 varied from a low of ten staff members to a high of well over 1,000 people. Most surprising, we found no evidence that a lean and mean headquarters is associated with superior financial performance. On the contrary, the companies that reported above-average profitability (measured by both the return on capital employed and total shareholder returns) had headquarters that were, on average, 20% larger than the headquarters of companies of similar size (in terms of total employees) and with similar influence over business decisions.

This could mean that bigger headquarters are more effective than smaller ones and enable companies to perform better. Alternately, it might imply that better performance allows companies to support bigger-than-average headquarters. While the latter is sometimes true, we found that, in many companies, large corporate staffs improved performance by creating value that more than paid for their costs. For example, pharmaceutical companies such as Pfizer have big corporate R&D departments, but this costly activity is central to the companies' strategies and essential to their market performance. Other companies use large HR functions at the center to develop management competencies that are especially valuable to their businesses. Unilever's HR function, for example, concentrates on developing internationally mobile managers with superb marketing skills in the area of fast-moving consumer goods. Because corporate centers add value in different ways depending on a company's strategy and the businesses in which it competes, the appropriate size and nature of staff functions are bound to differ, too.

The bottom line: There is no standard or ideal model or size for a successful headquarters. To achieve high performance, don't reflexively cut staff. Focus instead on matching headquarters' size and roles with corporate strategy.

Marketers are well aware that labels can influence consumer behavior. Here's a look at some studies that examine if consumers' perceptions of product size match the size they actually eat.

How Big Is "Tall"?
by Aradhna Krishna

To make their products stand out, or seem to deliver more value for their size, companies often invent evocative labels like Super Size, Value Size, Double Gulp, and Whopper. To discourage consumers from making direct brand comparisons, businesses also create ambiguous portion sizes like Tall, Sixteen, and Power. The question is, do these labels mean the same thing to everyone?

My colleagues—Nilufer Aydinoglu and Brian Wansink—and I have found that consumers do share a common understanding of product labels, placing many of the labels in unique and consistent positions relative to one another. In an initial study, we looked at consumers' perceptions of product sizes in two food categories. Within each category, we chose 14 common labels, some of which were conventional (such as small, medium, and large), others of which were invented by marketers (such as Super Quencher and Big Kids). Study participants were asked to arrange the labels in each category on a scale from smallest to largest, left to right. For many labels, the subjects' perceptions about the product sizes were significantly similar. For example, consumers agreed that "petite" is smaller than "short," that "single" falls between "small" and "medium," and that "tall" is larger than "medium" or "double." Super Quencher and Jumbo tied in consumers' minds (statistically) for sheer-apparent-size.

Because consumers form clear ideas about product size on the basis of labels, we wondered whether their perceptions of serving size—regardless of actual size—would affect how much of a product they ate. In a separate study, we served Rotary Club members individually packed eight-ounce portions of eggs, labeled either medium or large. Those given medium portions ate, on average, 35% more than those whose portions were labeled as large. The Rotarians' perceptions had obviously influenced their behavior.

Companies should test whether their own views of their product labels match their customers' perceptions and whether the labels achieve what they're supposed to. Do you want to convey that even your small sizes are big? Then a label like "single" is better than a label like "petite." Starbucks understood this when it labeled its smallest coffee "tall." And don't assume that consumers think "extra large" is the biggest. Finally, consider how your labels can affect consumption: Would some...
of your customers buy two servings of your product if it were “regular” instead of “large”?

Reprint F0504F

CULTURE

Sweat the Small Stuff

In 1982, James Q. Wilson introduced his “broken windows” theory of neighborhood decline in the pages of The Atlantic. The criminologist famously argued that by leaving litter, graffiti, and other urban detritus unattended, authorities signal a lack of concern that tempts miscreants to commit more serious violations.

Now a business author is suggesting that companies are similarly vulnerable. A stained carpet in the office or a burned-out reading light on an airplane may seem inconsequential. But when management ignores such trivial irritations, it is effectively telling employees or customers that they don’t matter. Such unconcern can depress morale or drive away business, says Michael Levine, who interviewed criminologists, management experts, and ordinary workers and consumers about how tiny offenses influence their perceptions of companies.

An organization’s true priorities are revealed by the small stuff, explains Levine, whose book Broken Windows for Business will be published by Warner in the fall. The corporate manual may trumpet the message, “We are all one team,” but the rank and file know better when they see broken vending machines going unrepaired while the executive dining room functions like a Michelin-starred restaurant. “There’s a significant psychological impact to dingy surroundings—to stained carpets and broken toilets,” says Levine, founder of a Los Angeles–based public relations firm. “You can’t convince employees that you love and care about them if you’re sending psychic signals that you don’t.”

Attention—or inattention—to detail affects service, too. Outsourcing, for example, is reviled for inflicting major pain on workforces; but it also causes plenty of minor injuries to customers, Levine

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Data Point

The Rich (and Poor) Keep Getting Richer

by EDWARD E. LEAMER AND PETER K. SCHOTT

Earnings are rising for the world’s poorest and wealthiest but remain stagnant for those people in between.

In 1980, isolationist barriers in low-wage countries such as India and China prevented businesses in high-wage countries from employing the poorer nations’ cheap labor. Many believed that eliminating these barriers would unleash a flood of outsourcing that would concentrate GDP growth in low-wage countries and reduce wages in developed countries. That hasn’t happened. While the 60% of the world’s people living in poorer countries have seen their earnings grow since 1980, so have the 20% who live in wealthy countries. It’s the people in the world’s middle-income countries—20% of the world’s population—who’s earnings have stagnated.

Why is this? Media reports notwithstanding, global competition has not been very intense between the poorest and wealthiest countries. Few of the labor-intensive products made in India and China are also made in high-income countries. Consequently, workers in wealthy countries have not felt the force of competition from low-wage producers. Middle-income countries, however, have not escaped direct competition with these poorer nations. This is not likely to change anytime soon. Technological advances will continue to drive growth in the high-income countries, while middle-income and poor countries compete for the mundane work. In that competition, large, poorer nations—by virtue of their vast low-paid labor supply—will retain the upper hand. Businesses should weigh this continued dispersion of growth when setting their global strategies.

Send Data Point chart proposals to Edward E. Learner (Leamer.HBRgraph@anderson.ucla.edu). Learner is a professor of management, economics, and statistics at the University of California, Los Angeles, and the director of the UCLA Anderson Forecast.

Reprint F0504H

HARVARD BUSINESS REVIEW