

thereby providing higher returns for each advertising dollar. Restaurant chains also provided an additional outlet for the sale of Pepsi soft drinks. Thus, PepsiCo believed it could take advantage of numerous synergies by operating the three businesses under the same corporate umbrella. PepsiCo also believed that its management skills could be transferred among the three businesses. This practice was compatible with PepsiCo's policy of frequently moving managers among its business units as a means of developing future executives. PepsiCo first entered the restaurant business in 1977 when it acquired Pizza Hut. Taco Bell was acquired one year later. To complete its diversification into the restaurant industry, PepsiCo acquired KFC in 1986. The acquisition of KFC gave PepsiCo the leading market share in the chicken (KFC), pizza (Pizza Hut), and Mexican food (Taco Bell) segments of the fast-food industry.

Management

Following its acquisition of KFC, PepsiCo initiated sweeping changes. It announced that the franchise contract would be changed to give PepsiCo greater control over KFC franchisees and to make it easier to close poorly performing restaurants. Staff at KFC was reduced in order to cut costs and many KFC managers were replaced with PepsiCo managers. Soon after the acquisition, KFC's new personnel manager, who had just relocated from PepsiCo's New York headquarters, was overheard in the KFC cafeteria saying "There will be no more home grown tomatoes in this organization."

Rumors spread quickly among KFC employees about their opportunities for advancement within KFC and PepsiCo. Harsh comments by PepsiCo managers about KFC, its people, and its traditions, several restructurings that led to layoffs throughout KFC, the replacement of KFC managers with PepsiCo managers, and conflicts between KFC and PepsiCo's corporate cultures created a morale problem within KFC. KFC's culture was built largely on Colonel Sanders' laid-back approach to management. Employees enjoyed good job security and stability. A strong loyalty had been created among KFC employees over the years as a result of the Colonel's efforts to provide for his employees' benefits, pension, and other non-income needs. In addition, the Southern environment in Louisville resulted in a friendly, relaxed atmosphere at KFC's corporate offices. This corporate culture was left essentially unchanged during the Heublein and RJR years.

In contrast to KFC, PepsiCo's culture was characterized by a much stronger emphasis on performance. Top performers expected to move up through the ranks quickly. PepsiCo used its KFC, Pizza Hut, Taco Bell, Frito

Lay, and Pepsi-Cola divisions as training grounds for its executives, rotating its best managers through the five divisions on average every two years. This practice created immense pressure on managers to demonstrate their management skills within short periods in order to maximize their potential for promotion. This practice also reinforced the feelings of KFC managers that they had few opportunities for promotion within the new company. One PepsiCo manager commented that "You may have performed well last year, but if you don't perform well this year, you're gone, and there are 100 ambitious guys with Ivy League MBAs at PepsiCo's headquarters in New York who would love to have your job." An unwanted effect of this performance driven culture was that employee loyalty was often lost and turnover was higher than in other companies.

Kyle Craig, president of KFC's US operations, commented on KFC's relationship with its corporate parent:

The KFC culture is an interesting one because it was dominated by a lot of KFC folks, many of whom have been around since the days of the Colonel. Many of those people were very intimidated by the PepsiCo culture, which is a very high performance, high accountability, highly driven culture. People were concerned about whether they would succeed in the new culture. Like many companies, we have had a couple of downsizings which further made people nervous. Today, there are fewer old KFC people around and I think to some degree people have seen that the PepsiCo culture can drive some pretty positive results. I also think the PepsiCo people who have worked with KFC have modified their cultural values somewhat and they can see that there were a lot of benefits in the old KFC culture.

PepsiCo pushes their companies to perform strongly, but whenever there is a slip in performance, it increases the culture gap between PepsiCo and KFC. I have been involved in two downsizings over which I have been the chief architect. They have been probably the two most gut-wrenching experiences of my career. Because you know you're dealing with peoples' lives and their families, these changes can be emotional if you care about the people in your organization. However, I do fundamentally believe that your first obligation is to the entire organization.

A second problem for PepsiCo was its poor relationship with KFC franchisees. A month after becoming president and chief executive officer in 1989, John Cranor addressed KFC's franchisees in Louisville in order to explain the details of the new franchise contract. This was the first contract change in thirteen years. It gave PepsiCo greater power to take over weak franchises, relo-