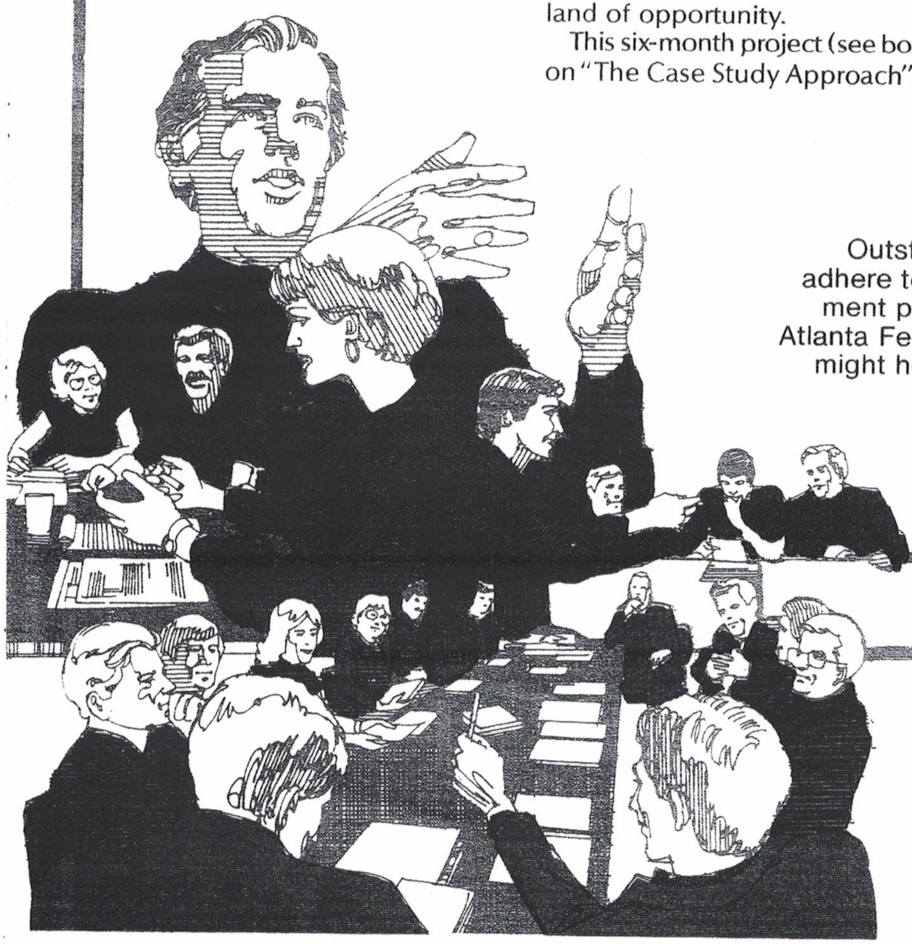
High-Performance Companies in the Southeast: What Can They Teach Us?

American business is seeking fresh initiatives to overcome the economic inertia of the past decade. Poor productivity gains, decaying mature industries, and prolonged high unemployment have defied traditional solutions. Bold initiatives seem necessary to launch the American economy on a new course of extended prosperity. Rather than study economic solutions grounded in foreign cultures, with different political and social values that contribute to the effectiveness of such measures, the Federal Reserve Bank of Atlanta has examined models of success closer to home—in the southeastern United States.

This study concentrates on corporate growth models to reappraise the basic American business climate. Some scholars see the entrepreneur, the calculated risk-taker, as the hero in the saga of economic growth. Research that focuses on the management side of entrepeneurship, therefore, may be a useful way of refocusing on incentive systems at the microeconomic level. We looked at 22 high-performance southeastern companies to learn whether common patterns underlie their outstanding profitability and growth rates (see box on "How Companies Were Selected"). Identifying characteristics shared by high-performance companies of strikingly different size and output, from small high-technology businesses to mature firms producing familiar commodities, could help renew the entrepreneurial spirit that established the United States as the unrivaled land of opportunity.

This six-month project (see box on "The Case Study Approach") developed from a 1983 study of high-technology firms carried out by the Atlanta Fed.[1] Researchers in that study were struck by the link between the growth of high-tech firms and their application of modern management principles. They suggested investigating whether similar practices prevailed at rapidly growing companies in other industries. We did, in fact, find such patterns, which this article will describe in detail. These patterns are (1) a major emphasis on innovation, particularly in the area of technology; (2) an entrepreneurial management style that keeps organizational structures lean and flexible for prompt action and willing to take risks that promise high returns; (3) a view of employees as associates or affiliates—the company's most valued long-term asset—rather than as adversaries; and (4) an ongoing attention to marketing strategy that sharply defines the company's comparative advantages.

Outstanding southeastern companies adhere to a number of common management principles, judging from this major Atlanta Fed study. These shared principles might help revive America's productivity.



All four traits are grounded in corporate culture or identity, which makes the company—for consumers, employees, and management—more than the sum of the products and profits it produces. This identity or mission expresses the nature of such firms as social institutions, generating a dynamic community spirit similar to that of a pioneer community of the past or a winning athletic team of the present. We developed the acronym **Team** to refer to the key patterns we found—technology, entrepreneurship, affiliation, and marketing—all embedded in a common spirit or culture (see box on "Modern Management Theory"). We believe the "winning teams" we have studied offer valuable lessons for the renewal of the American free-enterprise system. The hero, the entrepreneur, the calculated risk-taker, are basic ingredients of the American dream. As models they are standards for innovation, creativity and excellence.

MAJOR FINDINGS

Technology/Innovation

We found that the companies we interviewed are engaged in some form of change or innovation. Many are pioneering products and processes never used before. Innovative activity often permeates the organization. Many firms innovate by applying experience from other industries or by deviating from tradition. Innovation frequently takes the form of technological change. Technology is applied with a sensitivity to all concerned—employees using equipment, customers enjoying the results, and shareholders realizing improved earnings.

Innovation and applications of technology are related to other characteristics we found in high-performance companies. Accepting change fosters an entrepreneurial bias toward action in management. Technology is often required in order to act quickly in a changing environment. Human resource management is enhanced by technology. Dirty and unpleasant jobs may be eliminated. In some cases, people are given greater responsibility and training for higher skilled jobs. High-performance companies tend to retrain and reassign workers who are displaced by technology. These companies' fast growth plus the care and feeding of technically advanced machinery usually provide jobs for employees.

Market strategy is also tied closely to innovation and technology. Many successful companies view technology as a competitive weapon. They are constantly looking for more efficient ways to do things. These companies are typically market leaders in some aspect of their business. They believe that to remain ahead of the competition they have to be on the forefront of change. If they are constantly playing catch-up in technology, they are constantly playing catch-up in the marketplace. The companies we interviewed embrace change by using state-of-the-art technology, redefining their target market, offering new delivery systems, or introducing innovative products.

State-of-the-Art Technology in Mature Industries. Some companies have found that, in order to compete in commodity businesses and against foreign producers with relatively low labor costs, they must adopt advanced technology.[2] Automation of the production process is almost an obsession with some of the companies we studied. Keeping up with technology is a continuous process that requires shopping widely for existing technology, helping suppliers design more functional equipment, finding ways to make equipment more flexible through computerization techniques, and evaluating new equipment. Technology used in production processes at many of the companies we visited was developed by foreign firms.

Manufacturers in commodity businesses can no longer rely on lower wage southern labor to man their factories. To excel as low-cost producers, they believe they must automate. Four companies we interviewed stood out in this respect: Nissan U.S.A., Russell Corporation, Nucor Corporation, and Flowers Indusries. (Although not a manufacturer competing with low-cost foreign producers, Delta Air Lines also scored high in our sample as a leader in technology. Delta keeps its fleet equipped with the most modern airliners flying.) Nissan, a Smyrna, Tennessee subsidiary of the Japanese car and truck producer, had the opportunity to fully automate its facility, constructed in the early 1980s. The company has almost 230 robots in use, handling unpleasant and dangerous jobs such as painting and welding. They can be programmed to adjust automatically to different size and model vehicles, thereby allowing a more flexible production schedule. Russell Corporation, an Alexander City, Alabama textile and apparel manufacturer specializing in athletic clothing, operates one of the most automated textile manufacturing facilities in the Southeast. Gene Gwaltney, the firm's chief executive

In the past several years, popular interest in management has reached a new peak. Books on the subject have topped the best-seller list for months. Our economic malaise has contributed to widespread interest in management as cause and cure for such problems as lagging productivity and slow economic growth. We used these works as a reference point as we interviewed financially successful companies in the Southeast, although we attempted to remain receptive to new principles.

One book that influenced our initial thinking was **In Search of Excellence.** The authors, Thomas J. Peters and Robert Waterman Jr., identify eight management principles employed by large American corporations that had survived over decades of good and bad economic conditions. These eight include (1) the conscious propagation of a company's values or mission among all employees through credos, rituals, and myths; (2) achievement of high productivity through concerned attention to employees; (3) lean management structure that fends off bureaucratic tendencies, such as long memos, committees, and complex procedures commonly found in large, established organizations; (4) an atmosphere of procedural informality akin to that found at smaller companies ("loose/tight" principles); (5) close attention to customers; (6) a bias toward action (rather than forming committees or studying proposals too long); (7) product continuity (rather than conglomerate-style diversification); and (8) a spirit of entrepreneurship and autonomy that fosters product development and decision-making at the lowest levels. By fostering these eight principles of management, Waterman and Peters assert, large, mature companies can retain many desirable traits of smaller firms.

Another book that addressed these questions is Rosabeth Moss Kanter's **The Change Masters: Innovation for Productivity in the American Corporation.** We sought to determine whether the innovation-fostering traits identified by Kanter were present at the companies we interviewed. These traits include a pervasive spirit of autonomy and an atmosphere of brisk intellectual interchange that keep these companies from becoming complacent and that force them to be aware of their changing environment and the need to adapt with it.

A recent study commissioned by the American Business Conference to identify characteristics common to successful mid-sized companies reiterated patterns described by Waterman and Peters.* One important addition with regard to these smaller companies was market orientation. Mid-sized growth companies tend to produce for a well-defined niche, and they fit into that niche not as the low-cost producer but as suppliers of a high value-added product or service that bespeaks quality and commands a higher price and profit.

Our focus on individual companies as the catalyst of economic development led us to look for signs of an entrepreneurial management style: "Entreprenuers," as one researcher summed up, "are responsible for a significant amount of the change in our society, much of the economic growth, practically all of the sustained growth in employment, plus the new technologies that make our life easier and more enjoyable and the new drugs and medical instruments that keep us healthy and cure us when we are sick."**

Finally, we acknowledge our debt to a variety of works (see bibliography), such as **The Art of Japanese Management, Theory Z,** and to research by George Odiorne, Peter Drucker, and others on modern principles of management. Those works extol a participative and collegial rather than hierarchical, authoritarian style of leadership, cooperative rather than adversarial employee relations, and management respect for the contribution of employees to the company's success.

We organized traits cited as important in the literature into four areas. These areas are, with one exception, those defined in classical economics as the factors of production—land, labor, capital, and entrepreneurship. We looked at companies' products and how they are marketed, their treatment of labor, utilization of capital (both human and physical capital and the attendant role of technology), and management or entrepreneurship. We gave little attention to land, or possession of special resources such as oil deposits or patents, because we were seeking aspects of management with more universal application. We do not deny their importance. Indeed, officials of the Coca-Cola Company assert that their trademark is one of the most critical factors in the corporation's long-lived success.

Within the remaining areas—product, management, employees, and capital, we sought to determine whether management principles frequently cited in recent works prevailed at high performing southeastern companies. Not surprisingly, we found some successful companies that defied several of these management principles. Nonetheless, our research indicates that these principles seem generally applicable to financially successful companies based in the Southeast.

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*The Winning Performance of Mid-sized Growth Companies," American Business Conference (May 1983).

Silver, David A. **The Entrepreneurial Life, New York: John Wiley & Sons, 1983), p. 1.

officer, goes so far as to say, "If you wait until you can cost justify a piece of equipment, you're too late. You can't afford not to have the latest technology in place."

Nucor, a Charlotte, N.C. steel manufacturer, uses continuous casting, a technologically advanced process used extensively in Europe and Japan, to produce steel. Nucor managers continue to seek the latest technologies by traveling abroad to learn about research, development and utilization. Flowers Industries, a Thomasville, Georgia baked goods company, succeeds where others have failed by buying near-bankrupt bakeries, modernizing the plant and equipment, and achieving economies of scale through reciprocal baking.

Adding Noncommodity Lines of Business in Mature Industries. Some of the more mature companies find it wise to seek higher value-added products and diminish their dependence on traditional commodity lines of business. Diversifying out of mass production of low-priced standard goods during the last several years helped two southeastern companies, Sonoco Products, a South Carolina-based paper products company, and Oxford Industries, an apparel firm based in Atlanta, outperform their peers in declining industries. While the products were familiar to the American consumer, the transition into value-added businesses was a radical departure from these companies' historical experience. By seeking products with higher margins and a market niche, these two companies transformed themselves into value-added producers, and their orientation shifted from production to marketing.

From its inception, Sonoco Products has been tied closely to the textile industry because it produces paper and plastic cones onto which thread or yarn is wound. Sonoco's leaders redefined their business as industrial packaging, which enabled them to move into other items, such as paper cans used for packaging orange juice, potato chips, and motor oil. Oxford Industries was a private-label apparel producer until its top management realized that it was unprofitable to compete with lower-cost, foreign producers. To establish a greater perceived value for its goods, it took advantage of the designer trend in clothing. The company has exclusive production rights to the Ralph Lauren Polo line of boys clothing and has added other designer labels. Days Inn, another Atlanta-based firm we interviewed, is in a low-price commodity business—renting economy rooms to cost-conscious travelers. Richard Kessler, CEO, has sought to add value to those rooms by stressing high quality, friendly service, consistent products, and good hotel design.

Offering New Delivery Systems in an Old Business. Several companies we interviewed were innovative in designing a new way to deliver an old product or service. Federal Express, a Memphis-based delivery service, uses computerized dispatching rather than the traditional radio dispatching. This system enables the firm to improve the efficiency of its delivery system. Home Depot, an Atlanta-based retailer, found it could reduce costs and prices by eliminating the warehouse link in the distribution chain of the lumber and home-repair retail industry. Its retail stores function as the warehouses. The firm's discount prices, variety of goods, and well-trained sales assistants have produced rapid growth for the relatively new company. Key Pharmaceutical, a Miami-based drug manufacturer, boasts an innovative delivery system involving new technologies in delivering proven drugs to the patient's system. One of the company's lead products, Nitro-Dur, continuously administers the proper dose of nitroglycerin to a heart patient by means of a patch worn against the skin. The drug is "delivered" to the body through the skin rather than through the mouth.

Wachovia Bank and Trust Company, headquartered in Winston-Salem, N.C., pioneered a new delivery system for banking services in the early 1970s. It assigned a "personal banker" to every retail customer who has an account at one of its branches. The personal banker coordinates the customer's deposit and loan accounts and any other financial service needs. To accomplish this one-on-one attention, Wachovia had to establish a computerized means of assimilating and dispensing demographic and account information about each customer.

Offering a Product Previously Unavailable. Product innovation at high-performance companies takes place continuously to supplement or replace old products reaching their maturity. However, two companies applied existing technology in new situations to serve a previously unmet market need. Publix Super Markets, based in Lakeland, surprised the Florida banking system when it announced the introduction of its own automated teller machine (ATM) network in which banks could participate. The supermarket chain is one of the first in the country to place multibank ATMs in every store. It also jumped the gun on banks by establishing its own computerized point-of-sale payment system.

Federal Express' initial product was so unique that it started a new industry. The Memphis company popularized the small-package air express business in the early 1970s and remains the market leader. Today Federal Express is expanding its boundaries with its new Gemini project, which will transmit facsimiles of documents by satellite rather than by airplane.

We did find notable exceptions to the general rule of companies being on the cutting edge of innovation and technology. For example, Coca-Cola officials place much more value on the proper timing of innovation. They purposely wait until the first generation of a new product or technique has proven its viability and revealed its flaws. Then Coke, capitalizing upon the mistakes of its predecessors, moves in, seeking to dominate the market. Officers of the Atlanta-based Trust Company bank holding organization also stated their preference to follow in the footsteps of technological leaders and innovators.

Balance. Perhaps more important than the cautiousness implicit in this attitude toward technology is the widespread sense of balance we found. Many officials indicated the need to apply technology without losing the human touch. The companies we visited displayed a sensitivity to humanizing the workplace despite the high degree of automation surrounding workers. Assembly line workers at Nissan, for instance, had been allowed to place potted plants and hanging baskets in their work areas.

Many companies emphasized that, although a particular service or procedure theoretically can be performed more efficiently by a machine than by a person, a people-oriented approach makes more sense. Federal Express uses a surprisingly manual process to sort packages. "We have considered every possible technology to automate this process," one officer told us. "We have rejected most suggestions because they inconvenience the customer or they cost more than the labor-intensive process that we currently use."

Pervasive Innovation. We found companies where innovation is a way of life. It is evident not only in high-level decision making but also in the way the line workers do their jobs and middle managers seek to improve operations. Production workers at Key Pharmaceuticals often suggest ways to improve the equipment to make the output more efficient. They know that Key is growing fast enough to redistribute workers, so they readily suggest improvements to reduce the number of workers on a line. Plant managers at Flowers Industries are responsible for requesting new equipment for their bakeries. Each middle manager researches available equipment and decides what is best for his operation. When we visited Flowers, a superviser had obviously rigged a piece of equipment to keep the bread straight on the conveyor. It was his responsibility to get a high-quality product out the door on time, so he took the initiative to improve the operation.

In most cases, innovation is more prevalent, or more apparent, at higher-level decision-making posts. We found little evidence of new product development at the grass roots that Waterman and Peters described. Fred Smith, chief executive of Federal Express, commented that he does not want innovation everywhere in the company. Certain guidelines must be followed, he says; deviations may cause problems further down the line. Workers are not free to change these standards at will. Yet, we found that workers often suggest changes that are reviewed by industrial engineers to see how they fit into the whole process.

When new processes are being developed, those who will eventually be doing the work are consulted to help optimize the procedure. Nissan's industrial engineers consult assembly workers, who often suggest better ways to do a job. Russell operators and maintenance technicians help evaluate new equipment. Publix's store managers and clerks work with the technical staff in designing and implementing customer-related computer systems.

Technology Transfer. We found that much innovation occurs by technology transfer, taking a concept or process from one industry and applying it to another. Publix applied banking technology (ATMs and point-of-sale terminals) to its supermarket business to reduce losses from bad checks and processing costs. Key Pharmaceuticals adapted food production methods and explosives technology to its production of nitroglycerin drug patches. On the product side, unlike pharmaceutical companies that refuse to promote products not invented by their own researchers, Key looks outside the company for new technology it can turn into profitable products. Charter Medical of Macon, Georgia applied expertise from real estate to the health care industry; for Charter, a hospital management company specializing in psychiatric care, the result is a system that emphasizes patient satisfaction and returns a profit largely by cost reduction. Bank Earnings, Inc. has combined technology in the banking industry with their own marketing program, by applying microcomputers to the solution of operations problems at commercial banks.

Much of the technology transfer occurs because officers of the company have experience in other industries. This often facilitates the cross-pollination of ideas. One top manager at Key Pharmaceuticals had worked previously for Ford Motor Company. Federal Express's top officers bring experience from the airline, travel, and computer industries. Nucor's CEO is an aeronautical engineer by training with long experience in metallurgy but none in the steel industry prior to taking over Nucor.

Entrepreneurial Management

An important factor in the success of companies we studied was their entrepreneurial management style—the "E" of our "TEAM" principles. We found management to be lean, informal, and action-oriented. However, we found other patterns that ran counter to expectations derived from recent books (see box on "Modern Management Theory"). We had anticipated a participative management style, characterized by decentralization, autonomy, and an atmosphere of spirited but friendly dissent. We found two distinct styles, one centralized, the other decentralized. At many companies, CEOs and their top colleagues told us that they are personally involved in operations, organization is fairly centralized, and that cohesiveness, especially among the top management team, is much more characteristic than dissent. At others, decentralization prevailed, with considerable low-level autonomy and lively debate.

High-performance companies instill a sense of ownership, an action-oriented entrepreneurial spirit throughout their organization. They do so not only through financial incentives but, more importantly, through the definition and communication of a corporate mission. Almost none of the companies we visited based management primarily on efficiency, financial returns or other quantitative norms. While such standards are important, they consider vision, corporate culture, and other qualitative norms equally significant, especially in the company's long-run success.

Identity. Virtually all the companies we visited had a keen sense of identity. This identity determines the norms by which a firm chooses products to market, implements technology, treats employees, and generally organizes and manages its affairs. A self-conscious view of one's company as a social institution embodying far more than financial values was widespread and strong among our sample.

Dennis Hayes, CEO and founder of Hayes Microcomputer Products in Atlanta, says he grew frustrated with the bureaucratic malaise at two large companies where he worked. He says he decided to leave the security of a corporate engineering job to "build the great American company." He wanted to create a place where people would want to come to work, would be committed to and enthusiastic about their jobs and would be able to achieve more of their human potential.

Many companies expressed their identity through a formal statement of philosophy. Nowhere was this more evident than at Nissan. Marvin Runyon, the CEO, has evolved this statement of purpose: "To build the best quality trucks sold in North America." The slogan is posted in the plant for all employees to see, remember, and strive for.

Publix, on the other hand, defines itself as the company where "shopping is a pleasure." Publix workers hold this as their primary goal. Federal Express's stated mission is to solve people's high-priority logistics problems. "People-service-profit" is a shorthand version of this mission that is transmitted to all employees. Charter Medical's purpose is "to provide quality health care through the free enterprise system." Sun Banks, a Florida bank holding company based in Orlando, also has a formal mission statement. Its essence is that Sun Banks' purpose is to please, not just satisfy, customers, employees, and shareholders. Days Inn is formulating a statement about the high quality of lodgings it offers and the attendant high value to its customers. This statement will be displayed in all its motel lobbies. CEO Richard Kessler already stresses the importance of inculcating employees with the company "mindset" so he can turn over more responsibility to them.

No formal credo exists at other companies we visited, but a link between the product marketed and the company's identity is strong. Coca-Cola President Donald Keough told us that Coke is more than a product; it's a moment of pleasure, a set of life experiences as reflected in customer collections of Coke memorabilia. This special experience that surrounds the product is felt not just by customers but also by Coca-Cola's 40,000 employees. Sam Ayoub, Coke's chief financial officer, mentioned the old saying that "Coke, not blood, runs through the veins of employees," implying that the staff is involved in the spirit of the company. Some high-performance firms elicit special loyalty from employees and customers because of their role as social institutions. Both Trust Company and Coca-Cola have contributed to the historical development of Atlanta. Sun Banks also sees community development in all the areas where it operates as an important aspect of its corporate identity.

Symbols serve as surrogates or reinforcement for formal credos. Tenure pins are common. Upon joining Management Science America (MSA), an Atlanta-based software developer, each employee receives a Tiffany-designed silver key. After five years this is replaced with a gold pin. Coke has pins for different tenure, including a diamond pin for 25 years service. Ties carrying the company logo are also to be found at such firms as Trust Company and Sun Banks. Federal Express and Coke operate company stores with an assortment of products carrying the company logo. At Federal these range from T-shirts to luggage. Uniforms are another way of fostering company identity. Nissan issues all employees slacks, T-shirt, shirt, and jacket. Wearing the uniform is voluntary. The plant is a heterogeneous mixture, with some employees wearing only their own clothes, others wearing the Nissan jacket over personal attire, and some sporting the Nissan T-shirt. Days Inn issues its front desk employees well styled and tailored uniforms. Thus, self-pride is integrated with pride in one's company. Quadram Corporation, a subsidiary of the Atlanta-based Intelligent Systems Corporation, a manufacturer of computer peripherals and graphics, created a new trademark—"Quadram Quality," or QQ—but management told employees it could not be displayed until the return rate on all products was reduced to less than one-half of one percent. Today, with that goal long since achieved, the symbol is entrenched in the Georgia microcomputer firm's corporate identity.

Finally, design and architecture reflect the company's identity. At Trust Company's headquarters in downtown Atlanta, three pillars from the former building that stood for half a century have been preserved near the entrance. A portion of the old facade is incorporated into an interior wall in the lobby. These architectural touches reinforce Trust Company's sense of history. Officials of the bank today speak of a strong sense of stewardship toward their legacy. Trust Company prides itself on sound financial practices, conservatism, and quality.

Credos and symbols are not typical of all the companies we visited. Nucor eschews such trappings as tenure pins. It recognizes length of service by giving employees shares of stock. However, such recognition is quite in keeping with the company's no-nonsense view of itself and its industry. CEO Ken Iverson told us: "Steelmaking is hot, noisy, dangerous, dirty work, and there's no getting around that." In this environment, he believes, fancy ties and tenure pins would be totally inappropriate.

Two-Way Communications. Besides communicating the corporate mission and values, high-performance companies emphasize communications in general. What makes the emphasis on communications at these companies special is that it is two-way and linked with a willingness to respond to complaints, problems, or suggestions. Many update employees regularly about the companies' financial performance. Flowers' management emphasizes to employees that the best security for keeping their jobs and assuring advancement opportunity is through profit. They give employees an opportunity to share in those results. Nucor and Sonoco also stress the importance of informing employees about the company's fortunes. Fred Smith of Federal Express says, "For people to have pride in what they are doing, they must be constantly informed about the importance of their jobs and the results they are attaining."

Communications take many forms. Sun Banks and Sonoco keep their employees informed through newsletters and videotapes. Daily newsletters, containing information about new policies, pricing, products, recent performance, problems, and even personal stories, are read to station and hub employees at Federal Express.

Meetings are a widespread means of two-way communications. Nucor's general managers and often the CEO meet once or twice a quarter with groups of 50 employees to discuss business conditions. Sun Banks CEO Joel Wells visited all his company's banks to encourage bank presidents to do the same regularly. MSA's CEO, John Imlay, and its chief operating officer, Bill Graves, meet personally with all employees once or twice a year. Such meetings serve not only to keep corporate staff knowledgeable about line operations; they also provide a means for employees to become informed about the company, to voice suggestions, and to seek action on grievances. At Nissan, groups of 20 employees have lunch with CEO Marvin Runyon. These meetings have apparently won a reputation for trouble-shooting; once the ice is broken, employees bring out lists of complaints and problems. When we interviewed him, he apologized for being late, saying he had to call a manager to convey a suggestion an assembly line worker had made during lunch.

At Sonoco, 36 workers are chosen at random to have lunch with CEO Charles Coker once a month. In addition, Sonoco has an advisory board consisting of 10 elected employee representatives and 10 appointed managers. Flowers sends teams from headquarters every 18 months to interview groups of production line employees; the latter, guaranteed anonymity, air concerns and grievances, and suggest changes in management policies and practices. Days Inn's top officers meet quarterly with employee peer groups, such as chambermaid supervisors, to inform them of the company's current financial condition and discuss problems. High-performance companies stress that bottom-up communication works only when management acts on the suggestion or explains why nothing can or should be done about the problem.

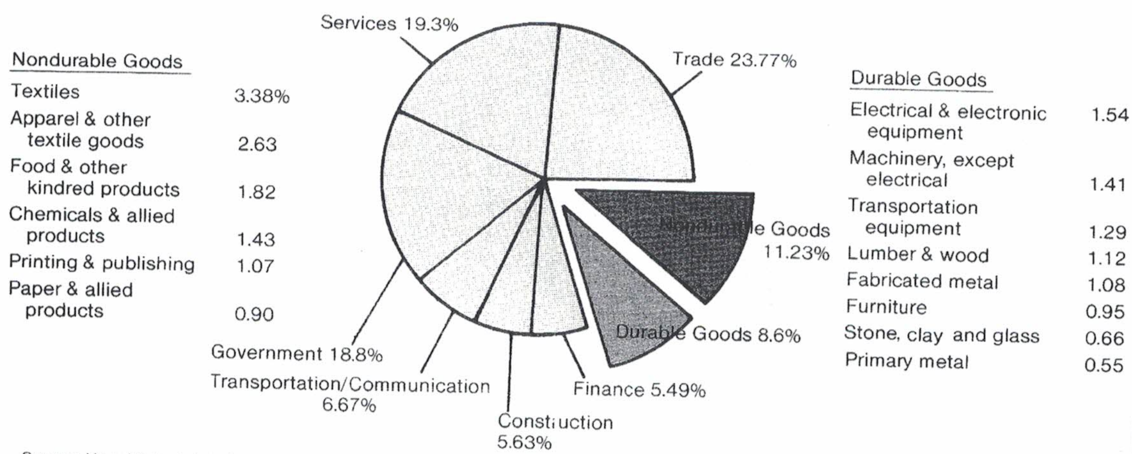
Personal Involvement. The emphasis on two-way communications is closely related to another aspect of entrepreneurial management—personal involvement of senior management in the company operations, a top-level attention to detail that results in lean organization and a minimum of bureaucratic formality. Days Inn's Richard Kessler, who typifies that personal involvement, insists on being informed of all decisions. He spends a day each month with the company's top 20 managers just below the senior staff; the meetings keep him abreast of potential problems and "bad news" he might not hear from senior officers. Kessler says that he does at times delegate authority; however, he believes that Days Inn's growth requires intense involvement on his part. Charles Muench, chairman of Intelligent Systems, on the other hand, is the archetypal entrepreneur. He likes to invent new products and to get new companies off the ground. Once the company is on its feet, he likes to turn over routine management problems to someone else.

This type of personal involvement reinforces high-performance companies' mission and entrepreneurial spirit through the personalities of the CEO. A senior officer at Federal Express told us, "It's hard to overestimate the influence of Fred Smith." His energy and vision clearly mold the company and influence its every action. Most CEOs, however, exert influence through their ideas more than the sheer strength of their personality. Bernard Marcus of Home Depot personifies the enthusiastic, energetic sales-oriented personality that he hopes company employees bring to their jobs. He told visitors he was taking on a short tour of corporate headquarters, "You'll have to walk faster than that. Hurry up, this is retail!"

Personal involvement is not limited to CEOs. Many companies have work-sharing programs designed to keep corporate leaders in touch with the company's basic operations. For example, Sun Banks' senior management spends one and one-half days a quarter first relearning a basic function such as customer service, credit approval, or data processing, and then actually performing such activities in a local bank. Federal Express sends teams composed of one senior officer and his staff to work at the firm's Memphis hub, where packages are sorted and routed to final destinations. This is intense work at breakneck speed, conducted between midnight and 4 a.m. Such "hub blitzes," as they are called, help keep corporate headquarters in touch with the core of Federal's operations.

Several companies have "apprenticeship" programs for entry-level managers, particularly those whose specialties, such as law and accounting, will tend to remove them from line operations. Flowers requires incoming lawyers and financial analysts to get a feel for the business by working temporarily in the bakeries or as route salesmen driving delivery trucks. Home Depot put a rising company lawyer on the sales floor for several months to give him a better perspective. Management trainees at Oxford must make a garment, using every piece of machinery in the plant. At Publix all management personnel must begin by

Chart 1: Distribution of Southeastern Employment
by Industry, 1983



Source: Unpublished data from Bureau of Labor Statistics, 1983

How Companies Were Selected

Our pool of 22 high-performance southeastern companies came from discussions with regional securities analysts, from formal nominations by the 44 directors of the Federal Reserve Bank of Atlanta and its five branches, and our own reading of current business literature. We used this screening method initially to ensure that we drew on the opinions of respected business leaders and financial analysts in selecting exceptional, privately held companies as well as publicly traded corporations.

We asked for nominations from the Atlanta Fed's directors because of their business backgrounds and their geographic diversity. Directors are respected business people and community leaders. Geographic representation is evenly dispersed throughout the District.[1] We asked each director to name three firms headquartered in the Southeast that he or she personally endorsed as being well-managed and likely to sustain their current success. Directors were asked to limit their selections to companies, public or private, large enough to have some impact on the local economy—preferably over $10 million in sales.

Nominated companies were subjected to a quantitative financial screen using industry data obtained from Standard and Poors (S&P). Our screen compared current and historical performance measurements for individual companies with those for their industry. Nominated companies passed this screen if they out-performed their industry peers. Our two measurements of current profitability were return on assets and return on equity for 1982. These ratios measure a firm's efficient use of its assets and its return to shareholders. We also were interested in summarizing each company's historical performance and thus selected the five-year compound growth rate of net sales to measure its performance over time. Net sales measure the growth of a company more clearly than net income because a dramatic change in sales volume requires operational adjustment over time.

We compared each nominated company's measures of current and historical performance with those of its peer group—which we defined as companies headquartered in the Southeast with the same three or four-digit Standard Industry Classification (SIC). Each company measurement within an industry peer group was compared to the S&P national industry average for that same measure. Nominated companies were accepted into the pool of high-performance companies if their 1982 profitability and sales growth figures exceeded their industry average. We made this comparison to assure that each company stood out among its southeastern as well as its national peers. Companies selected were, in all cases, among the top in their peer group.[2]

Banks were subjected to different financial tests. Because of the sensitivity of the Fed's position as an industry regulator, we analyzed banks from a stockholder's point of view rather than from a regulatory standpoint. Banks were screened on four quantitative measurements: current price-earnings ratio, net interest margin, return on assets and five-year compound growth rate of total assets. These assessed each institution's current and historical performance relative to its southeastern peer group. For convenience, we limited our selection of banks to the ten largest in the region, although we recognize that many small banks are well-managed and highly profitable.

Table 1. Bank Performance Rankings
(1 = highest)

Ranked by Total Assets September 30, 1983	Price-Earnings Ratio	1982 Net Interest Margin	1982 Return on Average Assets	5-Year Compound Growth Rate of Total Assets
NCNB	10	9	7	3
Barnett Banks of Florida	5	2	4	2
Sun Banks	4	4	6	4
Southeast Bank	8	7	8	7
Wachovia	3	8	2	9
C&S	6	6	5	10
First Union	7	8	10	1
First Atlanta	9	5	3	8
Trust Company	1	1	1	5
Florida National	2	3	9	6

Frequency of Occurrence in Top 4

Barnett Banks - 3
Sun Banks - 3
Trust Company - 3
Wachovia - 2

Our first measure of banks' current performance, the price-earnings (P/E) ratio, reflects the growth potential and risk of a company as perceived by financial markets. A high P/E ratio, relative to other companies, means that the market places a greater value on a company's potential. The ratio was calculated for each bank by dividing the current market price of the bank's stock by its trailing 12-month earnings per share. Net interest margin and return on assets, the two current profitability measures used in our analysis, are important performance indicators. The net interest margin reflects the bank's major source of income, and its return on assets measures its efficient use of total assets.

We also wanted a measure of historical performance and therefore calculated each bank's five-year compound growth rate of total assets, which measures a bank's ability to serve its customers.

We ranked each bank on a scale of one to 10 on all four criteria. Wachovia, Trust Company, Barnett Banks, and Sun Banks ranked in the top four in all categories more often than did their peers (see Table 1). Our results were confirmed by the November 1983 National Banking Survey of Chief Executive Officers.[3] CEOs from 2,000 of the largest commercial banks ranked Wachovia, Trust Company, Barnett and Sun Banks among the best-managed commercial banks in the South.

Using Bureau of Labor Statistics' (BLS) industry employment information, we selected industry groupings with significant southeastern employment (see Chart 1). We looked at four nonmanufacturing categories: wholesale and retail trade; transportation, communication and public utilities; finance, insurance and real estate, and miscellaneous services. We selected five industries from nondurable manufacturing: textiles, apparel, food and kindred products, chemicals and allied products, and paper and allied products. We also selected three durable manufacturing industries: transportation equipment, fabricated metal, and electrical and electronic equipment.

Because of the time involved, we were unable to interview all of the companies that were nominated and passed the financial screen. We instead limited ourselves to conducting interviews at 21 companies that represent a cross-section in terms of southeastern industry, geographic location, size, and age. Table 2 shows the selected companies, their industry dispersion and geographic location.

Table 3 shows the size and age of each company within the selected group. Companies chosen range in age from four to 107 years and vary in size from less than $70 million to $6.8 billion in sales. Their staffs ranged from 350 employees to almost 40,000.

[1]Directors nominated companies based in North Carolina and South Carolina, as well as states in the Sixth Federal Reserve District—Alabama, Florida, Georgia, Louisiana, Mississippi and Tennessee.

[2]Nominated private companies also were compared to their industry peers whenever information was available. Nissan USA in Tennessee was not subjected to the same quantitative screen. Financial information was not readily available because the new Nissan USA is a subsidiary of the larger Nissan Limited of Japan. The U.S. company was selected because of its unique position in the Southeast as a Japanese-owned American company that has incorporated elements of Japanese-style management. Financial information for Hayes Microcomputer Products and Bank Earnings International was disclosed to us on a confidential basis.

[3]**National Banking Survey of Chief Executive Officers,** November 1983, Egon Zehnder International Management Consultants, p. 11. The best-managed commercial banks in the South were ranked as follows: 1) Wachovia, 2) Texas Commerce, 3) Trust Company, 4) Barnett Banks, 5) Allied Bancshares, 6) Republic of Dallas, First Tennessee, Louisiana National, Sun Banks, United Virginia (all equally ranked).

Table 2. Industry Representation

Industry Group	Company	Line of Business	Geographic Location
Wholesale and Retail Trade	Home Depot	Retail lumber	Atlanta, Ga.
	Publix Super Markets	Retail grocery	Lakeland, Fla.
Miscellaneous services	Bank Earnings International	Bank Consulting	Atlanta, Ga
	Days Inn	Hotel and motel	Atlanta, Ga.
	Charter Medical	Hospital management	Macon, Ga.
	Management Sci. Amer.	Computer software	Atlanta, Ga.
Transportation, Communication and Public Utilities	Federal Express	Express information delivery	Memphis, Tenn.
	Delta Air Lines	Airline	Atlanta, Ga.
Finance, Insurance and Real Estate	Barnett Banks of Florida	Banking	Jacksonville, Fla.
	Sun Banks	Banking	Orlando, Fla.
	Wachovia	Banking	Winston-Salem, N. C.
	Trust Company	Banking	Atlanta, Ga.
Electrical and Electronic equipment	Intelligent Systems	Computer graphics terminals	Norcross, Ga.
	Hayes Microcomputer Products	Consumer electronics	Norcross, Ga.
Transportation equipment	Nissan Motor Manuf., U. S. A.	Truck manufacturing	Smyrna, Tenn.
Fabricated metal	Nucor	Steel manufacturing	Charlotte, N. C.
Textile and apparel	Russell	Textile and apparel	Alexander City, Ala.
	Oxford Industries	Apparel	Atlanta, Ga.
Food and kindred products	Flowers Industries	Bakery products	Thomasville, Ga.
	The Coca-Cola Co.	Beverage	Atlanta, Ga.
Chemicals and allied products	Key Pharmaceuticals	Pharmaceutical	Miami, Fla.
Paper and allied products	Sonoco Products	Industrial packaging	Hartsville, S. C.

Table 3. Corporate Profiles

	Age in Years	Number of Employees 12/31/83	Sales Calendar Year 1983 ($ Mil.)	5-Year Compound Growth Rate Net Sales (%)	Return[1] on Average Assets (%) 1983	Return[1] on Average Equity (%) 1983
Nissan Motor Mfg., U. S. A.	4	1,800	5,000[2]	N. A.	N. A.	N. A.
The Home Depot	6	2,400	256[3]	125.5[4]	14.91	24.61
Hayes Microcomputer Products	6	350	N. A.[5]	N. A.[5]	N. A.[5]	N. A.[5]
Bank Earnings International	8	122	N. A.[5]	N. A.[5]	N. A.[5]	N. A.[5]
Federal Express Corp.	11	17,059	1,194[6]	44.5	10.63	20.58
Intelligent Systems	11	420	73	52.0	19.08	24.21
Days Inn of America, Inc.	14	13,500[7]	228	13.6	3.99	31.96
Charter Medical Corp.	15	8,500	375	29.5	7.18	29.44
Nucor Corp.	18	3,700	543	12.1	7.0	11.38
Management Sci. Amer., Inc.	21	1,857	145	40.8	9.10	12.29
Key Pharmaceuticals, Inc.	37	1,150	127	78.5	19.63	37.97
Oxford Industries, Inc.	42	12,884	543	17.3	12.30	23.53
Sun Banks, Inc.	50	9,200	8,901[8]	31.5[8]	0.85	14.75
Publix Super Markets, Inc.	54	33,985	2,853	11.2	11.09	17.93
Delta Air Lines, Inc.	55	37,239	3,883	12.0	−0.45[10]	−1.45[10]
Flowers Industries, Inc.	65	9,065	553	15.7	9.25	18.50
Russell Corp.	82	8,800	319	12.6	10.78	17.03
Sonoco Products Co.	85	10,008	669	14.2	9.04	14.77
Trust Company of Georgia	93	4,671	4,850[8]	12.2[8]	1.58	24.38
The Coca-Cola Co.	98	39,792	6,829[9]	10.8	11.01	19.61
Wachovia Corp.	105	6,544	7,850[8]	11.6[8]	1.20	18.41
Barnett Banks of Florida, Inc.	107	10,669	9,397[8]	24.2[8]	.98	17.94

[1]Calendar year net income divided by average assets and average shareholders equity, respectively. Averages were calculated based on beginning and ending balances.
[2]Approximated U. S. sales
[3]Year-ending January 30, 1984.
[4]Three-year compound growth rate
[5]Privately-held company, data not available for public use.
[6]Year-ending November 30, 1983
[7]Includes approximately 6,000 franchised employees
[8]Total assets as of December 31st
[9]Worldwide
[10]Deregulation reduced returns in the airline industry in 1983.

bagging groceries, cutting meats, or operating a cash register.

One byproduct of this personal management involvement is informality. Personal involvement obviates much of the need for memos, standing committees, and procedural manuals. Many companies are simply too new to have developed procedural manuals. In such firms, autonomy and authority flow from the inculcation of corporate values and the expectations that relations between employees and management are long-term and essentially harmonious.

Another result of such patterns is a lean organizational structure. Nissan has only five levels of management above production line workers: supervisor, operations manager, plant manager, vice president, and president. In contrast, many American auto companies have 10 to 12 layers. Nucor has only 17 people at its austere headquarters in Charlotte. Flowers has only 100 people. Of course, given our focus on southeastern companies, we tended to exclude very large businesses; financial criteria, such as high growth and profit rates, also tended to draw newer companies into our sample. However, older and larger high-performance companies such as Oxford Industries and Flowers also feature lean management structures and achieve superior results through decentralization.

Decentralization. The emphasis on shared goals and values, reinforced through two-way communications and personal involvement of senior management, inculcates the entrepreneurial, action-oriented spirit throughout high-performance companies. Some businesses also foster this orientation through decentralization.

Barnett Banks of Florida, the largest bank holding company in Florida, best exemplifies such decentralization. Company officials attribute much of the bank's success to an organizational structure with grass-roots autonomy that heightens motivation for lower level management. In an environment where employees at all levels feel free to take the initiative to solve problems without first seeking approval from a higher official, often at a remote headquarters location, a "bias toward action" ensues. As a result, customers can expect faster decisions and more personalized service. Barnett stresses this aspect of its management in its advertising. Barnett officials also believe that decentralization fosters product innovation and experimentation. An idea can be tested on a small scale without central approval; if successful, it can be adopted elsewhere in the system. Barnett's cash management and its program to market to consumers planning to move to Florida came from banks within the system, not from headquarters.

Each of Charter's hospital managers is responsible for the budget and profits of his operation. Charter Medical's CEO William Fickling hires "compulsive overachievers" and gives them free rein. He not only leaves the operational details to others in the company; he allows subordinates to pursue policies or directions that he believes may be misguided. Oxford and Nucor employ the single business unit concept: each division is responsible for its own marketing, manufacturing, budgeting, planning, plant, equipment, and personnel. Similarly, each of Sonoco's five divisions operates as a profit center. In Flowers' system of specialized plants, each bakery produces items needed by other Flowers bakeries in its region. Thus, each plant must stand on its own profitability as if it were an independent company.

Not all successful companies are decentralizing. Charter Medical dissolved three regional headquarters on the grounds that the company's size could not justify the overhead costs. Even some of the intrinsically decentralized retail companies centralize many functions. Home Depot's store managers control only personnel matters; pricing, advertising, and purchasing are handled centrally. Federal Express's station managers are not expected to be creative. The company's success is predicated upon uniform quality.

Nonetheless, many action-oriented companies try to delegate responsibility and thereby avoid the bureaucratic mentality of following rules imposed by someone else in the organization. Employees at most companies we studied are encouraged to solve problems in a way that best fits the corporate mission and value structure. At Nissan, production teams practice consensus decision-making among peers rather than seeking a ruling from top management. Managers who had formerly worked at U. S. automobile companies told us, "We solve problems across the table here, rather than up and down the chain of command." When decisions are made by the people who are most affected, the result can be quicker and more flexible actions. Leland Strange, CEO of Intelligent Systems, emphasizes each employee's responsibility for action: "The only way our employees get in trouble with us is to not be doing something, not taking action. They'll never get in trouble for doing the wrong thing if they use a reasonable, rational process to get there."

Creating an atmosphere free from recrimination also fosters the spread of an entrepreneurial spirit. Sonoco's Coker takes ultimate responsibility for acquisitions recommended by various managers. If an acquisition proves less successful than anticipated, the managers are not blamed. There is a certain risk in telling others of a problem or of calling off a project in which the company has invested heavily, but companies in our sample encourage such forthrightness. These companies do not "kill the messenger who brings the bad news." Marvin Runyon tells his employees, "Never stay in trouble by yourself." By telling others about a problem, it can be corrected before it becomes insurmountable.

Few Perquisites. Incentives are intended to foster action, decisions, and risk-taking; therefore, high-performance companies consciously avoid perquisites based on status and seniority rather than performance. Nissan and Nucor have no reserved parking spaces for officers. Both Federal Express and Nucor restrict management vacations to conform with those allowed employees. No management personnel at Federal Express may take vacation during the Christmas holidays since employees must work during these periods. Federal Express has no executive dining room. There are no offices at Hayes Microcomputer Products. Everyone, including the CEO, works in a cubicle open at the top and with no door. Nissan offers discounted auto leases on Nissan trucks to all employees, not just to managers. CEO Marvin Runyon wears the company's standard blue coveralls, issued to all employees.

This sensitivity does not imply that these companies are worker democracies, although they do give employees opportunities to participate in decision-making. Managers are rewarded well, typically through stock options and bonuses based on return on assets. Days Inn offers limited partnerships to rising managers. Moreover, the reduction or redistribution of status symbols does not imply a social egalitarianism. Neither a woman nor a black was among the 100 or so executive officers we interviewed. In several manufacturing facilities, women hold the lowest positions and seemed to have little hope of career advancement. At Nissan and Nucor, however, women held high-paying, traditionally male jobs, such as welding. Moreover, opportunities for disadvantaged groups seem promising because most high-performance companies emphasize treating all employees fairly.[3]

Cohesiveness. A final action-fostering management characteristic, and one that surprised us initially, was the stress on cohesiveness, especially among top management. CEOs seek to build such a cadre because they believe it enhances the entrepreneurial spirit. Wachovia uses the analogy of a basketball team. If the players know one another well, they can gain an intuitive sense of what to expect of their colleagues and thus act faster. Kessler of Days Inn typified this outlook with his comment: "Management is at its best when it is of similar mind, spirit, and objective." Many companies are led by graduates of the same college. Georgia Tech alumni predominate at Days Inn and MSA. Many of the top officers at Sonoco have known each other most of their lives. The average tenure of senior management at Wachovia is 20 years. At Federal Express, Fred Smith urges participation from below. Chief operating officer Jim Barksdale says the reason he got the job is because he could "take Fred on." Yet other officers say they feel lucky if they come away with a draw in a confrontation with Smith.

Some companies encourage dissent and diversity. Debate and dissent flourish at Barnett, not just within the circle of top management but in larger meetings that include board members and stockholders. MSA recruits a diverse work force, ranging from extroverted sales people to creative computer specialists, who write software, and nurturing employees who help sustain the company's reputation for customer service. The company tries to hire a diversity of educational backgrounds, including music majors as well as those trained in math and computer science. Company leaders value debate. At a company meeting of 30 people, a manager rose after President Bill Graves' presentation and told him, in so many words, that the idea Graves had advanced was ridiculous. The manager was subsequently promoted to an officer, in large part because of his willingness to stand up for what he believes. Of course, MSA officials note that dissent must remain in the realm of ideas; employees at all levels are expected to comply in action with company policies until they can convince others through the persuasiveness of their arguments of the need for change.

More typically, we found a collegiality in decision-making within the companies' somewhat homogeneous management teams. Sonoco's CEO describes himself as an "orchestrator" who solicits ideas from other senior managers rather than originating all strategies himself. Nucor's Iverson characterizes himself as more of an arbiter at the company's regular group managers meetings, where key decisions are made. Sun Banks called on the assistance of 100 people to formulate its mission statement and attendant strategy and tactics.

Many CEOs express concern about the lack of dissent and divergence. The longevity of management and the commonality of backgrounds may serve to insulate the organization and create a need for self-renewal at times. Once a company has achieved success, it becomes harder to maintain the reputation of excellence than it was to build it. Coca-Cola finds complacency a major concern as do Wachovia and MSA. Donald Keough at Coke said, "You have to keep providing opportunities for people to enjoy the thrill of victory. When you've been on a winning team for so long, the motivation becomes the fear of losing rather than the thrill of winning." Coca-Cola responded to this challenge when Roberto Goizueta took the helm in 1980. Although his new management team consists of long-term Coke employees, they have established a new strategy and sense of direction. Division and country managers have been encouraged to contribute their views to policies and decisions in a way that had long been absent at Coke. The new spirit instituted by Goizueta is reflected in the spate of new products Coca-Cola has introduced in the last three years, in the company's willingness to rely more heavily on debt financing than in the past, and in its commitment to retain a higher portion of earnings for reinvestment rather than for distribution as dividends to stockholders.

For many managers, the entrepreneurial spirit is renewed when a series of events threatens the company's success or even survival. Wachovia redirected itself in the early 1970s. Flowers, Sonoco, and Oxford realized the need for a change as their industries matured and began declining. Days Inn pulled through a tough period in the mid-1970s by demanding emphasis on quality control. The memories of these times are still vivid in the minds of senior management. Many have vowed never to "get fat, dumb, and happy" again.

The fact that we found an entrepreneurial style of management operating in new companies, sustained in older firms, and renewed in businesses that had lost it gave us reason to believe that this style and the mechanisms that support it—corporate mission, communications, personal involvement, and participative decision-making—are important in the corporate successes we studied.

Affiliation of Employees

Viewing their companies as social institutions, families, or teams leads management of high-performance firms to look on their employees as integral affiliates rather than as adversaries or commodities. Employees at high-performance companies often exhibit the same "fired up" enthusiasm as members of winning sports teams. Since workers are viewed as family members, they do not seem to seek an outside party, such as a union, to represent their interests. Unions were noticeably absent at these companies, even those in highly unionized industries.

Profit-Based Rewards. This familial view of employees is, in most cases, distinct from the paternalism that prevailed historically in certain industries and areas. Workers are treated with respect. Nissan refers to its assembly-line workers as technicians. Employees at Nissan and elsewhere are paid well, especially in comparison to industry or local standards. Moreover, their remuneration is usually based on the same criteria as that of management. Nucor's employees receive weekly and yearly bonuses based on their division's return on assets. There is no upper limit to this. The $30,000 median income of steelworkers at Nucor's Darlington, S. C. mill is far higher than local income norms.[4] Stock ownership by employees is widespread, although stock purchase plans outnumber plans based solely on employer contributions. Charter Medical, Federal Express, Nucor, and Sun Banks are among the companies with stock purchase plans. Key Pharmaceuticals, Publix, and Intelligent Systems have employee stock ownership plans.[5] Coca-Cola is implementing a stock ownership plan in stages so that many of its employees will become shareholders on retirement.

Profit-sharing plans also are fairly common. For example, 20 percent of Publix's profits go to employees and another 15 percent go to an employee retirement fund. Similarly, Nucor has

The Case-Study Approach: Advantages and Problems

Having identified high-performance companies in the region, we spent six months conducting case studies to identify common management characteristics. Our case studies began with intensive scrutiny of annual and 10-K reports, studies by securities analysts, and other published literature for each company. Then our team of researchers conducted day-long interviews with senior management, touring operations, and, in some cases, meeting with employees.

We chose this in-depth approach, encompassing a smaller sample, rather than the broad swath of respondents typically covered by a survey, for several reasons. The case-study method has been used extensively in social science research, particularly in anthropology, psychology, and, to some extent, in politicial science. It is the primary method of analysis used by such premier business schools as Harvard, Stanford, and the University of Virginia, which promote excellence in the management of business. We felt this approach was appropriate to our research.

Another factor motivating our choice was our concern with the problem of response set bias. This phenomenon, whereby most respondents try to give positive answers that they believe the researcher wishes to find, distorts the results of attitude surveys. Although careful phrasing of questions can help counter the human trait to please, we felt that the popularity of recent books on this subject would make it difficult to overcome this tendency.

We felt it was necessary to interview a variety of top officers and, in some cases, workers in the companies we were sampling to determine whether adherence to principles was more than rhetoric. Through interviews, our panel of four researchers—who have diverse academic and professional backgrounds—were able to probe and discover patterns that could not be discerned through a questionnaire. Some of those interviewed pointed out aspects of currently popular management literature they considered completely incorrect. Others voiced initial agreement with certain management principles, but the ensuing interchange suggested that such principles were either not borne out in fact or were of minor importance in their organization.

Using a research team helped us address another problem of certain types of survey research, that of intercoder reliability. Some surveys utilize more open-ended questions that allow respondents greater opportunity to phrase answers in an idiosyncratic and presumably more sincere manner. Tallying or finding patterns in answers to such open-ended questions involves an evaluation by the researcher who codes responses in accordance with a preconceived set of answers or a typology. Different researchers may code the same document in a variety of ways. By using the case-study approach, with several researchers present at each interview, we could test the correctness of our evaluation of interviewee comments by discussing them with one another.

A final problem this methodology addressed better than that of survey research was that of validity—do the indicators really measure the variables and hypotheses being tested? Certainly, we cannot be sure that because top management and a handful of employees told us a company placed a high value on its staff, that it did in fact do so in general. On the other hand, we are much more certain of the validity of the responses we got because of the opportunity to talk at length with more than one respondent at each firm—including those most responsible for the conduct of the company.

This study is subject to certain limitations. The most important is that we are not unequivocally certain that these principles are in fact correlated with the financial success of the companies under study. Many of the policies we have reported have been implemented only recently. We, along with most of the corporate officials we interviewed, believe such a relationship exists. Yet it remains for subsequent research to examine this issue further. Second, we cannot be certain that the management principles related to us by senior officers are in fact being implemented in the way they claim or believe. However, plant tours, our conversations with employees, and the strong objections voiced by many company leaders regarding certain characteristics we expected to find lead us to believe that the principles do obtain in practice. Third, our findings seem more prominent or consistent at new or rising entrepreneurial companies than at long-established and historically successful companies for which stewardship is a prominent value. Fourth, our focus on southeastern companies might incorporate a regional bias. Because the area's traditional comparative advantage has been low-cost labor, for example, attitudes toward technology and human resource optimization might be somewhat less pronounced than in other sections of the country. Despite these potential limitations, we believe our study has validity and bears policy implications both for the private and public sector.

no fixed pension plan but rather a deferred profit-sharing plan that will produce retirement income for the company's 3,600 employees only if it continues to succeed financially. Days Inn recently instituted Day Cap, a thrift plan, whereby the company matches employee savings by 25 percent or more, depending on annual profits. To participate, employees must contribute at least 2 percent of their wages or salaries. Wachovia has a savings incentive plan that allows employees to contribute up to 6 percent of their salaries. The company matches from 50 to over 100 percent of employee contributions, according to annual performance in meeting profitability targets. Trust Company offers an incentive compensation plan, whereby all employees with at least three years tenure receive a bonus of as much as 20 percent of their pay. The bonus is based on both the performance of the company as a whole and the individual's bank. Flowers offers bonus, incentive, and stock purchase programs; employees are informed weekly of their plant's profitability, its attainment of operating goals, and areas requiring improvement.

In these plans, employee compensation or retirement benefits are linked directly to the company's profitability. These plans also are similar in deriving from group rather than individual performance. Like the owner, employees can not succeed through excellent individual performance alone; the group—whether a work station of 20 people, a unit bank, or a corporate division—must prosper for the individual to gain.

Employees: Long-Term Corporate Assets. Employees at high-performance companies are regarded as the firm's most important long-term asset, not a cheap resource that is easily replaced. Delta officials believe job security is critical in sustaining employee commitment. Delta has not furloughed workers since 1956. Nucor and Nissan, among others, avoid laying people off. Nucor has not laid off an employee in 15 years; in hard times all workers go on short hours. Since employees are regarded as a quasi-permanent investment, high-performance companies place great importance on recruiting. Many companies intentionally locate in rural areas where few employers will compete with them in hiring the best applicants. Nissan, Nucor, and Oxford have been most successful in this regard. Nucor recently received 1,400 applicants for nine openings. Nissan had 130,000 applicants for 1,800 positions.

Some companies prefer to hire employees with no previous experience in the industry so that they can instill the company's values from the outset. At Charter Medical, for example, officers like to hire hospital administrators fresh out of school and then "Charterize" them. Nucor and Nissan have few workers with previous experience in the steel or auto industries.

Some companies look not just to individual employees as long-term corporate assets, but to their families as well. Key Pharmaceuticals prides itself on having 13 members of one family. Flowers offers scholarships and summer jobs for children of employees and boasts of its second-generation workers. Nucor provides partial-tuition reimbursement to children of employees; in return they must attend several company meetings, write an analysis of the annual report, and consider Nucor as a potential employer upon graduation.

Training. Since they view employees as their most important long-term assets, high-performance firms offer substantial training opportunities. Sun Banks employees at a variety of grade levels can improve their career prospects while remaining with the company by attending Sun Banks University. Sun Banks attempts to identify, train, and advance what it calls "mustangs," employees with great promise but insufficient education to fulfill their potential. Moreover, Sun Banks has a formal mentoring system: everyone from the assistant manager level up is assigned to a senior officer. Nucor pays for the training of employees who successfully post for vacancies within a mill. Nissan's employees go through pre-employment training, funded by the state of Tennessee, before being hired. They continue to have access to a variety of machines and instruction facilities in order to advance to other jobs to develop a pool of candidates for future leadership. Home Depot officers train middle managers; Sonoco and Flowers also have extensive training for management and supervisors.

Flexibility. Another aspect related to training is job flexibility or enrichment. Most companies we interviewed rotate their employees through a variety of tasks, particularly those whose work tends to be monotonous or unpleasant. For example, Days Inn's chambermaids also work as waitresses, Key Pharmaceuticals' production-line workers, who watch bottles to make sure labels have been affixed properly, rotate every two hours to perform other activities. At Nissan every chassis division worker must learn all 19 skills involved in this stage of the assembly process. This flexibility benefits the company by expanding the supply of labor able to perform any given task and gives the employee a larger perspective regarding the company.

The latter is an important point. Although most companies we visited attempt to make working for the company more fulfilling, they make no pretense about the nature of some jobs. Work at many of the companies is far from utopian. However, most of these companies try to mitigate the effects of unpleasant tasks.

Participation. Another common characteristic at high-performance companies is a greater opportunity for participation. In addition to two-way communications, companies we studied offer opportunities for employee peer groups to meet on their own. At Oxford, for example, job enrichment groups meet regularly to discuss ways to improve production and other job-related matters. This is the closest to quality circles we discovered. Even Nissan has not yet instituted this element of Japanese management. Employees at Charter, Federal Express, and Oxford are polled frequently regarding their supervisors. Managers at Federal and Oxford who consistently receive negative remarks from subordinates are not promoted. Trust Company and Sun Banks recently surveyed their employees about their job satisfaction and instituted policy changes as a result.

Market Strategy

Judging from our research, clearly defined market strategy seems to stem from a well-understood and well-focused corporate mission. In refining this strategy, management has asked: What can we do well? What is our comparative advantage relative to other companies in the business? What unmet market needs can we satisfy? What additional expertise must we develop?

Niches. The answers to these questions have led most high-performance companies to seek a market niche—a well-defined segment of a much larger market. "Niching" limits the competition and allows companies with good quality and low costs to dominate a market segment. Some companies create a niche by identifying and serving an unmet need. Key Pharmaceuticals found a niche among pharmaceutical giants by developing new ways to administer proven drugs. Federal Express provided a totally new service—delivering time-sensitive business documents and equipment parts point to point within 24 hours at a relatively low cost.

High Value-Added. Companies competing in the lower-cost end of the market try to distinguish themselves by offering better quality than their competitors. To provide that extra level of quality at reasonable prices, the company must contain costs. Days Inn seeks to provide high quality, low-cost lodgings by choosing simple, no-frills, yet attractive, designs. Home Depot reduces costs and adds value through its retail-warehouse concept, while offering a larger variety and stock of products. Russell's new marketing effort promises customers high quality athletic wear, such as warm-up suits and jogging shorts, at lower-than-designer-label prices.

Companies serving the higher-priced end of the market are able to create a demand based on the perceived quality or value of the product. Trust Company emphasizes its return on assets, one of the best among American banks. It seeks high caliber customers, not the greatest volume. As one officer states, "Trust Company does not give away dishes." Barnett raises such standard financial services as auto installment loans above the level of a commodity by making its service faster and more dependable. Barnett's staff can approve a car loan request from a dealer in an hour at most. In addition, unlike many banks, it continues auto lending even when interest rates are abnormally high. In general, Barnett tries to avoid selling only commodity financial products like IRAs. Instead it encourages employees to know their local market as a whole and how best to respond to it. Oxford Industries improved its financial performance by shifting from manufacturing for mass market retailers to producing designer and specialty label sportswear. When a competitor lowered its prices, Federal Express responded by raising prices and improving its delivery time from noon to 10:30 a.m. on next-day service. Sonoco locates its plants near customers to ensure reliable delivery. It distinguishes its commodity-like paper products by offering consistent availability and designs tailored to the customer's needs.

Market Share. Some high-performance companies are driven by market share, constantly trying to gain a larger share of the pie by taking business from competitors rather than by seeking to increase demand. This strategy contrasts with trying to make the pie larger by creating a greater demand with new and innovative products. When the pie stops growing and market share has reached a high point, it is difficult to generate much growth in the company. This phenomenon occurred in the beverage industry. Once driven solely by increasing the volume of soft drink sales, Coca-Cola is now looking for new opportunities in new markets.

In some cases, demographics, deregulation, or technological breakthroughs expand the market "pie" dramatically. Florida's banking industry is growing because almost 1,000 people move into the state each day. Barnett and Sun Banks are striving to increase market share, although quality of service and innovative product lines are also important to them. Publix also benefits from the growing Florida population and makes its goal to blanket the state with new stores.

Oxford's primary business is designing, manufacturing, and selling consumer apparel products. Sonoco's is manufacturing and selling industrial packaging products. However, within those broad definitions, the two companies dominate several niches. In addition to supplying the textile industry with almost all of the paper and plastic cones used to wind yarn, Sonoco is one of the few suppliers of the new plastic grocery bags. Oxford has the exclusive rights to produce and sell several designer lines. While Russell's business is sportswear, it also specializes in team uniforms.

Product Integrity. We found several principles that guide companies in selecting and implementing market strategies. A prominent one is: they "stick to their knitting." Acquisitions and new market niches fit closely with their current mix of business. Sonoco seeks companies that complement its existing lines. For example, a byproduct from one division may be used as a resource for another division. Federal Express' ground delivery system complements its move into facsimile transmission of documents. Federal Express will be able to pick up a customer's document and deliver it by truck to a processing center, which will use image technology and satellite communications to transmit it to another city. Flowers uses its efficient distribution system, which was established to deliver fresh-baked bread daily, to deliver the snack foods it has begun producing. Its acquisitions are primarily in snack foods because of the higher margins, but the company realizes the importance of increasing market share in its "bread and butter" business - loaf bread. Iverson transformed Nucor from a money-losing hodgepodge of miscellaneous products into a company focusing almost solely on low-cost steel production. Coke has in the past three years brought more continuity to its product line by divesting subsidiaries such as Aqua-Chem and Tenco, which were not marketing to individuals, and by acquiring Columbia Pictures and Ronco, both of which market directly to consumers.

Wachovia cut back its data services subsidiary and divested itself of a credit business, a courier company, an insurance agency, and a title insurance agency in the early 1970s. John Medlin says, "We have rededicated ourselves to being the very best bank we know how to be and to sticking with the basic corporate, retail, trust, and money market services that are permitted to a bank." When Wachovia was highly diversified, its compound earnings growth rate was 10 percent a year. Since the redirection, earnings have compounded at 19 percent annually. Medlin says, "You shouldn't acquire things that you can't manage and don't understand and don't know how to run."

Long-term orientation. Another marketing principle of high-performance companies is a long-term orientation. These companies look for consistent growth and profitability. Flowers, for instance, looks to long-term growth when it buys failing bakeries and spends liberally to modernize them. Closely-held ownership of many of these companies enhances corporate leaders' freedom to retain an orientation to longer-term instead of quarterly profits. William Fickling of Charter Medical, for instance, holds most of the voting stock of his company. Sonoco, Russell, and Flowers are closely held by family members, with only a small portion of their stock traded by institutional investors. Russell's chief financial officer says the company prefers to keep it that way to avoid constant "looking over your shoulder" by the investment community.

Service to Customers. Most companies in our study believe their mission is to serve their customers' needs. Nissan's production line employees are kept in touch with the people

Exhibit 1.

	1	2	3	4
Technology/Innovation	No original innovation, copies innovative activity of others after proven successful	Innovates with high degree of caution	Innovates extensively after careful analysis	Innovation is lifeblood of organization
Entrepreneurial Management	Bureaucratic hierarchical structure breeds passivity; focus of action on "turf battles"	Leadership acts in response to crisis & to catch-up to competitors	Leadership takes risks; employees execute but do not originate	Participation spreads action-orientation throughout organization
Affiliation of Employees	Meets basic human needs, but views human resources as a commodity	Develops human resources to limited degree	Develops human resources extensively	Human potential is developed as major corporate investment
Market Strategy	Maintains stable market share	Participates in some new markets and increases share of existing markets	Participates extensively in new markets	Creates new markets

Tracking the Patterns: A Spectrum

Technology and innovation constitute the lifeblood of some organizations. Change is constant. These companies' markets are fast-growing, and relevant technologies are evolving rapidly. Other companies find innovation and technology necessary to their businesses, but they emphasize feasibility rather than innovation for its own sake. Some companies are cautious toward innovation but are willing to embrace change when the benefits are evident. The far left end of the spectrum holds companies whose strategy is to copy the innovative activity of others once it has proven successful.

Entrepreneurial management is most pronounced at companies with a strong sense of purpose and identity and participative decision-making style that fosters debate, autonomy, and initiative. At firms with a less entrepreneurial management style, middle managers and employees are kept well-informed of company policies and performance, but they merely implement decisions made at the top. At other companies action is undertaken usually in response to outside crises, and less emphasis is placed on informing lower level managers and employees of company philosophy, policies, or changes in these. Finally, in bureaucratically managed businesses, entrepreneurship is inhibited by a hierarchical structure that breeds passivity and conformity to rules and traditions. Energy is focused more on rivals within the organization than on competitors in the market.

Human resources are utilized most effectively in companies that seek to develop employees to their fullest potential. They consider their employees investments that can leverage the company's hard assets. Other companies emphasize developing and training employees, but do not see that as the major way to improve productivity. In less people-oriented companies, employees may be treated fairly but there is limited fulfillment through jobs. Finally, some companies meet the basic human needs, but view labor as an easily replaceable commodity.

Some companies expand by finding new, unexploited markets. These are the entrepreneurs in the truest sense of the word. Others participate in existing growth markets and some new markets. Some companies grow by increasing their market share in stable markets and by limited participation in new markets. Others merely try to maintain stable market share in existing businesses.

Each of four researchers in our group ranked the companies on a continuum of TEAM characteristics (Exhibit 1). According to our scale, the perfect TEAM company would receive a rating of 16: four points were awarded when a characteristic was strongly present; one point implied a weak presence of the trait. This rating method, although subjective, provides a useful benchmark for comparison.

We encourage the reader to score his or her company on its performance of the TEAM characteristics. If the total score is lower than the average (13 points for all the high-performance companies we visited), our findings suggest some of the measures employed by high performance companies might be beneficial.

they serve by means of displays at each work station quoting customer and dealer comments. Sonoco's production employees occasionally visit customer sites to see how their products are used. At some Sun Banks, tellers are given a quarter every time they call a customer by name. Barnett's employees receive $5.00 for selling a credit card to a customer; having a customer fill out an application earns them $1.00.

At many firms senior officers are required to keep in touch with the market directly. At Federal Express each top officer has personal responsibility for at least one major sales account, which he must visit regularly. Sonoco customers work with company engineers to design product innovations and refinements. MSA awards special status, in addition to the typical financial remuneration, to high-performing sales people. Prestige awards include King's Court, Tiger's Club, and President's Council. Winners take vacation trips with the company's senior management and carry special ID cards marked with their elite affiliation. Perhaps Bank Earnings, Inc. is the ultimate in serving the customer. When they go into a bank to offer their advice on cutting costs in the bank's operations, they are generally paid with a proportion of the first year of savings resulting from BEI's efforts. Basically, the accountants at the client and the consultant agree on how this should be measured. "We don't even talk in terms of how many days it will take our team to do a job," says President Jerry Eickhoff. "That's our problem. We promise certain results, regardless of how long it takes to get them. And those results are defined in terms of the client's satisfaction, not ours. We can't afford to have unhappy clients running around, so we do everything we can to give them a quality job."

Conclusions

Technological innovation, participative management, respect for employees, and carefully defined market strategies are qualities shared by our sample of successful southeastern companies. The corporate characteristics we have designated as the TEAM approach are emphasized more by some high-performance companies than others. It would be unfair to say that the elements we are highlighting are appropriate in every business situation. Moreover, the four TEAM characteristics exist within each company in a variety of mixtures. For example, some companies have invested heavily in technological innovation, but have yet to discover the importance of their human capital. We found it useful to picture each trait along a continuum (see box on "Tracking the Patterns").

Nonetheless because we found patterns across industry lines, in both old and new companies, in manufacturing and services, in high tech and low tech, in large and small companies, we believe the management principles we have identified apply broadly. Moreover, many measures involve little capital infusion. Respectful treatment of employees and participative management techniques cost little and may reduce costs during economic downturns. Thus, the implications of this study for the private sector are positive.

The implications for public policy are more complex. Many programs now pursued by state economic development agencies seem irrelevant to the principles discerned through our investigation. Virtually no officials mentioned favorable state and local tax treatment as a critical factor in their company's start up or success. One important exception seems to be state programs that provide funding to train labor for facilities locating in the state. High-performance businesses consider employee training an important function. This study calls into question whether such programs should be limited to new businesses coming into the state; perhaps state-sponsored training programs should be extended to existing firms wishing to improve their performance by upgrading workers. Programs might also be expanded to help managers and supervisors implement a more participative management style. Many companies we visited had such programs in-house, and others noted the difficulties of having managers accept the full spirit of this style.

The main implication of this study is that a primary goal of economic development policies should be creating a climate conducive to developing and nourishing the entrepreneur. The entrepreneur who develops the kind of people-oriented companies discussed in this study provides a model for innovation and sustained high performance.

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Notes

[1] Donald L. Koch, William N. Cox, Delores W. Steinhauser and Pamela V. Whigham, "High Technology: The Southeast Reaches Out For Growth Industry," **Economic Review**, Federal Reserve Bank of Atlanta (September 1983), pp. 4-19.

[2] "Commodities" refer to highly uniform, usually mass-produced, goods.

[3] Most companies attribute this absence to the fairly recent entry of women and minorities into management ranks. As they build up experience, they say, such employees are likely to be selected for top positions.

[4] In Darlington County, South Carolina, where Nucor is located, the average per capita income is less than $7,000 a year.

[5] Some Intelligent Systems employees have accumulated 40,000 shares of stock, worth about $64,000 at recent prices. Corporate officers link this benefit and the longer-term commitment of its employees, a rarity in the computer industry where rapid turnover is the norm.

[6] Publication deadlines prevented our including HBO & Company. HBO is an Atlanta-based firm that designs, sells and services hospital information systems used to monitor and analyze billing costs, patient information, and drug and laboratory data. HBO stands out as an example of the beneficial results of decentralization. Although HBO has only 600 employees, it has six regional offices that include the majority of the company's work force. This arrangement, company officials believe, gives customers better service and employees more autonomy, thus improving productivity.

In addition, recognizing that we may have missed some important characteristics of smaller financial institutions by limiting our sample to the ten largest in the Southeast, we selected First Railroad & Banking Company of Georgia in Augusta from our list of directors' nominations. The $1.5 billion in assets holding company is a medium-size financial institution whose most outstanding characteristic is its decentralized, autonomous management structure. Subsidiaries are loosely associated through the holding company; they share information and ideas through task forces and teams, and are held accountable to a financial plan.

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