Hershey's saw another drop in net earnings. The price of cocoa beans jumped 50 percent and the price of sugar rose 400 percent. Advertising dollars, which peaked at $14,416,000 in 1972, were cut back significantly beginning with the fourth quarter of 1973. In 1974, advertising expenditures were only $1,744,000. M&M/Mars and Nestle did not cut their advertising
in reacting to the higher costs of commodities. Hershey's share of the market slipped. In 1974, Hershey was second to M&M/Mars. Chocolate and confectionery products accounted for 82 percent of sales and virtually all of 1974 earnings. Portion Control Industries was unprofitable for the third year in a row, drawing the non-chocolate/confectionery profits down to only $13,000.

Mohler, rather than taking an aggressive leadership role himself, delegated much of the job of turning around financial performance of the company to Dearden and Zimmerman who had both been made group vice presidents in 1971; Dearden was in charge of the Chocolate Company, and Zimmerman was in charge of the infant pasta business and international business. A 25 percent decrease in the size of bars, and an increase in candy bar prices from 10 cents to 15 cents, helped improve profits again in 1975. Advertising budgets were increased to $9,325,000. Sales in 1975 showed an increase to $556 million, up 13 percent over 1974, largely due to Chocolate Division performance, and net income was up 49 percent to $33 million. Mohler led the company into diversification beyond chocolate products, but his few years as CEO were plagued with financial difficulties.

Forbes describes Mohler's position in 1975 regarding the past several years of financial fluctuation at Hershey's:
Mohler, a Lehigh University-educated engineer from Ephrata, Pennsylvania, who joined the company in 1948, doesn't think he should be blamed for the company's decline. There was, he points out, the squeeze between rising raw material prices, for such things as sugar and cocoa beans and price controls that kept him from raising prices on his candy.

Once price controls ended, Mohler jacked up the price of his topselling candy bars from 10 cents to 15 cents. A 20-cent price could be just around the corner. However, this created another problem: Unit sales of his candy bars slipped in the past year, though Mohler won't say by how much. His conclusion: 'I don't see anything that says to me, 'Gee, you'd better erase the blackboard and start over.'"

They go on to say that Mohler planned to change some of Hershey's patterns. He projected introducing two new products a year; these products would contain less chocolate than current ones. Mohler also looked forward to expanding into other food businesses.

In 1975, Mohler also discussed selling the unprofitable Portion Control Industries, eliminating Cory's household appliance business, and consolidating the two pasta companies to improve their profitability. But analysts still shied away from recommending the stock for two reasons:

First, is the speculative nature of the two commodities — cocoa beans and sugar — which play so large a part in the company's operating costs. Second, there is the rather closemouthed stance of the company in its dealings with the Wall Street community. (Comm. & Fin. Chr, 3/10/75)
Other researchers, however, felt that the tide had turned, and that the stock at $14/share, or half the 1972 high, was a 'buy'.

Regardless of the words which came from Hershey management, Forbes (11/1/75) saw a lack of aggressive leadership:

The question is: Who at Hershey will demand more? Certainly not the company's major stockholder, the Hershey Trust. And not the Hershey board either, which is packed with company employees. So that leaves the relatively powerless minority stockholders. For the kind of structural disease that afflicts Hershey, there may be no effective cure.

1976-1980: Revitalization

The answer to Forbes' question, 'Who will demand more?' came in March of 1976 with the movement of W. E. C. Dearden to the position of vice chairman and chief executive officer. Dun's Review (March, 1976) described Dearden's entrance into this job:

In his new post, Dearden will report to the board of directors. But in fact, he will be answering to his old school. For unique among large U.S. corporations, the $550 million-sales chocolate and confectionery colossus is 65 percent owned by the school for orphan boys established by the company's childless founder, Milton Snively Hershey. 'One thing every boy at the school thinks about is one day repaying his debt to Hershey,' says Dearden.
Big Bill Dearden has already made ample payment. A 20-year man at the company, he moves up from group vice president of the chocolate and confectionary division, which contributes 82 percent of Hershey's sales and virtually all of its profits. ...One of Dearden's main concerns is to restructure Hershey in ways that will enable the company to expand corporate development and increase capital formation.

In July, 1976, a corporate philosophy was published by Dearden and Zimmerman, so that all employees would understand where management was coming from and where the company was going. This document is seen in Figure 7.

Another key change initiated by Dearden was a formal strategic planning process. He demanded that the managers use this process to deal with the future strategies and thrusts of the company. At first, because it was an unfamiliar approach, some of the managers were not so sure that this was the thing to do, but now, they admit the company could not live without the system. For the first 3 years, the plan contained no numbers - it was conceptual, stating the vision of what the company wanted to be in the future. This system, which is a vehicle for management communication, has driven the company since 1976.

The plan contained objectives which at the time were not cost justified, but were strategic approaches for the future - justified in that they contributed to the future vision of the
firm. One objective cited leadership in science and technology (at the time there was no R&D). Another called for a legal department to deal with consumer and government issues; this department was born in 1976. A third developed an international thrust which then triggered the hiring of Richard Marcks from Nestle to be vice president of international development, in November, 1976. This plan was not just a formality or game, it was the critical driving force into or out of all businesses.

The letter to shareholders in the 1977 Annual Report, highlights many achievements and changes which can be traced back to the strategic planning process:

We are pleased to report record sales, near record earnings, and improvement of the financial strength of the Company in 1977. ...The most challenging of all commodity markets for us has, of course, been that of cocoa beans. Unusually dry weather conditions in West Africa (where two-thirds of the world's cocoa is grown) caused the past several crops to be abnormally low. ...Through our participation in the American Cocoa Research Institute, we are working to encourage increased production – and, more importantly, productivity of cocoa in this hemisphere.

They state the objectives of the strategic planning process in that report:
For the company as a whole the objective in our strategic planning is to become a major diversified international food and food-related company. We are currently working toward this objective in four related but separate endeavors:

1. To capitalize on the considerable growth potential of our existing brands and products in current markets.

2. To introduce new products in the U.S. market, products developed internally as well as from licensing agreements and joint ventures.

3. To expand in new markets, both international markets and new segments of existing markets.

4. To make acquisitions and other types of alliances, both in the U.S. and elsewhere in the world.

Out of the strategic planning process came an increased awareness of the company's vulnerability to fluctuations in cocoa bean prices. Although this problem had plagued management for several years, the strategic planning process identified alternative businesses and forced action. The first rewards, according to John Rawley, came from knowing what not to do. Resources were taken from low payoff areas of the business and focused into those things which would help the company achieve its goals. The company became committed to diversification, and they began looking for appropriate acquisition candidates in the food service and non-chocolate candy and confectionery businesses.
The acquisition of Y&S Candies, Inc., a 140-year-old producer and distributor of licorice candies in North America was announced. A 20 percent interest in AB Marabou, located in Sweden, was made. The aim of this endeavor was to allow the exchange of technological information and the joint development of new products.

Government involvement in the confectionery and general food industry was increasing at this time. Management writes:

One of the most crucial challenges confronting our Company in the U.S. food industry is the intensifying pressure brought by various groups which criticize the quality, nutrition and value of food products. ...In order to increase the effectiveness of our government relations program on the federal level, we are opening a permanent office in Washington, D.C. This office and our government relations staff both in Washington and Hershey will aid us in the important areas of information exchange with government. (Annual Report, 1977)

Hershey took a strong stand on this issue, stating:

While we do not advertise our chocolate products as especially nutritious foods, they do have nutritional value and do contribute to the overall diet since they are composed of such food ingredients as milk, various nuts, chocolate and sugar.

Nearly all Hershey's Chocolate and Confectionery Division products have nutrition information printed on their labels. This practice was begun voluntarily in 1973, and to date we are the only manufacturer in the chocolate and confectionery industry to provide this
consumer service. Our effort to convey this information is one clear indication of Hershey's concern for good nutrition and our respect for the consumer's right to know. (Annual Report, 1977)

1978 brought further improvement in financial performance and movement toward the corporate goals of becoming a major, diversified, international food and food-related company. Both sales and earnings were up about 15 percent over 1977, as the company began to gain back some market share in their conventional business. Dividends to shareholders were increased for the fourth year in a row. Construction of a new technical center, which would house research, development, and engineering, was under way, reinforcing the new commitment to new product and process development.

Corporate headquarters was established in Milton Hershey's home, Highpoint, located on land adjacent to the chocolate factory. This move brought the corporate management together, moved them away from the daily affairs of the chocolate factory, and reinforced the commitment of top management to planning for the future and monitoring performance of the operating divisions, as well as to the history and traditions established by Milton Hershey. The 22-room home was constructed of native limestone in 1908. After Mr. Hershey's death, Highpoint became the hub of activity of the Hershey Country Club; from 1970-1977, the home was unoccupied. The renovation of Highpoint preserved the original character of the building, which is now designated as a State Historic Site. At the 1978 annual meeting, Dearden reported:
'We have moved the Corporate Headquarters to the renovated home of Mr. Hershey. This move was made because of the great need we have had for additional corporate office space and because we wanted to preserve an important landmark in the history of our company and its founder. This office complex is a first-class facility in every respect and lives up to the image we believe we have as the leader of the Chocolate and Confectionery Industry and one of the leading companies in the Food Industry. If Milton S. Hershey were here today, he would indeed be pleased.' (Annual Report, 1978)

The 2 years 1978-1979 were significant in Hershey's move to grow through diversification. Procino-Rossi Corporation and Skinner Macaroni Company were added to the pasta area, expanding the geographical penetration of Hershey Food Corporation in this business. A major strategic move was the acquisition of Friendly Ice Cream Corporation, of Wilbraham, Massachusetts, in early 1979. This vaulted Hershey's into the 'away from home eating' food service industry.

The groundwork for the acquisition of Friendly had already been done as a result of the strategic planning process. As a part of the diversification thrust identified in the strategic plan, several acquisition candidates in the food service industry were researched and screened. Friendly Ice Cream headed the list of potential candidates. However, before Dearden made any move toward Friendly, he received a phone call from an investment banker, inquiring whether he might be interested in discussing the potential
acquisition of Friendly. Because of the groundwork which Hershey management had done, Dearden said he'd be glad to talk to them the next day.

Business Week (1/29/79) reported:

The company's new thrust is the handiwork, not of a brash outsider, but of 22-year Hershey veteran William E. C. Dearden. ...With the acquisition of Friendly, and with another purchase this month of Omaha-based Skinner Macaroni Co., Dearden figures that Hershey's nonconfection revenues will more than double, to 30 percent of sales, and boost that sector's contribution to operating income from a scant 6 percent to about 20 percent. Although Dearden mapped this diversification program when he became chief executive 3 years ago, it has been accelerated sharply in the aftermath of Hershey's problems in 1977. Then, stung by cocoa-bean prices that were more than triple their average cost three years before, the company's profits slid 7.7 percent to $41.3 million, despite an 11.5 percent increase in sales.

In purchasing Friendly, Dearden looked for a company whose management had the same basic, conservative philosophy as the Hershey management. Friendly had its beginning in 1935 when two brothers, S. Prestley Blake, and Curtis L. Blake began a small neighborhood ice cream shop with $547 borrowed from their parents. The brothers wanted a shop with good, low cost food, and friendly service – thus the name 'Friendly'. By 1943, the brothers had two successful shops; when they went into the armed services during World War II, signs were put in the shop windows stating, 'This
store will be closed until we win the war! This store is not for rent.' (Annual Report, 1978) By 1951, there were 10 shops; by 1960, there were 50 shops, and by the time of Hershey's acquisition, there were over 600 shops in the northeast and midwest.

At this time, however, although sales had been growing, earnings were flat. Says James M. Meyer, an analyst with Janney Montgomery Scott Inc., a Philadelphia brokerage: 'Friendly has been groping for a way to get itself moving again.'

...Hershey's Dearden is confident that the necessary steps are being taken to respond to Friendly's recent setbacks. (Business Week, 1/29/79)

The focus of Hershey's advertising of chocolate and confectionery products changed from children to adults during this period of time. Inflation was causing commodity prices to continue rising, the standard chocolate bar was now 25 cents. Criticism of candy as 'junk food' continued, causing chocolate consumption per capita to decrease. Hershey continued to develop new products, many having a higher percentage of non-chocolate components.

Advertising Age (10/17/79) describes Hershey's gain in market share which resulted from new product introductions and from advertising thrusts:
Much of the Hershey, Pennsylvania–based company's success stems from a spate of new products which have added several share points to the company's candy bar total. Hershey's Reese crunchy peanut butter cup and Whatchamacallit are already among the top 25 chocolate bars in the U.S., and Reese's Pieces, despite limited distribution is expected to break into the top 30 soon, according to figures from Distributor Concepts, which compiles the DEBS Confectionery Marketing Report.

These gains and strong showing by Hershey's major established brands have pushed Hershey's share to about 29 percent of the chocolate bar market, closer to Mars Inc.'s 36 percent than in several years, according to DEBS, whose figures are based on sales through candy and tobacco distributors. (Advertising Age, 10/17/79)

Annual sales of $1 billion were surpassed in 1979; record earnings were achieved. Contributing to a very successful year, were significant dollar volume and market share growth from the Hershey Chocolate Company, gains in sales and earnings by Friendly, and significant (although still a small percentage of the total) growth from San Giorgio and Skinner in the pasta industry.

Advertising Age (10/17/79) summarizes the market positions of the top candy manufacturers and the best-selling chocolate bars, as reported by DEBS Confectionery Marketing Report:

Mars..........................36%
Hershey......................29%
Peter Paul Cadbury........8%
Standard Brands...........7.5%
Nestle......................4.6%
The best selling chocolate bars were:
1) Snickers (Mars), 2) Reese peanut butter cup (Hershey), 3) M&M Peanut (Mars), 4) M&M Plain (Mars), 5) Hershey chocolate bar with almonds, 6) Three Musketeers (Mars), 7) Kit Kat (Hershey), 8) Hershey milk chocolate bar, 9) Milky Way (Mars), 10) Baby Ruth (Standard Brands).

In the 1979 letter to stockholders, the outlook for 1980 focused on continued growth and strengthening of existing businesses:

Our increased emphasis on diversification and our ability to capitalize on the strengths of our traditional businesses have generated considerable momentum over the past 4 years, and we believe the results we are reporting to you now are an excellent indication of this Company's potential and its capabilities for continued growth in the future.

However, we are apprehensive concerning the current economic and political situation. Inflation, interest rates and energy shortages are among the factors that make the economic outlook for 1980 especially questionable to us. Costs of our major raw materials, on balance, continue to rise as do our costs of labor, transportation and packaging. We are especially concerned about recent, dramatic increases in sugar prices.

We believe the successes we have had in recent years provide just reason for us to stress growth within our existing businesses in 1980. While we continue our search for new opportunities that will help us meet our strategic objectives, we also plan to concentrate much of our effort on consolidating our current businesses to strengthen the Corporation as a whole.

This emphasis on growth within our existing business will require expanded production capacity, restaurant expansion and restaurant
modification, as well as the expansion of our warehousing and distribution networks that must support this growth.

1980 - Present: Sustained High Performance

The first half of the 1980's has shown sustained high returns to the shareholders, as shown in Figure 8. By 1980, Hershey Foods Corporation had become extremely profitable compared to the industry, and was continuing to gain market share. Forbes (3/17/80) wrote:

With a return on equity of nearly 19 percent, Hershey is among the most profitable specialty food companies. But in the early Seventies it was heading into serious problems and its return on equity was far lower than today. Hershey was a complacent old company that awakened just in the nick of time.

Two things jolted Hershey from the complacency in which it long slept. One was the 1973 price explosion in cocoa beans, Hershey's main raw material, which sent earnings plunging 30 percent - an almost unheard-of event at Hershey. The other jolt came from privately owned Mars Inc., which buried Hershey in a blitz of advertising and promotion and ousted it from the number one spot in U.S. candy sales.

...In candy they developed new products - such as Reese's Pieces and Whatchamacallit - and stepped up spending on advertising.
Hershey ended 1980 with earnings up 15.8 percent, to $4.38 per share, from $3.78 per share in 1979. Sales were up 15 percent to more than $1.3 billion. As the United States and other countries plunged into recession, Hershey's was able to maintain its momentum. 1981 again brought record sales and earnings despite high inflation, high interest rates, and slow economic growth. Each segment of the business made a positive contribution to Hershey's performance.

Capital expenditures throughout this period were high, targeted at increasing manufacturing capacity for new products. An $86 million plant was constructed in Virginia to produce confectionery products, principally REESE'S PIECES candy and WHATCHAMACALLIT candy bars. Large amounts of capital were also spent to upgrade existing Friendly stores, and expand into new store locations.

In 1982, an unexpected boost in consumer awareness was provided by the use of REESE'S PIECES in the movie 'E.T.'. Dearden wrote:

While extraterrestrial help was not part of our original plan, the Company was certainly prepared to accept a helping hand from that loveable alien, E.T. The Hershey Chocolate Company's right to promote Reese's Pieces as E.T.'s favorite candy contributed significantly to increased sales of that product, and perhaps even more importantly, garnered for the Company a wealth of national publicity which helped to further strengthen our strong franchises with the consumer. (Annual Report, 1982)
Hershey's profitable link to E.T. is tinged with irony in that Mars, which advertised heavily in years when Hershey did not advertise at all, passed up the same promotional windfall. The film script originally had the extraterrestrial enamored of M&M's, not Reese's Pieces, but Mars declined a deal with the producers. (Nation's Business, June, 1983)

1982 brought the eighth consecutive dividend increase to shareholders, and Hershey's stock value increased more than 50 percent. Record sales and earnings were again achieved in 1983. A stock split was issued in September, and the ninth consecutive increase in the regular quarterly dividend was implemented. The letter to stockholders (Annual Report, 1983) stated: "In spite of intensified competitive conditions, our three major divisions, Hershey Chocolate Company, Friendly Ice Cream Corporation, and San Giorgio-Skinner Company, posted market share gains, volume growth and increased operating margins."

Two important new products entered the marketplace and were placed into national distribution. The SKOR bar, a butter toffee bar covered with chocolate, was manufactured under license from the Swedish affiliate, A. B. Marabou. NEW TRAIL, a line of granola bars, brought Hershey into this growing market targeted at people who are health and nutrition conscious. HERSHEY'S Chocolate Milk was an instant success in the areas of the country where it was available. Several new products were trialed on a regional basis:
REESER'S PIECES PEANUT, TAKE FIVE, GOLDEN PECAN Bar, HERSHEY'S Chocolate Covered Almonds, and MARABOU Milk Chocolate Roll.

The New York Times (7/22/84) reports:

In the last 5 years, new products have surged from 7 percent of the chocolate company's sales to nearly 20 percent. Jerry Prescott, publisher of the DEBS Report, says that Skor is already in 23rd place among candy bars, and that Take Five, in less than a year of regional sales, is doing well. HERSHEY'S one notable flop was a cake-mix topping called Frostin' that was dumped last year. Also, Whatchamacallit, a chocolate-coated rice bar introduced 5 years ago, has been losing its momentum.

Friendly opened 32 new locations while closing seven old ones, and experienced real growth in sales and earnings. Menu changes, new ice creams, sundaes, and special promotions during summertime and the holiday season were particularly popular with customers.

Significant management changes took place at the end of 1983. William E. C. Dearden moved from the position of vice chairman and chief executive officer to chairman of the board, as Harold S. Mohler retired. Richard A. Zimmerman was promoted from president and chief operating officer, to president and chief executive officer. Statements in the 1983 Annual Report reinforced the strength and experience of the management team, signaling a smooth transition from Dearden to Zimmerman in the CEO's position:
While there are new faces in new positions at Hershey, there is also a strong thread of continuity. The senior management of your Company has now had almost 8 years of experience with the strategic planning process and the strong sense of direction which it provides.

We are convinced that Hershey is positioned for continued profitable growth through four strong attributes which give our Company direction. As mentioned previously, there is the strategic planning process. Planning for the long-term future has been entrenched as a way of life at Hershey.

...Second, we have in place a very stable, dynamic and young key management group.

...Third is the quality of our products and services, supported by excellent marketing programs.

...Fourth and finally, we have always believed that the ethical standards of the Company and the integrity of all individuals who represent our companies in dealings with suppliers, customers and consumers are prerequisites for successfully developing our businesses. (Annual Report, 1983)
Analysis

Management Changes

Hershey has experienced a number of management eras which display very different characteristics in management style and management goals, and the effect of these elements on the company's performance. Milton Hershey's era was one of growth in the chocolate and confectionery business. He was the founder, the entrepreneur; he established quality products, and a quality reputation for those products and the company. The community of Hershey, Pennsylvania, was built and the community culture was developed - a culture of individual integrity, trust and respect; a culture of pride in quality workmanship and sharing of community activities and responsibilities. Hershey's personal integrity, care for people, and drive to form a successful chocolate business were behind the company's development through this period.

The next years were ones of slow transition. Leaders of the company, following Hershey's death, tried to continue Mr. Hershey's directions - they continued in the chocolate and confectionery businesses, they continued to do no advertising or promotion, they continued with manufacturing techniques which were slowly becoming outmoded. The needs for change were growing, but
little change occurred; managers handled continuing operations, but did not lead the company into new growth or profitability opportunities.

During the 1960's, significant changes in management personnel took place; the new managers brought changing perspectives to the company. Hinkle and Mohler were instrumental in hiring key young people (Dearden, Zimmerman, Rawley, Suhring, Johns, etc.) who would be the managers of significant change in the future. They saw the need to move the company into modern times in manufacturing and sales and marketing. Their vision of the company's future expanded from chocolate and confectionery products into broader fields. Growth was slow and steady, until the early 1970's when commodity prices began to raise havoc with overall costs, causing profits to plummet. Dearden, working with Mohler, Zimmerman, and others, was the primary champion of improvement in management systems - setting targets for sales increases, net operating income, and return on capital.

Although the groundwork had been set, the need for change was apparent, the real trigger for fast paced, significant change came in 1976 when Dearden was made CEO and Zimmerman was made president. Dearden brought a tremendous amount of experience and knowledge of the company and its relationships with the town and the Hershey School to the CEO’s position. He was uniquely qualified to
make a significant contribution to the company. Although he is very humble, and credits many other people with helping him, there is no doubt that he had a clear vision of the future of the Hershey Foods Corporation, and he made the first tactical steps along the road to further success.

Dearden and others saw the need for change, but Dearden's vision differed from the others' in its size, scope and urgency. This individual man, not alone, but with the aid of others, was the trigger for Hershey's more aggressive push into the future, resulting in improved profitability and significant growth for the company ever since. He brought two needed traits to the leadership position. First, the ability to pull together the specifics of his vision through the use of a strategic planning process, involving all of his key managers, to formulate the best possible plan, and to gain commitment from the top management team. Secondly, he was a salesman, a communicator, a visionary, who could relate his vision of a greater Hershey's to others through talks, story telling, and informal discussions. He was a leader who people at Hershey wanted to follow. Relying heavily on the cultural assumptions of trust, integrity, and respect which Milton Hershey had established, Dearden pulled together the company's heritage with the challenges of the 1970's, to focus on the attainment of a strong, profitable future.
Management has two key responsibilities - 1) appropriate return to the stakeholders, be they shareholders, employees, or the community, in both the short and long term, and 2) management succession planning and managerial development. Many strong leaders do the first, but do not provide backup for themselves once they are gone. Dearden did this job particularly well. By working very closely with Zimmerman for several years, he prepared his successor to follow in his footsteps, and when the time came, in 1984, turned the company over to Zimmerman. Although Dearden was such a strong leader of Hershey, and remains chairman of the board, he gave up the key position to Zimmerman when the company was in a strong position and was ready to allow the next generation of leaders to emerge.

**Strategic Changes**

There were three key strategic changes which contributed to the success of the Hershey Foods Corporation of the 1980's. The first came in the mid-1960's when Dearden, Rawley, and Suhring and Johns, both hired from Mars in 1968, introduced marketing and sales techniques to the corporation. They focused on developing a professional sales force, training high potential people in marketing and market research techniques, and designing systems to do sales forecasting, budgeting and control, integrating sales forecasts with manufacturing plans. An information base and a new
language of market indices was developed where none existed before. Looking back at this period, these seem like obvious steps, but at the time in Hershey's history, this was a cultural revolution - there was resistance to doing things differently from the way they had been done for so many years. The stage was set at this time to take another big step - that into national consumer advertising - which began in 1970.

The second key strategic event was the decision to expand into businesses outside the chocolate and confectionery field. This also occurred in the mid-1960's, with the purchase of San Giorgio Macaroni, Inc. and Delmonico Foods, Inc. The strategy was not focused, however, at this time. Management knew it did not want to be totally reliant on the cocoa bean which was vulnerable to weather fluctuations and political unrest, but they had not focused on exactly where the right targets for expansion were and how they would fit into the company's future in a cohesive manner. Thus they dabbled in pasta, coffee services, and frozen foods with small acquisitions, before the mechanism for focusing came along.

The third, and in some ways most critical, strategic change took place in 1976 with the development of the strategic planning process. Dearden triggered this thrust and indeed made it his first priority as he took over the CEO's position. It was the mechanism used to develop a solid, written mission and broad objectives
(a vision) of the future, among all corporate managers. Planning was to be each manager's first priority. Twenty-six full days per year were dedicated by all corporate management to this process. The meetings were events that were not missed for any reason (since 1976, only two absences from this meeting have been recorded – both cases involved a death in the immediate family).

Dearden recounts the first few months:

When I became CEO, I made my No. 1 objective strategic planning – deciding where we were, where we wanted to be, how we were going to get there. I said that by July 1 – in 4 months – we would have a plan for the company, and we would present it to the board of directors at their meeting July 27.

For maybe 18 full days from March to July, the top eight or nine people in this company sat down and wrestled with what it should be. We met our target dates, and when we presented the plan to the board, it was accepted.

What was the plan? We wanted to be a major, diversified, international food and food-related company. We wanted the diversification to be inside our original business, chocolate and confectionery, and we wanted it to be outside that business too. (Nation's Business, 6/83)

The strategic planning process developed into a primary communication tool among managers; teamwork became the method to achieve common goals. Because the plans were written down and discussed, there were no misunderstandings about the goals or the part each individual was to play in achieving those goals. To make
this system work, managers had to be totally candid with each other. This was difficult, as human nature causes people to protect their own interests as they continually work with one another. One technique which helped was that managers anonymously input their thoughts as to what the key issues were - this got the issues on the table for discussion.

The strategic planning process took place at both the corporate level and within each division. The resulting plans were the foundation of planning the future. The strategic plan itself was not shared widely within the organization below the level of corporate management and division presidents. However, the translation of the plan into operating plans then was shared with employees on a need-to-know basis. According to individuals interviewed, total candidness between corporate management and operations management has not yet been achieved. Corporate management tends to pull higher performance out of the divisions. A healthier situation might be one where divisions have ambitious plans which must be held in check by corporate management. Zimmerman will be more open with the strategy. He is thinking of putting both the strategic and the annual plans on a wallet size card, so that each employee can have one and carry it with him.
The strategic planning process, along with the fact that Dearden and Zimmerman had worked closely together for many years, allowed for a smooth transition in 1984 between them. Because they had worked together on the strategic focus of the company for 8 years, there was no abrupt change in direction.

**Relationship Between Hershey Foods Corp., Milton Hershey School, and Hershey Trust Company**

A unique part of the story of the Hershey Foods Corporation, as compared with other United States industry, is the relationships among the company, the school, and the HERCO owned businesses throughout the community. Milton Hershey gave all of the ownership of the Hershey Chocolate Company to the Milton Hershey School in 1918. Beginning in 1927, the school sold some of its stock to the public, but it has always retained greater than 50 percent ownership—during the 1960's it held approximately 65 percent, today it owns 50.1 percent. This relationship has had a profound effect on the company. At the same time it has provided the company with an important obligation (most of the school's yearly income results from company dividends), yet it has also allowed a posture of forgiveness when company performance dipped. Until recently, board members of the three companies were in large part the same, with little input from the outside.
Forbes (11/1/75) took a hard line on this point when Hershey was facing lower earnings:

If an ordinary company doubled its sales over a decade but saw per-share earnings fall 16 percent and return on equity drop by over 26 percent, the chief executive might be nervous. He might start worrying about what the board would say or at least anticipate pointed shareholder criticism at the next annual meeting. But not if that company is Hershey Foods Corporation.

Although Hershey President Harold S. Mohler owns less than one-half of 1 percent of the common stock, he runs the big candymaker with no fear of a stockholder revolt. That's because he is also chairman of Hershey Trust Co., which was set up by company founder Milton Hershey in 1905 as his investment arm and now controls nearly 65 percent of Hershey Food's outstanding common stock.

When the financial picture at the company improved in the late 1970's and early 1980's, the school was the first to benefit. The presence of the school, occupying a large expanse of land in the middle of the town, has a profound effect on many employees of the food company. It is a constant reminder of some of the wholesome values for which the name "Hershey" stands; it gives some employees an added sense of purpose.

Throughout the period of the 1970's and 1980's, the composition of the Hershey Foods Corp. board of directors did change, to include many people from outside the company. The outside members
currently number eight of 13; management feels that this change does indeed strengthen the board and broaden the perspective which the board brings to bear on issues with which it is dealing. Dearden and Zimmerman feel that this broader perspective, and the probing questions which it provides, has helped revitalization efforts.

Culture

A very strong and encompassing culture was developed during the years Milton Hershey established and grew the Hershey Chocolate Company. As described in the historical sections, the company and its people meant everything to Milton Hershey; he wanted employees to have a good life, which included work they could take pride in, a family-oriented community which supplied many of the family needs, and an atmosphere of honesty, trust and integrity.

Visitors to the company are told many stories about the Milton Hershey era – each manager interviewed for this thesis spoke of the heritage of the company and the values which Hershey held. In fact, to this day, they do "what Mr. Hershey would want." The reason for this allegiance is that the values Mr. Hershey instilled were so basic – Dearden says that Hershey's courage and fortitude can be emulated today; his philosophy is as valid today as when he
lived it. Although Dearden was at the Milton Hershey School during Hershey's life, most of the other managers never knew Milton Hershey. Thus, the degree to which the heritage has been passed on and assimilated seems unusual.

Dearden must be given credit for the strength of the cultural heritage remaining at the company today. Some of the heritage was beginning to disappear, but as Dearden assumed the CEO's position, his top priorities were to develop the strategic planning process and to reestablish the heritage from Milton Hershey's era. Dearden is the primary storyteller, informally talking with young people in the company. He says "You must tell people where you're coming from and why the changes you are trying to make are important." His movement of the corporate headquarters to Milton Hershey's home was a strong signal to all employees about the importance of the company's history. The fact that the Milton Hershey School is an integral part of the community is a constant reminder to all employees of the company's heritage.

Dearden believes "Leadership starts at the top; you must lead by example." His approach to participation is to honestly lay out his views, and then honestly ask for a subordinate's views. As CEO, he carefully weighed various inputs, but there was no question who was the boss and who made the final decisions. Part of his basic philosophy was, "Business is not complicated - stick to the
basics." He believes Hershey must be number one and stay number one in its industry; that industry must be growing or the company must grow selectively into other areas.

The key values of honesty and integrity can be seen at the company today. Employees demonstrate a respect for the company and each other which is seen in the cleanliness of buildings and the enthusiasm with which people discuss the company. The strategic planning process is a laying out of goals, objectives, and individual's thoughts; each person is respected for his/her contribution. The focus on product quality and giving customers value for their money is an integrity issue. There is naturally a tendency for individuals to protect their own interests, but this process reduces that tendency, getting corporate issues into the open.

Although Dearden reinforced the company's heritage, he also triggered some changes in the culture. Management had always resided at the Chocolate Company, continually being involved in the daily activities of running the business. When Dearden restructured the management and moved the corporate managers to Highpoint, he reduced their involvement in running the businesses, turning those businesses over to Earl Spangler, president of the Chocolate Company, and Joe Viviano, president of the pasta business. Viviano set high expectations for himself and his people. He describes meetings on Saturdays and Sundays where his management team sat with their coats and gloves
on because the building was not heated on the weekends. They were plotting their strategy. At the time they had 2 percent of the pasta business and decided they wanted to be number one. Indeed, in 1984, with the acquisition of American Beauty from Pillsbury, they achieved that goal.

A formal productivity improvement program saved the Chocolate Company over $40 million between 1979 and 1983. Earl Spangler led the effort. He said "We avoided hoopla, buttons, posters, etc.; we had bad experiences with that approach previously. This time we wanted to build slowly, permanently a state of mind." Quality improvement was reinforced as a means to improve productivity and reduce costs as a part of this program.

The corporate management philosophy toward the business units was "expect and inspect". Expectations were set together through the strategic plan; then through periodic reviews, progress against those expectations was measured. Viviano says that along with "expect and inspect" came "respect and a management incentive plan." "If you set high goals, and do what you say you'll do, you will be rewarded." This system encouraged people to believe in one another; teamwork is now the only way to do business at Hershey.
Hershey's organizational structure has changed significantly three times since the mid-1960's to be aligned more precisely with the strategy. Until the mid-1960's, the Chocolate Company was the business; there were no non-chocolate or non-confectionery products, and there was little international business.

The first significant change came in 1966, after the first acquisitions outside the confectionery field. At this time, Harold Mohler had just become president. The businesses were split into two parts, and Dearden was made a group vice president for the Chocolate Company and Canada, and Zimmerman became a group vice president for pasta, Cory Corp., and a developing interest in international business. This structural change strengthened both parts of the company, as each of these two men could focus clearly on their parts of the company without interfering with one another. It was reasonable that Dearden, who was a prime candidate to follow Mohler up the chain of top corporate executives was given the Chocolate Company – the heart of Hershey's business.

Although there were a few changes in the men occupying top jobs, the next major structural change came when Dearden became CEO and moved the corporate management to Highpoint from the chocolate factory premises, in 1978. The structure of the company at this
point in time, and then with the addition of Friendly in 1979, is shown in Figure 9. The key point to this change is that it removed corporate management from daily operations; they now focused on planning for Hershey's future, and carrying out those plans. The consolidation of these 10 individuals at Highpoint, away from the factory, encouraged teamwork and reinforced the Hershey heritage.

A third change is taking place now, lower in the organization. A stronger focus on business units, moving from a more functional organization is underway. There will be six divisions with 28 business units. This move will allow individuals to focus on a smaller segment of the industry, marrying manufacturing, marketing and financial responsibility at a lower level, while maintaining the broader divisional coordination among similar businesses.

Future

What are Hershey's challenges for the future? In order to maintain their rates of growth and profitability, they must keep an agreed upon vision of the future in front of them. Many managers said that there is a risk of complacency when a company is doing well; managers want to stay "humble and hungry" to avoid the "success breeds failure" trap.
To achieve this primary objective, there are several areas which management intends to focus on. First, an awareness of customer needs - as the world changes in its demographics, eating habits, etc., Hershey wants to be in the marketplace early with new and improved products. A focus on quality will be a primary vehicle to provide the customer with the right products at a good value for his money.

Secondly, a focus in the human resource area will further strengthen the company's ability to move forward. New approaches to training, performance/reward systems, and employee involvement are underway. The heritage of the company must be institutionalized throughout the corporation and integrated into the cultures of the newer acquisitions, e.g., Friendly. In the older parts of the business, there are fewer of "the Hershey people" around. "Who Hershey is", that is, the values begun by Mr. Hershey and carried on through Dearden's time as CEO, must be perpetuated through training, coaching, and informal discussions. The new management team, under Zimmerman, is now a year old; it must be further solidified. Zimmerman must determine how his role as CEO will differ from Dearden's, and what the roles of his top management will be. Management cannot become comfortable with the status quo if continued growth and profitability are to be maintained. They must ask where the next challenges will come from.
Thirdly, commodity price fluctuations have plagued the company in the past. Management must determine the risks around the possibility of future political and economic forces affecting commodity prices, and how to best position the company to avoid problems, and take advantage of opportunities in this area.

Hershey is a case study of a successful corporate revitalization; its financial performance and the strengths of its product lines have improved over the last 10 years. Its diversification into three major parts - chocolate/confectionery, pasta, and Friendly's - has removed its total reliance on chocolate-related commodities and chocolate-related markets. A strong management team is in place to insure Hershey's continued profitability and growth.
BAUSCH & LOMB INCORPORATED CASE STUDY

Background

Bausch & Lomb, Inc. is a company in the midst of transition. Its older ophthalmic and industrial instrumentation businesses have been replaced by newer business thrusts in the health care field: contact lenses, solutions for contact lens and general eye care, commercial laboratory animals, monoclonal antibodies, and other growth opportunities. It is the world’s leading producer of contact lenses, and a strong participant in the markets for lens care solutions, high performance sunglasses, binoculars, riflescopes, telescopes, and magnifiers. Bausch & Lomb recently acquired Charles River Laboratories, the largest commercial producer of laboratory animals bred for use in biomedical research.

Headquartered in Rochester, New York, the company employs approximately 8,400 people, in manufacturing, sales and distribution centers in the United States and 24 foreign countries. 1984 sales were $533 million from continuing operations, with net earnings of $50.2 million; one third of sales are outside the United States. Through extensive restructuring at the corporate level and a focused thrust toward the future, the company has positioned itself for high growth and profitability in the future.
History

1853–1971: Ophthalmic and Instrumentation Era

Bausch & Lomb was founded in 1853 by John Jacob Bausch and Henry Lomb, two German immigrants to the United States. These two gentlemen began a small optical shop in Rochester, New York, and were its only employees during its first 15 years. Shortly before the Civil War, Bausch discovered that hard rubber, similar to that being used to make combs at the time, could be used to make eyeglass frames. He worked on the stove in his kitchen to perfect the molding of vulcanite rubber into frames which he would then fit with lenses ground in his shop or imported from Europe. These new frames competed well with respect to durability and cost when compared to the conventional horn-rimmed or gold-filled metal frames of that time.

By 1870, Bausch & Lomb Optical Company was financially solvent, and was able to enlarge its manufacturing facility in Rochester, New York and also open a sales office in New York City. Building on the successful eyeglass business, Bausch & Lomb diversified into a variety of optical products, specializing in those that required a high degree of manufacturing precision and that were related to vision—to perfecting man's ability to examine the universe around him either through eyeglasses or precision microscopes. (Internal company publication on history.)
In the 1890's, Bausch & Lomb began to produce photographic lenses, binoculars and telescopes; it accumulated numerous patents which were technically advanced for that era. A strong reputation for quality clinical and analytical instrumentation was developed in the early 1900's; it was the first company in North America to produce optical quality glass for microscopes and other scientific instruments.

During World War I, the company pooled its resources into the production of telescopes, binoculars, rangefinders, and searchlights; employment had reached 6,000 people. During the Depression, ophthalmic products and scientific instruments continued to sell well. The Bausch & Lomb Science Award was established, and continues to be presented to outstanding science students in thousands of high schools.

In 1937, the company introduced Ray Ban sunglasses, which continue to be a popular product today. Bausch & Lomb's first public stock offering was made in 1938. During World War II, the company focused again on precision optical products for the armed services: telescopes, periscopes, binoculars, riflesights, and aerial camera lenses.
During the 1950's, the company continued perfecting its eyeglasses, microscopes, telescopes, camera lenses, and other precision optics. Plastic eyeglass frames were introduced. In 1953, the CinemaScope lens revolutionized the motion picture industry and won Bausch & Lomb an Oscar. Through the 1950's the company branched into other areas of scientific instrumentation, buying several smaller companies including Herron Optical and Applied Research Laboratories. These purchases added spectrometers, spectrophotometers, and other precision measurement and analytical equipment to the existing product lines. In 1960, the company dropped the word "optical" from its name, realigning the name with the wide variety of products being offered.

Through the 1960's Bausch & Lomb expanded its business in scientific instruments by acquiring Ferson Optics, Diecraft, and other small companies. The company continued to grow in both ophthalmic and instrument products; in 1966, sales surpassed $100 million.

Growth existed but was slow because the ophthalmic business was slow growing and of low profit margin; instrument sales declined while manufacturing and marketing costs rose. This market was hurt by 'continuing restrictions in government spending for scientific instruments, a decline in industrial capital expenditures, and the general softness of the economy.' (Business Week, 5/15/71)
Late in the 1960's, a key decision was made; although the impact that this decision would have on the company was not recognized at the time, it would revolutionize the company over the next 15 years. This decision was to sub-licence from National Patent Development Corporation, a Czech process for making soft contact lenses out of hydrophilic plastic, hydroxyethyl methacrylate. Hard lenses, made of hydrophobic plastic, had been available since the 1940's. These lenses provided good vision, but because they let little oxygen through to the cornea, the wearer was constantly reminded that there was a foreign object in their eye. The Soflens Division was set up as a separate division at Bausch & Lomb, essentially competing with the eyeglasses business. Many new people were hired into this new area, while a few were brought from the traditional fields.


Bausch & Lomb developed the Czech process for manufacturing soft lenses. In 1971, after obtaining FDA approval, they began marketing this product through ophthalmologists (eye physicians), optometrists (eye specialists who can prescribe vision correction), and opticians (who make spectacle lenses). The introduction of soft lenses was a tremendous success, which allowed the company to become one of Fortune's 500 largest companies.
As the lens was being introduced, *Business Week* described the company's situation as follows:

Rochester's staid old Bausch & Lomb, Inc., a leading manufacturer of ophthalmic products and scientific instruments, does not look much like a corporate swinger. For most of the last decade, its profits have been steady but unspectacular. Its growth has been barely perceptible. Per-share earnings last year were just what they were in 1964. On Wall Street, B&L's management has never been regarded as aggressive. Moreover, acquisition and diversification, the touchstones of any free-wheeling corporate strategy have played but a minor role in the company's operations.

Despite this drab corporate facade, Bausch & Lomb has lately become one of the stock market's highest fliers. In less than a year, the value of B&L shares has more than quadrupled, with nearly half the increase occurring in the past 2 months. Early this week, the stock was selling at $132 a share, or at about 75 times 1970 earnings. This dazzling performance has been generated by a sliver of limp, clear plastic that B&L uses to make a new pliable contact lens called "Soflens." (*Business Week*, 5/15/71)

During the next few years, Bausch & Lomb had the bulk of the soft lens business to themselves. In 1973, Warner-Lambert obtained FDA approval to manufacture and sell its Softcan lenses for a therapeutic use, treatment of bullous keratopathy, but not for general ophthalmic use. Finally, in April 1974, Soft Lenses Inc. became the second producer to obtain permission to market a soft lens for vision correction.
Thus, competition was entering the market. Many people in the eye care profession had been somewhat turned off by Bausch & Lomb's approach when it entered the business a few years earlier, and were glad to have an alternate supplier. In November 1974, Barrons described the scenario this way:

In the course of introducing its Soflens to the traditionally conservative ophthalmic trade, Bausch & Lomb managed to raise more than a few eyebrows. As explained in an Arthur D. Little Inc. report: Bausch & Lomb's initial marketing approach was rather strong and offended many professionals. A series of seminars was held to introduce the new soft contact lens, and doctors were charged $25 to attend. In addition, doctors were informed that they had a very short time to decide whether to commit $3,000 for a 72-lens dispensing set and maintenance equipment, or else take the chance that lenses would not be available for 6 to 12 months."

During the first half of the 1970's, Bausch & Lomb's sales and profits from the Soflens Division grew. Company sales increased from $147 million in 1970 to $349 million in 1976. Profit over the same period rose from $5 million to $21 million; soft contact lenses accounted for less than 25 percent of sales, but approximately two-thirds of profits.
1977-1981: Challenge/Initial Change

[During the last half of the 1970's]
with corporate earnings improving annually,
things seemed serene on the surface. Yet Bausch
was quietly loosing its grip on its highest
priority business - the soft contact lens market
it had created. (Business Week, 11/17/80)

By 1977, competition for Bausch & Lomb's soft contact lens
business, the life blood of the company, had grown significantly.
Five other manufacturers, including Warner-Lambert, had been given
FDA approval, and another 15 companies, including Dow Corning and
Revlon, were awaiting approval. To combat this competition, Bausch
& Lomb was slowly shifting its marketing strategy away from doctors
and toward the final customer. Its first brand-name advertising
campaign was launched to convince potential soft lens wearers that
they should indeed use Bausch & Lomb lenses. They also focused on
the retail chains - Dart Drugs; Sears, Roebuck; Montgomery Ward;
Pearle; and Sterling Optical - which had 'optical boutiques'. These
chains could provide individuals with lower priced product and
service, while making a lower profit margin per unit on significantly
higher volume. Bausch & Lomb, wanting high volume, and having a
manufacturing cost advantage due to its unique process, wanted to
encourage the retail opticians to develop this market.
In 1978, several changes in products and management structure took place which would turn out to be significant events in the long run. Bausch & Lomb entered the lens cleaning solution business which started small, but would grow very significantly over the next few years.

J. D. Harbey, who had been named as president in 1971, at the same time D. G. Schuman was named chairman, retired and was not replaced; Schuman assumed the presidency in addition to the chairman's job. Daniel E. Gill was hired from Abbott Laboratories as president of the Soflens Division in a purposeful move by the Board of Directors to begin a succession scheme targeted at Schuman's retirement, which would occur in 1981 at the mandatory retirement age of 65 years.

In 1978, due to the strength of competition in the marketplace, Bausch & Lomb's slow reaction to change prices, and the fact that doctors were anxious to use alternative suppliers, Bausch & Lomb's market share had dropped to approximately 50 percent of the soft contact lens market. Gill, as president of the Soflens Division, was instrumental in some aggressive moves which took place in 1978-1979 to turn around the erosion which was then occurring in the soft contact lens business. By the end of 1979, they had regained about 5 percent of the lost market share. Financial World (11/1/79) reported toward the end of 1979:
The recovery comes from many factors: improved technology that further refined a line of lenses always recognized for high quality; the introduction of lens cleaning solutions; new marketing strategies that have reduced the cost of inventory to the retailer; and aggressive price cuts, made possible by Bausch's inexpensive, proprietary 'spincasting' production methods and by the incremental margins gained by doubling production facilities last year.

During 1979, in an aggressive pricing move, Bausch & Lomb decided to cut wholesale list prices on non-replacement soft lenses 28 percent to $25/lens, and to meet discounts offered by competitors. They then introduced a new lens, half as thick as the original lens, aimed at easier fitting; this was suited to the higher volume chain stores.

By 1980, Bausch & Lomb's market share in the soft lens business had jumped back above 60 percent, but competition was still significant. In that year, Revlon, Inc., viewing the business as part of the cosmetic trade, in August purchased Continuous Curve Contact Lenses Inc., the No. 2 soft lens maker for $108 million in stock. ...Revlon's Continuous Curve is expected to receive approval by year end from the FDA to market the first cosmetic extended-wear lens, and approvals for two or three similar products could follow next year. (Business Week, 11/17/80)

Schering-Plough Corp. bought Wesley-Jessen Inc., a Chicago contact producer, Ciba-Geigy Corp. completed the country's second largest soft lens plant, and Syntex Corp introduced its first contact lenses. The new heavyweights in the soft lens industry
would focus on developing new products to fill what they saw as a huge, untapped market for improved lenses; these products would include toric soft contacts to correct astigmatism, bifocal contacts, and extended wear lenses.

Competitors were doing significant development work in process technology, trying to find a way to overcome the cost advantage which Bausch & Lomb had due to its proprietary process. *Fortune* (7/27/81) describes the process question:

Bausch lenses, with one exception, are produced by injecting liquid monomer, a simple chemical, into a spinning mold that forms the lens through centrifugal force. ...The company refuses to reveal production costs, but Paul A Brooke, an analyst with the Wall Street brokerage firm of Cyris J. Lawrence, figures Bausch & Lomb is popping lenses out for less than $2 each. By contrast, nearly all of Bausch's competitors make or buy plastic lenses and shape them on automatic lathes. Lathing takes longer and requires a more skilled, and therefore more expensive, craftsman. A lathed lens costs $5 to $7 to produce. Equally important, lathed lenses cannot be reproduced with the same precision as the spin-cast version.

A significant management move in October of 1980 was the appointment of Daniel E. Gill as president and chief operating officer. After leading the stabilization of business in the Soflens Division, Gill was now positioned to significantly impact the other, lower growth/lower profit businesses of Bausch & Lomb. This move
positioned Gill to assume the position of CEO during 1981 when Schuman was to retire.

Through 1980, the financial figures indicated that Bausch & Lomb was healthy and growing. Nevertheless, it was recognized by the Board of Directors and top management that if significant strategic steps were not taken to refocus the company's direction regarding it's business portfolio, the health and growth would not continue.

A primary goal for 1981, the repositioning of the company to concentrate its resources on fundamentally sound businesses, was attained. ...In a year punctuated by major strategic steps, the most significant was the decision to discontinue our worldwide ophthalmic <eyeglasses and related operations> products business. It became apparent that further consolidation of marginal operations would not restore the remaining ophthalmic business to acceptable profitability, and that far more attractive opportunities for deployment of financial and managerial resources existed elsewhere within the company. The charges against 1981 earnings to discontinue our ophthalmic operations were substantial, but the benefits of this action will begin to be realized immediately. (Annual Report, 1981)

In 1981, Revlon, Inc. introduced the first extended-wear soft contact lens; uncertainty about Bausch & Lomb's market position drove its stock price from $70/share in late 1980, to the low $50's by mid 1981. Fortune (7/27/81) wrote: "Gill will fight ferociously because the Soflens Division is the heart of the company. Last year
(1980) it contributed 61 percent of the $105 million in operating profits while accounting for only 30 percent of the $582 million in sales."

1981-1985: Steps Toward Revitalization

Fortune (7/27/81) summarized the situation at Bausch & Lomb in mid 1981:

Even with breakthroughs, Bausch's brawny new challengers will have trouble matching its marketing power. Those that stay the course undoubtedly will whittle down the industry leader's market share over time. But by then, if his plans go well, Dan Gill will have recast Bausch & Lomb into a company far less dependent on contact lenses for its financial health. ...Gill clearly faces challenges aplenty.

In 1981, within the instruments segment of the company, management tried to improve profitability by reorganizing the existing instruments segments, which consisted of 30 individual product lines, into a worldwide instruments organization. Manufacturing was divided among three new divisions, microscopy and image analysis, spectroscopy, and graphics and controls, while marketing responsibility was given to a fourth division. A matrix management style was introduced. Foreign currency effects and weakened demand had hurt instrument sales in 1980, but it was
thought that the reorganization, aimed particularly at a more unified marketing effort, would provide significant long term growth potential in these businesses.

The reorganization of instruments did not provide the expected result. In November 1982, Barron's described the business:

B&L's instruments division recorded a $5.5 million loss in this year's third quarter. The unit has been a headache for the past 3 years as profits have trended lower from a 1979 peak of $15.8 million to an estimated overall 1982 loss of $6.2 million.

The reasons for the decline vary from poor sales of industrial microscopes to the semiconductor industry, to a collapse in sales of expensive spectroscopy systems to the steel, cement, and petrochemical industry, to a slowdown of purchasing of digital read-out control devices sold to the machine tool industry. A complete divisional reorganization has also hurt.

The 1982 Annual Report detailed the challenges which Bausch & Lomb faced during that year, where earnings from continuing operations were off 37 percent. In his letter to the shareholders, Gill stated:

These lower earnings reflected a $7.5 million provision for restructuring of our instruments business, instrument operating losses and price competition for contact lenses and care kits. ...Returning B&L's instrument business to profitability became the most challenging task of management in 1982. Only modestly profitable in recent years, instruments began incurring losses
in 1982 as the recession deepened. ...We concluded that our plans to centralize marketing, sales and service for instruments could not be implemented satisfactorily in this economy, and these functional responsibilities have been returned to the manufacturing divisions. The $7.5 million reserve established in 1982 provides for other measures to improve performance, including elimination of some unprofitable product lines.

During 1982, Bausch & Lomb continued its leadership position in soft contact lenses, but price competition caused a further decline in the profitability of this line. Extended-wear lenses from Bausch & Lomb were introduced and gained wide acceptance; international lens sales grew 25 percent. The contact lens solutions business continued to grow (~30 percent) and be profitable.

Consumer Products, including Ray Ban sunglasses and the sports optic businesses remained steady throughout the late 1970's and early 1980's. These businesses displayed a yearly rate of growth in sales and operating earning of approximately 10 percent from 1978 to 1982.

By 1983, many new products and lower prices were increasing lens sales: hard, gas-permeable lenses, extended-wear soft lenses, bifocal contacts, toric lenses and purely cosmetic colored lenses were all available from various manufacturers. Cooper Vision was going after Bausch & Lomb's lead with vigor, expecting to be No. 1
in dollar volume of contact lens sales by 1986. *Barrons* (8/1/83) wrote:

Bausch & Lomb was clearly losing an opportunity by not having an extended-wear lens in the market. When they did introduce their own extended-wear lens, they came into the market with a price of $20 to the optometrists - 30 percent below prices charged by the extended-wear leaders, Revlon and Cooper Vision.

Gill, in the 1983 Annual Report writes:

Bausch & Lomb's 1983 results gave every indication that the strong recovery in operating performance that we have been working toward is indeed underway. Although Bausch & Lomb entered the extended-wear lens market late, by the end of 1983 they held the number one market position. Sales and earnings gains continued in the solutions business. The instruments business improved somewhat, but still showed a loss.

Several significant acquisitions were made, including: Polymer Technology Corp., a company leading in the development of gas rigid permeable lens materials and Synemed, Inc., which markets lasers for ophthalmic surgery and perimeter screening equipment, used to detect and diagnose visual disorders. In November, 1983, Bausch & Lomb announced that it had reached an acquisition agreement with Charles River Breeding Laboratory, the world's leading producer of laboratory animals for biomedical research. This company had achieved a fine record of 16 years of consistent growth in sales and earnings.
Bausch & Lomb's changing business portfolio through continual acquisition and divestiture during the early 1980's, caused net sales to remain flat, and net earnings to decrease. A summary of Bausch & Lomb's financial performance over the years is shown in Figure 10.

In July of 1984, Bausch & Lomb's stock was selling near its low for the decade. *Business Week* (7/6/84) reporters attributed this to Wall Street's feeling that Bausch & Lomb is 'leaving money on the table' with its low price strategy, and that Wall Street analysts distrust deep price cutting. This low price strategy, however, is linked closely with high volume—a key to Bausch & Lomb's success.

During 1984, a decision was made to shed much of the faltering industrial instruments business, which lost $16 million in the last 2 years. The company's strategic focus is now clearly aimed at health care with eye care being an important part of this broader trend. Microscopes and telescopes will be retained. Bausch & Lomb negotiated one leveraged buyout, and has sold or is currently negotiating sale of four other industrial instruments business segments.
Analysis

Management Changes

As Bausch & Lomb moved from one era, the pre-soft lens era, through the early soft lens period, to the era in which Gill took control, there were major management changes which had a large impact on the character of the company. Schuman, a strong-minded financial man who wanted to make even very small decisions himself, was chief executive officer from 1971 to 1981. When J. Harbey, a man with a manufacturing background and president until 1978, retired, Schuman assumed the presidency in addition to the CEO's responsibilities. Schuman's strong, independent management style had caused a situation at Bausch & Lomb in which strong leaders who could potentially replace Schuman had not been developed. The Board of Directors realized that the lack of management development was a serious situation, and hired Daniel E. Gill, from Abbott Laboratories, to lead the Soflens Division, with the understanding that if he performed to expectations he would become president in 2 years and CEO upon the retirement of Schuman.

Gill was given two mandates from the Board of Directors: 1) to build a management team, and 2) to redirect the business portfolio of the company into profitable growth opportunities. Because individuals in management positions in the Schuman era were
ingrained in a slow-moving culture, they were not, for the most part, of a frame of mind to suddenly lead a significant change effort; Gill hired several managers from other companies, including Abbott Laboratories, Xerox, and IBM. Knowing he was headed for the presidency, and seeing how dismal the situation was, he began to load up the Soflens Division with a nucleus of talented people who could then move up with him into leadership positions. These people became the champions of the new Bausch & Lomb. Terry Smith, now group president for the Professional Eye Care Products and International Group was one of the first to be hired; he came from Abbott Laboratories in 1979. Thomas McDermott, group president of Consumer and Scientific Products, was hired by Schuman in 1978, left the company, and was rehired by Gill in 1981.

A look at the corporate officers today shows that 22 of the 24 people in top jobs have come to the company since 1980, and at least 80 percent of their direct reports have come from outside as well. Most of the people who had occupied these jobs were close to retirement age. Gill had gained a reputation as a driver who would place heavy demands on his subordinates; many of the old timers did not want to deal with these increased responsibilities, and took this opportunity to retire. Decentralization was taking place, with profit and loss responsibility being delegated downward to levels which had never had these challenges. The large staff areas which Schuman had used to track what the managers were doing were eliminated.
In order to hire the number of high-level people he needed, Gill worked with one or two executive search firms, going after individuals who were aggressive, had a good track record within their companies, and were unhappy with the status quo—in other words, change agents. Over a period of a year or so, he had most of the team in place. A few of the initial hires did not fit into Bausch & Lomb for one reason or another, and left after 6-9 months with the company. Thus, the management team changed continually for a few years. One of the toughest problems was to make a cohesive group from this collection of high-powered individuals who had come from many companies and backgrounds.

Gill was the clear leader of the change effort. He had developed a vision of a growing, profitable Bausch & Lomb. He was frustrated with the sales hovering around the $500 million level, and lower than possible profits. Gill focused a lot of effort into building his management team, instituting an operations team, consisting of top management personnel, an acquisitions team, a more useful strategic planning process, and general team building sessions. His philosophy was that management must come from the top. Underlying values to be held by his team were clearly articulated: growth of the business, leadership in the industry, quality products, hard meaningful work, ethical behavior, and return to stockholders. He not only talked with his managers, but to all exempt people within the company, laying out his values and
strategy. One of Gill's managers describes him as having the ability to prioritize – he attacks the most serious problem first, then the next, and next, never losing sight of the goal.

To carry out the goal of developing a stronger management team for the future, Gill instituted a succession planning process. High potential people are now identified by division presidents; their training and work experience needs are addressed. There will be much more movement from division to division, broadening individuals within the company, and preparing them for increased responsibility.

**Strategic Changes**

Comparing the business portfolio of 1980 with that of 1985, 40 percent of the business has been divested or discontinued, and several new acquisitions have been made. Figure 11 lists the business portfolio changes through this period of time. Ophthalmic products and many of the industrial instruments products have disappeared; the solutions business, which was just starting in 1979, has grown to be a significant part of the portfolio; Polymer Technology, Synemed and Charles River Laboratories have been added to the portfolio. Contact lenses and consumer products (Ray Ban sunglasses and sports optics products) have continued through the change period.
Focusing in on the instruments business, Bausch & Lomb will stay in the optical microscopy area, redirecting it into a more clinical vein. Photogrammetry and vacuum coatings, two small but profitable areas will be kept. All else, amounting to about $130 million in annual sales is being divested.

Gill, in 1980, hired Bain & Co. to do a portfolio analysis and determine the state of the company from a strategic standpoint. He realized that he would have to convince not only himself, but also the Board of Directors, that some tough decisions had to be made — recent decisions, for example, staying in the ophthalmic business, needed to be turned around. Although Gill was well respected, he was still new enough to the company that he thought the support of outside consultants was necessary. This work led to the first tough decision of discontinuing the eyeglass business — the heart of the company.

Aside from redirecting the business portfolio itself, Gill was faced with a serious situation in the company/customer interface. Over many years, an attitude had developed in some parts of the company, which said the customer doesn't count. Large customers who disputed an invoice might be cut off from product; doctors were charged an entrance fee to come to initial meetings on the use of contact lenses. Through an 'Administrative Ease Project' aimed at making it easier for customers to deal with the company, and other programs, Gill is still fighting this critical issue.
The strategic planning process itself was completely revamped. Previously, there existed long-range plans and budgets, but they were not used to guide the business; decisions were made one by one as they arose. Now, the annual process begins with a half-day informal discussion among Gill, the group president, the division president, and a corporate planner, discussing, without numbers, where their part of the business is headed - what is growing, and philosophically what should the overall approach be to the market? Then, division presidents develop a plan which is reviewed by the group president. If the plan fits into the previously agreed upon guidelines, Gill has no further formal involvement. There are quarterly review meetings which examine operations versus plan; Gill attends some of these as an observer, but the group president has the responsibility to run the meeting. Gill plays a coach/counselor role after the meeting, telling the group president, "You might have dug here a little deeper, or asked this question."

The reward system for management is tied to the performance of their divisions. They have a base salary, but then significant bonuses are possible based on both short-term results, and long-term "judgments" which are made for future success. Each division president has the responsibility for recommending acquisitions/divestitures in his/her area.
Structure

Structurally, Gill's primary thrust has been to decentralize responsibility. Previously, Schuman was involved in detailed decision making, examining all travel vouchers, capital expenditures over $100, all head count additions, etc. Managers were not held responsible for their actions; Gill dramatically changed the demands on his management, passing profit responsibility and the accompanying decisions to the people below him. Corporate staffs, who were previously involved with specific business decisions, were eliminated. Now, the only corporate staff activities are those which should be consistent throughout the company — safety, hiring policies, salary and benefits administration, etc.

The changes in business portfolio and strategic thrust, triggered a move to the current organizational structure, seen in Figure 12. The company now has three major segments: 1) Professional Eye Care, 2) Health Care and Consumer, and 3) Biomedical and Scientific. Each has a well defined portfolio and mission.

Professional Eye Care includes contact lenses and those instruments sold to eye care professionals. The mission of this division is to provide broad based care and service to eye care professionals. The products in this area all go through a common distribution channel.
Health Care and Consumer Products includes products which are sold directly to customers through drug stores, chains, optical shops and retail outlets. Sunglasses, contact related and other solutions, and Bushnell sports optics products belong to this category. The mission in the Health Care and Consumer area can be divided into three parts: 1) grow and broaden the sunglass business, 2) grow the solutions business in drug stores, strengthening recognition of the Bausch & Lomb name and expanding into non-contact related eye care solutions; and 3) now that this distribution channel has been established, determine how else to take advantage of it.

Biomedical and Scientific Instruments includes the instruments which remain in Bausch & Lomb's portfolio and Charles River Laboratories. This segment is targeted for above average growth. Opportunities exist in new virus/antibody-free species from Charles River Laboratories, and non-animal services in the field of genetic engineering.

Culture

The culture of Bausch & Lomb must be examined in two pieces – the old culture which existed before 1970 and continued outside the Soflens Division, and the new culture being established
by Gill and his new management team. Another sub-culture existed in the Soflens Division from the time it was established. Because the technology involved in soft lenses was so different from the conventional businesses, new people were brought into that division as it developed; the division was essentially set up in competition with the eyeglass business, and people did not move across those divisional lines. Schuman, and perhaps his predecessor, must be credited with bringing in the soft lens technology, and structuring that division as a separate entity from the beginning. The Soflens Division employed people who were more aggressive and entrepreneurial than the stable businesses, and thus did grow some individuals who would eventually become a part of the change movement. It was a good model for the rest of the company, although jealousy existed among some employees in other parts of the company due to the Soflens Division's getting the bulk of financial and human resources.

Bausch & Lomb had been known for decades for its quality of product and precision workmanship. These underlying values still exist today; much of the public still believes that Bausch & Lomb is a German company. However, over the years, the excitement and drive for growth disappeared. The old culture could be characterized as slow and methodical. People who had been employed by the company for many years had become relaxed on the job; they referred to 'The Bausch' as a place where wages were low but one didn't have to work very hard. These people resented the influx of Soflens people who were hard driving and worked more than 8-5, Monday through Friday.
Employment has dropped from 12,500 in 1979 to 8,400, including Charles River Laboratories. The divestitures of the eyeglass, perscription labs, and industrial instruments mainline businesses and the changes in management have caused a cultural shock and much personal trauma within Bausch & Lomb. Many of the employees in the traditional businesses had been with the company 20-40 years; they were settled in their ways and not ready to take on more responsibility, or to move at the more rapid pace which was being demanded by the new Bausch & Lomb management. Although there were not many layoffs, there were many people involved in divestiture. These people faced unfamiliar parent companies which resulted in personal uncertainty about the future.

Communications among employees at all levels were rudimentary until 1980. Since that time, the frequency and content of both written and oral communication have improved. In particular, Gill has met with all exempt employees to review the status and strategy of the company; this had never been done. Although communications were greatly improved between 1980 and 1985, work on specific divestitures had to be kept quiet until they took effect. Thus, the rumor mill has been active throughout this period of time, and all of the details could not be shared by management. The completion of planned divestitures will open up the possibility for more open communication with employees in the future.
Three years ago the Operations Committee was formed. This is a group of senior executives who discuss strategies and operations several times a month. This meeting is also a communication vehicle from Gill to the members and from one member to another. The members of this group are now expected to communicate topics of importance to their subordinates.

During the Schuman era, the executive offices, referred to as 'the Tower,' had a stigma attached to them — that was where people went to get beaten upon by management. Although the offices were in fine shape, Gill felt that a complete renovation/redecoration was necessary to demonstrate that the company was entering a new era where management and employees would work together as a team to accomplish the company's goals.

As mentioned in the section on management, the top people under Gill were hired from various companies and brought in a variety of cultural values. For them, there was no company history or culture; the company started in 1980 for most of the management. After some time, Gill realized that this group did not share a common set of values, a common language or a common vision of the company's future. He would ask for something to be done, and later realize that the individual asked had done something different because of communication problems. They could discuss broad concepts together, but specifics were interpreted differently by different individuals.
Gill would hear feedback about perceptions that were developing within the organization which were attributed to him, which weren't what he thought at all. This problem triggered the first management workshop at the beginning of 1983, to discuss perspectives and to get to know and understand one another. Gill talks about management philosophy as he goes through the problems being addressed during a given period of time. Because of the urgency and complexity of the changes taking place at Bausch & Lomb, there has been little time for management training, or more than a start at the team-building process.

Future

The strategic and management changes which have occurred at Bausch & Lomb during the last 5 years have been tremendously wrenching to the organization and its people. The changes were absolutely necessary, however, to insure the future growth and profitability of the company.

Was this a revitalization, and if so, was it a success? It is much too early to tell. There are many changes in attitudes, beliefs and detailed systems which must take place; realistically there will be continual major change over the next 5 years. And then, of course, new challenges and opportunities will face the company.
As management looks toward the future, they point out several challenges facing the company. Now that divestitures are nearly completed, the number one goal is to have operating earnings grow at least 15 percent per year. Management's task is to determine what to do to meet this goal. First, the instruments divestitures which are underway must be completed so the company is focused in its efforts. Secondly, the process to grow at least 15 percent per year must be developed - how will Bausch & Lomb actually do this? Acquisitions will certainly be targeted at high-growth opportunities. Debt will be reduced so the company is in a position to fund acquisitions, R & D, and capital projects which will contribute to future earnings growth. Thirdly, management believes more work is needed in the human resource area. There still exists a resistance among people of the older culture to accept things "not invented here"; this kind of thinking must be overcome. The concepts of excellence and quality must be carried into the organization; because of the severe changes through the early 1980's, many of the employees distrust management - they are not sure yet that management is acting in their best interests. Performance review and reward systems must be updated to complement the new Bausch & Lomb.
In summary, significant changes have been made which should position the company for the future. The strategic thrust has been well thought out and verbalized. Divestitures and acquisitions fitting the strategy have been made. Management placements and organizational structure have been developed.
CONCLUSIONS: STRATEGIC MANAGEMENT/

ORGANIZATIONAL CHANGE

This chapter will be broken into several small sections, each addressing one of the key elements necessary to bring about significant organizational change aimed at redirection of a company. These conclusions are drawn from a reading of the literature, and from the two case studies included in this thesis.

An overriding conclusion is that each organizational situation is very unique. Each company has a unique position in a specific industry; it employs a group of people different in their backgrounds, culture, skills and personalities from other groups. The environmental situation facing each firm, including political, economic, social and technological pressures or opportunities, is again a unique set of circumstances. Thus, an attempt to generalize, establish models, or gather common elements of the change process from company to company is helpful in gaining an understanding of the organizational change process, and is useful in pinpointing the issues which corporate managers of change should not overlook. It cannot give specific guidance or a recipe to a specific firm of do's and don'ts in their particular case.
Vision of the Future

One necessary element of the organizational change process is a well-defined vision of the future. This vision is often held at first by one or a few individuals within the firm at high levels. These people, be it the CEO himself, a few other corporate managers, or the board of directors, are often the people with the most information available to them to make the judgment that a new vision of the future is needed. They have the detailed financial performance information, they have access to market and competitive information, and they know what new products and technologies are coming along which might impact the company. Unless, however, these people ask themselves specific questions about the future outlook for the company, they can be blindsided for not considering an important change in the environment or in the company's internal strengths.

Figure 13 depicts the vision of the firm and its strategic posture. It is into this framework that both a vision of the business opportunities and a realistic assessment of the personnel strengths and weaknesses must fit. Schein (11/83) points out:

Insight into cultural matters clearly affects the creation and implementation of strategy. Culture limits the strategic options which are conceivable to an organization, and clearly one cannot implement strategies if they run against powerful cultural assumptions. On
the other hand, certain strong cultural values, if they are to be a part of the future set of values, can aid or reinforce a change process.

The vision of the firm will be somewhat colored by the backgrounds, values, and beliefs of management. It may be difficult for management to see all of the options or indeed to see the need for change when it really exists. Similarly, as management scrutinizes the internal strengths and weaknesses of the firm, it may not be able to carry out an unbiased assessment. Here, consultants from universities or consulting firms may provide some assistance by asking penetrating questions which might not otherwise be asked. In Bausch & Lomb's case, consultants were used by Gill to help identify business opportunities and to reinforce his position. In Hershey's case, consultants were used several times for analyzing parts of the business or company, but the overall strategic management process was a participative effort among the management themselves.

In both case studies, the vision of the future which actually triggered major change was not held by the bulk of the management within the company. Certainly in the case of Bausch & Lomb, it was not management, but the board of directors, which first detected a strong need to change the path the company was on. They hired Gill, who in his first year or two at Bausch & Lomb (knowing he was a prime candidate for president and CEO, and subsequently

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given a mandate from the board to change the course of the company),
developed a strong vision of the future of this company, focusing on
health care, and growing at least 15 percent per year. Hershey's
situation is not quite as clear cut, but there is no question that
if Dearden had not come to Hershey, the course the company took
would have been very different. Hershey management before Dearden
was satisfied with the status quo - Dearden was not at all satis-
fied. Although there was no immediate crisis facing Hershey's,
Dearden had a vision of a significantly different company from the
one he joined. Dearden spent 19 years at Hershey before becoming
CEO; throughout that time he was developing a vision. His subor-
dinates recount discussions with him in the 1960's where he told
them about what he thought should be done at the company.

The vision which people develop is usually somewhat
nebulous - it does not take specific form overnight. Thus, to
solidify the exact mission which results from the general vision,
and to carry the company to a more successful future, a manager or
group of managers examines the environmental and internal pressures
and opportunities available. There are many models which can be
used to carry out this task; Hax's model is one, Beckhard and
Harris, Porter, etc. have others. To examine the firm's current
state and piece together a specific vision of the future objec-
tively, consultants may be helpful. Bausch & Lomb used consultants
here to define the mission and business portfolio which it should
pursue. A manager of change cannot blindly follow a consultant's recommendations, because the consultant has his/her own point of view, which may not coincide specifically with the manager's vision, even after the two work together through the analysis. However, the consultant does provide just that - another point of view, which can aid the manager in overcoming his own biases.

The environmental scan at the corporate level may be a somewhat more objective exercise than the internal scan. The external scan should include an economic assessment, a look at the future growth of markets in which the corporation is participating, an assessment of the competition, and all other external factors which might affect the future business of the firm.

As the internal scan takes place, management and consultants must be aware of how the culture of the company or of its sub units might be influencing the process. Who is threatened? Where are the power struggles? Is the vision and judgment of the individuals doing the scan clear and unbiased? Certainly it is not, for we are all a product of our cultures. Depending on the successes or failures of the recent past and one's involvement in them, the vision will be clouded. Bruce Henderson in On Corporate Strategy, discusses why change is so difficult:
Success in the past always becomes enshrined in the present by the overvaluation of the policies and attitudes which accompanied that success. As long as the environment and competitive behavior do not change, these beliefs and policies contribute to the stability of the firm.

However, with time these attitudes become embedded in a system of beliefs, traditions, taboos, habits, customs, and inhibitions which constitute the culture of the firm. Such cultures are as distinctive as the cultural differences between societies or the personality differences between individuals. They cannot be changed very easily. Indeed any effort to change them is quite likely to be viewed as an attack upon the organization itself. ...Problems of change cannot be avoided; all organizations, like all organisms, must adapt to changes in their environment or die. All organizations do change when put under sufficient pressure. This pressure must be either external to the organization or the result of very strong leadership. (Henderson, 1979)

It is management's responsibility to "set the course" for the future, and it is their responsibility to insure that cultural biases do not get in the way of developing a successful strategic focus. Real strategic leadership is the ability to understand and remold culture, using cultural changes to aid the changes being made in business portfolios, strategic thrusts, and corporate structure.

"In approaching an organizational change situation, managers explicitly or implicitly make strategic choices regarding the speed of the effort, the amount of preplanning, the involvement of others, and the relative emphasis they will give to different approaches." (Kotter and Schlesinger, 1983) These strategic decisions must weigh the needs of the company to meet external demands vs. the ability of
the individuals in the organization to change. The pace of change will depend on the amount of crisis involved in the need which triggered the vision of the future. Iacocca, at Chrysler, had little choice about how rapidly change should take place; this is an extreme example, where the company faced bankruptcy. At Bausch & Lomb, the need for change was immediate. Although during the mid-1970's the financial picture looked quite good, the seeds of a downfall were present. The management team had deteriorated, competition in soft lenses was inevitable, the eyeglasses business was not profitable, and the instruments business was marginal. Soft lenses were carrying the company, yet the future of this product as such a high-profit item, was not assured. The hiring of 22 of 24 of the top management from outside the company over a period of one to two years, and the change in 40 percent of the business portfolio in 5 years, is the result of immediate needs which were seen by Gill, the Board of Directors, and Gill's new management team. Hershey's need for change can be seen as less immediate and less severe from the standpoint of the impact on the organization – its structure, its business portfolio, and its culture. The key management people, Dearden and Zimmerman, were already in the company. Others were hired into the management ranks of the company, particularly in marketing, financial and development-related positions, but over a period of several years, 1965–1970. Hershey's business portfolio changed significantly, but over a period of 15 years, rather than a few years.
Strategic Management – A Corporate Process

A formal corporate strategic planning process is an integral part of a change situation, and indeed, an integral part of a company's ongoing existence. This process is a necessary but not a sufficient element in the change process – there are other key elements which are necessary as well: the vision, a strong leader, and champions of the change. Put another way, a strategic planning process, although encompassing the essence of the future, is in a sense a tactic or tool used by management to determine the proper course. If the strategic plans were perfect, and specific individuals were not present to carry out those plans, the company might not make it.

The formal corporate strategic planning process should be an iterative process involving corporate, business and functional levels in the organization, such as the one depicted by Hax (1984) in Figure 14. The 12 key steps as described by Hax are also listed in this figure. It is not important exactly which model is used. It is critical, however, that top management take a strong role in laying out the strategic goals (vision and mission) of the firm; only then can the people at business and functional levels draw up operating plans which will then accomplish the mission of the firm. The exact tools used to analyze the company's position are not critical. However, management should critically look at the
framework being used to determine its strengths and shortcomings. They should ask themselves where the framework might not address a need of their particular situation. Although all consultants and authors have their favorite process, each has both strengths and weaknesses in its analytical approach.

It is generally agreed that in large conglomerates, and smaller companies, the strategic business unit (SBU), which focuses on a given "market", or external group of customers with similar needs, is the most effective segmentation of the corporation. Throughout the last two decades, companies have moved from functional, technically-oriented structures to corporate structures which coincide with the SBU framework. The business strategy for a given SBU focuses on the needs of the customers being served; the SBU manager has profit responsibility for that line of business.

**The Human Factor: Leaders and Champions**

Machiavelli, in The Prince, points out that first, the opportunity must be available for a prince to rise to that position, and secondly, it is "either great ability or good fortune" which allows a "private individual to become a prince." This statement is applicable to corporate hierarchies as well. In the case studies here, as well as in many other revitalization examples in the
literature, the need for change, or the opportunity for an individual to have a strong impact on the situation existed. In the two cases here, one individual was indeed the focal point for change: Gill at Bausch & Lomb, and Dearden at Hershey's. That is not to say that others did not become champions of the cause or change agents. It is true, however, that one individual stood out clearly above the others in leading these organizational changes. These individuals had the strong, clear vision and spread the word to others, to follow their lead. Those who could share the vision and had the leadership skills necessary to bring about change became champions of change at lower levels in the corporations. In both cases studied, some of these champions were hired from outside the company, by the leader, to come in and bring about specific large scale changes to the system.

What is it that makes these leaders stand out? Andrews (1971) describes the chief executive's role as "architect of organization purpose." He says:

The skills of the effective leader are those of persuasion and articulation made possible by having something worth saying and by understanding the sentiments and points of view being addressed. ...Probably, the skill most nearly unique to general management, as opposed to the management of functional or technical specialties, is the intellectual capacity to conceptualize corporate purpose and the dramatic skill to invest it with some degree of magnetism. ...It will remain true, after we have taken apart the process by which strategy is conceived, that
executing it at a high professional level will depend upon the depth and durability of the chief executive's personal values, standards of quality, and clarity of character.

Gill and Dearden display the depth and durability of character which Andrews describes. They have been totally dedicated to the cause which they have led. They have set extremely high expectations for themselves, for their management teams, and for all individuals within their organizations. In both cases, mediocre financial performance and stagnating growth are being reversed. Their visions of the future combined their analysis of the pressures and opportunities which faced their companies (arrived at with their management teams and consultants) with their own personal views of what the future should be. Andrews (1971) points out, "Personal values, aspirations, and ideals do, and in our judgment quite properly should, influence the final choice of purposes. Thus what the executives of a company want to do must be brought into the strategic decision."

The individual leader is the primary visible role model for the future state. Every daily action and discussion is observed by employees and either reinforces or negates part of the intended vision. Deal and Kennedy (1982) point out that:

In building a strong culture into an organization, a manager implicitly communicates key values and inculcates them in employees via
day-to-day actions. ...Managers interested in changing a culture are extremely conscious of their own role in shaping the rituals of the workplace.

Both Gill and Dearden were explicit about the values they were establishing, each working many hours to communicate their visions and accompanying principles to their management teams and the employee population at large.

The key change agent, often the CEO, has such an important role, that he should think about how to use that power most effectively as he develops in his position. Management Analysis Center, Inc., in discussion materials on Managing Strategic Change, display a CEO's change agenda, which emphasises the critical points, and is contained in Figure 15.

Aside from the leader, who are the other champions of change and where do they come from? Each company will again be unique in this area. The leader of change must assess the current state of his management team and the functional leaders below the corporate level. Do they share his vision? Will they aid or hinder the changes needed to arrive at the future state? Depending on the answers to these questions, the leader will either choose people he trusts within the corporation to help or he will go outside the organization. One of the tougher parts of managing a successful change is displacing current management personnel who cannot
themselves change to participate effectively in the future state. Early retirement programs, special staff jobs, or firing are ways in which executives deal with this issue.

In the case of Bausch & Lomb, many people were brought in from the outside, as the management team had become very weak. Existing management took early retirement because they did not share Gill's vision and did not have the energy or enthusiasm to work with him; he would have demanded that they take on responsibilities which they had previously not held. The managers Gill brought in were young, energetic, wanted the challenge and responsibility, had proven track records in their companies, and were generally turned on by the prospect of developing a new Bausch & Lomb. They brought both specific functional skills and general management skills to the company.

At Hershey, change agents were brought into the company from other chocolate and confectionery companies, primarily Mars, and other food-related careers. These people brought particular skills to Hershey in marketing, finance, and technology development, and then grew into champions in their fields of expertise.
What About Culture?

As organizational change takes place, cultures will change – old cultural values may be reinforced, but new ones will develop. The degree to which old cultural values and assumptions fit the vision of the future will determine how much the culture must change. If very basic assumptions are challenged, many people may not be able to make the change. However, if the future state allows fundamental assumptions to remain intact, or be reinforced, then changes in behavior can be brought about relatively easily as Wilkins and Ouchi discussed.

Deal and Kennedy (1982) provide a reasonably clear definition of what it is that changes:

When we speak of organizational or cultural change we mean real changes in the behavior of people throughout the organization. In a technical sense we mean people in the organization identifying with new role-model heroes. We mean people telling different stories to one another to explain what is occurring around them. We mean people spending their time differently on a day-to-day basis – calling on different accounts, asking different questions, carrying out different work rituals. And we mean for this behavior to be pervasive – to involve virtually all the people in the organization. This kind of deep-seated cultural change is what we mean when we say that change takes a long time to achieve. Most meaningful change – for example, developing a "marketing orientation" or becoming more "cost effective" – involves just such cultural transformation.
Hershey did not go through significant cultural change, but had a strong drive to reinforce the cultural values which Mr. Hershey held. Bausch & Lomb, on the other hand, had to change some cultural habits which had developed over a long period of time. For example, the feeling that it was "okay not to work too hard," and the fact that some middle level management delegated their decisions upward to Schuman, were cultural elements which Gill fought against. At the same time, the values of providing quality products, having pride in good workmanship, etc., had to be maintained.

Summary

The ability of one individual leader to see the need for change, have a clear vision of the future state of the company, and the ability to share that vision with others has emerged as the central theme of this thesis. Each case of attempted revitalization through organizational change is unique, due to the particular external pressures and opportunities faced by a firm, and their internal capabilities to deal with the future in a growing and highly profitable manner. Leadership at the top of the corporation which can determine an appropriate change strategy and implement that strategy in a timely manner is the key to successful change. The leaders of change must consider the elements of business
strategy, culture, and corporate structure. Information/communication systems and performance/reward systems must be consistent with the drive toward the future. A formal strategic management system, incorporating mission statements, business plans, implementation goals and management communication methods, is a crucial element of successful organizational change, but not sufficient in itself.

Tichy and Ulrich emphasized that the core responsibility of a leader is to develop a vision. Beckhard and Harris emphasized the recognition of a need to change and the development of a vision of the future state. Both Dearden and Gill emerged as leaders with these strengths, and each has had a profound impact on their company. Dearden's impact was very positive, as evidenced by the profitability and growth of Hershey Foods Corporation over the last 6 years. The results of Gill's impact on Bausch & Lomb will not be known for another 5 years.
Figure 1

CHANGE LEVERS

1. EXTERNAL INTERFACE: As the environment becomes more complex and turbulent, the task of identifying and predicting pressures becomes more difficult to understand. It is also more difficult to map environmental pressures. The development of new environmental scanning and information processing capabilities is often required.

2. MISSION: In times of relative environmental stability and surplus resources, it is possible with nebulous, shifting goals and priorities. But as the economic, political, and social pressures mount, so does the need for clear statements of organizational mission to guide the organization in strategic decisions.

3. STRATEGY: The development of a strategic plan with operational objectives at multiple levels in organization is a vital requirement. Installing such a process requires a new set of management techniques and processes.

4. MANAGING ORGANIZATIONAL MISSION/STRATEGY PROCESS: As planning and decision making become more complex, it will be necessary to develop more sophisticated processers which realistically engage the relevant interest groups.

5. TASK: A shift in strategy may entail the introduction of new tasks and technologies to the organization. This requirement may result in the introduction of new professionals into the organization, or the training and development of existing staff.

6. PRESCRIBED NETWORKS: Adjustments are required in the networks of communication and authority to deal with new tasks and/or technologies. The introduction of a new task requires management to plan and prescribe the necessary network of communication. This includes specifications of the communication, of who works with whom to accomplish which tasks, as well as who reports to whom.

7. ORGANIZATIONAL PROCESS: COMMUNICATIONS, PROBLEM SOLVING, AND DECISION-MAKING: Post-industrial organizations have multiple authority-managerial/professional splits, and matrix splits. Therefore, lines of decision-making become blurred. This makes it imperative that managers understand and utilize consensual decision-making approaches as well as conflict bargaining procedures.
8. PEOPLE: Any organizational change entails altering individual behavior. Thus, an explicit focus on motivating people becomes part of the managed change process.

9. EMERGENT NETWORKS: A major part of an organizational change process is to manage the informal communication and influence networks which exist throughout the organization. Coalitions and cliques in these networks can facilitate or hinder the change effort and thus require explicit attention.

(Tichy, 1983)
FIGURE 2
TRANSFORMATIONAL LEADERSHIP

Organization Dynamics:

Transactional Leadership

No Change or Inadequate Change. Organizational Decline

Transformational Leadership

Resistant Forces: Technical Political Cultural

Creation of a Vision: Technical Political Cultural

Mobilization of Commitment: Technical Political Cultural

Institutionalization of Change: Technical Political Cultural

Trigger Events

Felt Need: Perceived Need for Change by Key Leaders

Individual Dynamics:

Neutral Zone Transition State

Endings

Disengagement
Disidentification
Disenchantment
Disorientation

Death and Rebirth Process
Disintegration and Reintegration
Perspectives on Both Endings and New Beginnings

New Beginnings Revitalization

Find Inner Realignment and Release New Energy
New Scripts. Not Replay of Old Ones
Have Moved through the Neutral Zone

(Tichy and Ulrich, 1984)
The Levels of Culture and Their Interaction

Artifacts & Creations
- Technology
- Art
- Visible & Audible Behavior Patterns

Values

Basic Assumptions
- Relationship to Environment
- Nature of Reality, Time & Space
- Nature of Human Nature
- Nature of Human Activity
- Nature of Human Relationships

Visible but Often Not Decipherable

Greater Level of Awareness

- Taken for Granted
- Invisible
- Preconscious

(Schien, 1984)
FIGURE 5
HERSHEY FOODS CORPORATION — ERAS

Era
- Company beginning and growth
- Slow growth
- Seeds of change
- Financial distress
- Sustained performance
- Revitalization

CEO
- Staples
- Hinkis
- Mohler
- Dearden
- Zimmerman

Key Strategic Events
1960 – 1985

- H.B. Reese Co. acquired
- Marketing initiative
  - San Giorgio Macaroni, Inc., Delmonico Foods, Inc. acquired
- Cory Corp. acquired
- Name change to HERSHEY Foods Corp.
- Portion Control Industries acquired
- Strategic planning process implemented
- Y&S Candies, Inc. acquired
- Corporate headquarters established at Highpoint
- Proco–Rossi Corp. and Skinner Macaroni Co. acquired
- Friendly Ice Cream Corp. acquired
- New products introduced to marketplace
Mr. Hershey was a doer, not a philosopher. He never wrote and seldom spoke about his beliefs. Nevertheless, from all we can learn, these are the basics which guided his life and in which he believed:

- In high moral and religious principles, without favoritism to any sect or creed.
- In the practice of truth, honesty, integrity, and in the habits of thrift, economy, and industry.
- In the Golden Rule, "Do unto others as you would have them do unto you."
- That The Ten Commandments were created to inspire and guide both men and institutions.
- That man's most precious possessions are family and friendships, and that the foundation of those precious relationships are loyalty, mutual respect, and mutual support.
- That every human being should be given the opportunity to earn an education which leads to a useful, purposeful, and rewarding life.
- That the responsibility for education should be given to men and women of high moral principles who, by their very example, have a positive impact on those lives they touch.
- That knowledge and understanding is accelerated through "learning to do by doing."
- That there is more to life than just work, that beauty, nature, and wholesome leisure-time activities are essential ingredients to a full life.
- That man's greatest rewards come from the satisfactions he earns from his work and pride in quality workmanship.
- That success is principally the result of hard work, that hard work is a discipline learned early in life, and that there is no age limit to those who believe in hard work.
- That the rewards of success should be used for the benefit of others, and that money in itself is nothing; it is the good one accomplishes with it that counts.
- That a leader must see, hear, touch, and feel what is going on within the institution.
- In employing and rewarding men and women who have demonstrated a capacity for hard work and who have observed an unswerving loyalty to his high values and visionary aspirations.
- In setting and maintaining the highest standards for quality in products, facilities, and personal performance.
- In a clean, healthy, and strong body and mind.
- In pursuing one's own visions and convictions with persistence and commitment, in experimenting and taking risks, and in not allowing one's actions to be dictated by others.
Hershey Foods Corporation
Hershey, Pennsylvania 17033

STATEMENT OF CORPORATE PHILOSOPHY

We are in business to make a reasonable profit and to enhance the value of our shareholders' investment. We recognize that, to achieve this objective, we must use our resources efficiently, and we must provide for the proper balance between the fundamental obligations that we have to our shareholders, employees, customers, consumers, suppliers and society in general.

We will continue to pursue a policy of profitable growth by maintaining the excellence of our current businesses while concurrently utilizing our financial resources and the expertise and ingenuity of our people to further diversify into other food and food-related businesses, and/or such other businesses which offer significant opportunity for growth.

In seeking to balance our desire for profitable growth with the obligations which we have to the other various interests, we recognize that:

— All employees should be treated fairly and with dignity. They should be provided with good working conditions and competitive wages, and should be rewarded according to performance. To the fullest extent possible, in line with good business practices, promotions should be made from within the Corporation.

— Our Affirmative Action Program is a sincere commitment. Each of us has an obligation to follow it both in the spirit and letter of the law.

— We should be results oriented, and all employees should be given the opportunity to express individual initiative and judgment. Responsibility and authority, however, must be appropriately delegated.

— To successfully conduct the business of the Corporation, it is necessary that each employee strive to improve the communications relating to his or her area of responsibility.

— Our individual and company relationships should be conducted on the basis of the highest standards of conduct and ethics, and it is important that we recognize that the success of our business depends upon the character and integrity of people working in a spirit of constructive cooperation.

— We need to provide to our customers and consumers products of consistent excellent quality at competitive prices that will insure an adequate return on investment.

— We have an inherent responsibility to be a good neighbor and to support community projects, and all employees are encouraged to take an active part in improving the quality of community life.

— We have a responsibility to conduct our operations within the regulatory guidelines and in a manner that does not adversely affect our environment.

It is imperative that we create a climate throughout our entire organization which causes these philosophies to become a way of life.

Adopted: Jul 26, 1976
Reaffirmed: May 5, 1983

Chairman of the Board
President and
Chief Executive Officer
FIGURE 8

HERSHEY FOODS CORPORATION
NET SALES AND NET INCOME 1970 – 1984

Net Sales
Billions of Dollars

Net Income
Millions of Dollars

1970 1980
FIGURE 9

HERSHEY FOODS CORPORATION — 1978 STRUCTURE

Chairman
Mohler

Vice Chairman
(CEO)
Dearden

Corporate
Development
Finance
Legal
Secretary

President
Zimmerman

Science &
Technology
Human
Resources
Special
Projects

Operating
Divisions

Hershey Chocolate Co.
Pasta
International
Cory
Friendly Ice Cream Co.
Canada
FIGURE 10

BAUSCH & LOMB, INC.

NET SALES AND NET INCOME 1975 – 1984


Net Sales
Millions of Dollars

Net Earnings
Millions of Dollars

Earnings from Continuing Operations

Net Earnings

1975 1980 1985
ACQUISITIONS/DIVESTITURES
ANNOUNCED BY BAUSCH & LOMB

1981 November -- Discontinuance of Ophthalmic Products Business
(Sales of 46 domestic and 4 foreign locations continued through 1982)

1982 July -- Acquisition of Criterion Scientific Instruments Co.
(Astronomical telescopes)

1983 September -- Acquisition of Polymer Technology Corp.
(Rigid gas permeable lens materials)

October -- Acquisition of Synemed, Inc.
(Surgical lasers and perimeter screening devices)

October -- Acquisition of Charles River Laboratories
(Laboratory animals and biomedical products - approved 2/84)

1984 June -- Acquisition of IOM
(Italian solutions manufacturer)

August -- Acquisition of Professional Computers, Inc.
(Practice management systems for eye care professionals)

August -- Sale of Applied Research Laboratories (LBO)

October -- Charles River acquires Atlantic Antibodies
(Monoclonal antibody purification)

October -- Discontinuance of Industrial Instruments Businesses:
  Five (5) parts
    1) ARL sold 8/84
    2) Acu-Rite sold 1/85
    3) SEMCO sold 2/85
    4 & 5) Negotiations for sale of Analytical Products Division and Houston Instruments/Interactive Graphics are currently under way

1985 January -- Sight Savers product line acquired from Dow Corning
FIGURE 12
BAUSCH & LOMB, INC. — CORPORATE STRUCTURE

BOARD OF DIRECTORS

CHAIRMAN OF THE BOARD & PRESIDENT DANIEL E. GILL

BOARD COMMITTEES
- EXECUTIVE
- AUDIT
- COMPENSATION
- COMMITTEE ON DIRECTORS

PRESIDENT CHARLES RIVER LABORATORIES

VICE PRESIDENT & GROUP PRESIDENT PROFESSIONAL EYE CARE PRODUCTS & INTERNATIONAL

SENIOR VICE PRESIDENT & GROUP PRESIDENT CONSUMER & SCIENTIFIC PRODUCTS THOMAS C. MCDERMOTT

GROUP PRESIDENT PROFESSIONAL EYE CARE PRODUCTS & INTERNATIONAL W. TERRY SMITH

SENIOR VICE PRESIDENT CORPORATION AFFAIRS

SENIOR VICE PRESIDENT FINANCE

PRESIDENT PROFESSIONAL PRODUCTS

PRESIDENT INTERNATIONAL

CHAIRMAN & ACTING PRESIDENT OPHTHALMIC INSTRUMENTS

PRESIDENT POLYMER TECHNOLOGY

VICE PRESIDENT PROFESSIONAL EYE CARE PRODUCTS TECH & DEVEL

GROUP PRESIDENT CONSUMER & SCIENTIFIC PRODUCTS THOMAS C. MCDERMOTT

PRESIDENT SUNGLASS

PRESIDENT OPTICAL SYSTEMS

PRESIDENT SPORTS OPTICS

VICE PRESIDENT & GENERAL MANAGER ASTRONOMICAL TELESCOPES

VICE PRESIDENT & GENERAL MANAGER SPECIALTY GLASS

VICE PRESIDENT & GENERAL MANAGER VACUUM COATING
FIGURE 13
THE VISION OF THE FIRM AND ITS STRATEGIC POSTURE

THE VISION OF THE FIRM

- Corporate Philosophy
  - Corporate Policies
  - Cultural Values
- Mission of the Firm
- Identification of SBUs and their interactions
  - Shared resources
  - Shared concerns

INTERNAL SCRUTINY AT THE CORPORATE LEVEL

(Past performance and future projections)
- Identification of distinct competences
- Appraisal of potentials
- Driving forces

ENVIRONMENTAL SCAN AT THE CORPORATE LEVEL

(Past performance and future projections)
- Environmental assumptions
- Definition of relevant scenarios

- Strategic posture
  - Corporate strategic thrusts
  - Corporate, business and functional planning challenges
  - Corporate performance objectives
- Planning guidelines
  - Planning calendar
  - Planning formats
  - Assignment of managerial responsibilities

(Hax and Majluf, p. 305)
FIGURE 14
THE FORMAL STRATEGIC PLANNING PROCESS

<table>
<thead>
<tr>
<th>Hierarchical Levels of Planning</th>
<th>Less Frequent Than Annual Review</th>
<th>Annual Review</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Structural Conditioners</td>
<td>Strategic Programming</td>
</tr>
<tr>
<td>Corporate</td>
<td>1-2</td>
<td>6-9</td>
</tr>
<tr>
<td>Business</td>
<td>3-4</td>
<td>7-10</td>
</tr>
<tr>
<td>Functional</td>
<td>5</td>
<td>8</td>
</tr>
</tbody>
</table>

1. The vision of the firm: corporate philosophy, mission of the firm, and identification of SBUs and their interactions.
2. Strategic posture and planning guidelines: corporate strategic thrusts, corporate performance objectives, and planning challenges.
4. Formulation of business strategy and broad action programs.
5. Formulation of functional strategy: participation in business planning, concurrence or non-concurrence to business strategy proposals, and broad action programs.
7. Definition and evaluation of specific action programs at the business level.
8. Definition and evaluation of specific action programs at the functional level.
10. Budgeting at the business level.
11. Budgeting at the functional level.
12. Budgeting consolidations and approval of strategic and operational funds.

(Hax & Majluf, p. 233)
Figure 15

THE CEO's CHANGE AGENDA

1. **Build Knowledge About**:
   - the business
   - the company
   - its leaders
   - its successes
   - its failures

2. **Develop a Shared Business Vision** concerning how the company will:
   - Create value for customers.
   - Position itself relative to competitors.
   - Develop and deploy resources.
   - Grow.

3. **Determine Desired Change in Behavior and Values** by:
   - Describing how people should habitually behave to make the strategy work.
   - Comparing with how they currently behave.
   - Determining what changes in skills, values, and attitudes are needed.

4. **Lead with the CEO's office** by:
   - Allocating CEO time to selected issues, events, people.
   - Managing by example — setting precedents, enforcing standards.
   - Communicating visibly, widely.
   - Articulating guiding values.

5. **Reorient Power to Support New Values** by:
   - Selectively adding outsiders that bring new desired values.
   - Rewarding, empowering individuals who champion new values.
   - Restructuring to focus the organization toward the new vision.

6. **Harness High Impact Systems** by:
   - Identifying and using the most powerful drivers for change.
   - Managing the alignment of structures and systems to support new behavior.
   - Using communication processes to focus attention on priorities.

   (Management Analysis Center, Inc.)
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