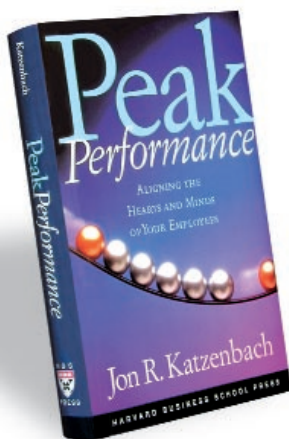


SOUNDVIEW Executive Book Summaries®



By Jon R. Katzenbach

Aligning the Hearts and Minds of Your Employees

PEAK PERFORMANCE

THE SUMMARY IN BRIEF

In today's increasingly competitive marketplace, companies are sometimes finding it difficult to satisfy customer demands while struggling with record low levels of applicants for open positions. Unemployment is lower than at any other time in recent memory.

How can companies balance the need to satisfy customers in an environment where workers are hard to find?

The answer lies in developing the workforce you do have into a peak-performance workforce — and recruiting new workers who are eager to join an organization that has achieved a balance between *employee fulfillment needs* and *enterprise performance requirements*.

In this summary you will learn how some of the very best build exceptional levels of employee performance and commitment by consistently pursuing one or more of five distinct paths to peak performance:

The Mission, Values and Pride Path. This path is characterized by a noble purpose, a rich history, team spirit and value-driven leadership.

The Process and Metrics Path. This path is characterized by clear measures and focused processes designed to reflect worker perspectives and performance priorities.

The Entrepreneurial Spirit Path. This path is characterized by high-risk, high-reward opportunities for employees. Workers gain significant “ownership” of the business and thrive in an environment where management is largely “hands-off.”

The Individual Achievement Path. This path focuses on creating personal growth and individual advancement opportunities.

The Recognition and Celebration Path. This path features integrated approaches that recognize workers for their performance and celebrate their success — thus spurring workers on to new heights.

Let this summary help you decide where and how to generate and maximize the emotional energy needed to propel your company along the path best suited for it — thus allowing you to develop a higher-performing workforce that can deliver superior customer benefits every time.



CONTENTS

Balance the Needs of the Enterprise and the Worker

Page 2

Five Paths That Work

Page 2, 3

The Mission, Values and Pride Path

Page 3, 4

The Process and Metrics Path

Page 4

The Entrepreneurial Spirit Path

Page 4, 5

The Individual Achievement Path

Page 5, 6

The Recognition and Celebration Path

Page 6

Applying the Lessons Learned

Page 7, 8

Enforcing Disciplined Behavior

Page 8

PEAK PERFORMANCE

by Jon R. Katzenbach

— THE COMPLETE SUMMARY

Balance the Needs of the Enterprise and the Worker

To qualify as a higher-performing workforce, a significant group of employees must demonstrate *emotional commitment* to the enterprise in ways that create a sustainable competitive advantage for the company. Your company likely benefits from a higher-performing workforce when:

- More than a third of individual workers consistently exceed the expectations of their leaders and customers.
- The average worker performs better than the average worker in the industry, usually because the company has a cohesive set of management systems, programs and motivating mechanisms.
- A strong emotional commitment to higher standards and aspirations is reflected across the workforce in ways that create a multiplier effect.
- The collective performance of major segments of the workforce, particularly the front line, forms the core of the company's competitive advantage and is extremely hard to copy.
- Leaders at all levels share the belief that front-line people are the key to success and engage their employees emotionally as well as rationally. Leaders also balance performance and personal fulfillment so that neither takes center stage — which is a lot easier said than done.

Achieving Emotional Commitment

The key to emotional commitment at the front line lies in maintaining a balance between *enterprise performance requirements* — such as shareholder return; market share; customer satisfaction; and work output and improvement — and *employee fulfillment needs* — including source of livelihood; social interaction; direction, structure and control; and identity, purpose and self-worth. While you can sometimes force performance through intimidation, insecurity and punishment, you can't expect the extra energy that comes only from employees who have a positive emotional commitment to perform.

In sum, the best companies cultivate higher performance workforces because they strongly believe in the value of the individual worker. The result? Attractive growth and great value for their shareholders. Examples

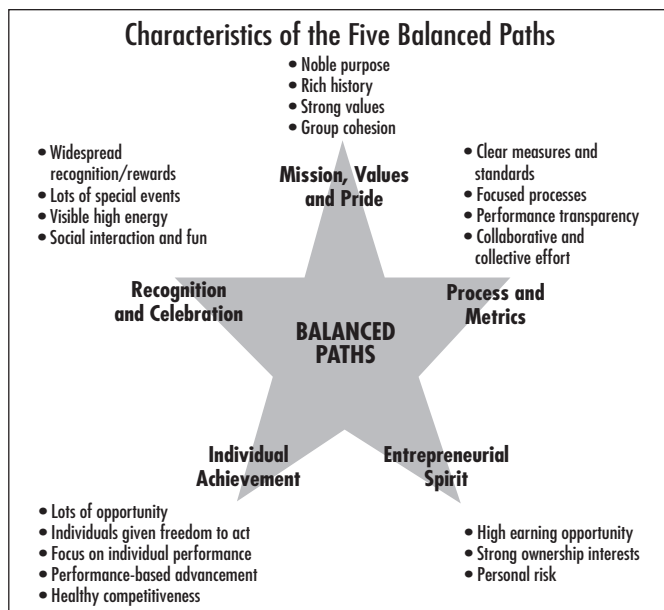
include Home Depot, where employees of the rapidly growing home improvement warehouse enthusiastically embrace customer satisfaction, and Kentucky Fried Chicken, which has returned to its roots by focusing on such things as the “Colonel's Dozen” rules of restaurant service. ■

Five Paths That Work

There are five paths to an energized “peak-performance” workforce. Each allows worker fulfillment and performance to remain or come into balance. The paths are:

1. **Mission, Values and Pride (MVP).**
2. **Process and Metrics (P&M).**
3. **Entrepreneurial Spirit (ES).**

(continued on page 3)



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Five Paths That Work

(continued from page 2)

4. Individual Achievement (IA).

5. Recognition and Celebration (R&C).

Choosing the right path to a balanced workforce requires a careful analysis of your organization's style, leadership and history as well as your marketplace. The five paths, which will be explored individually in the following five sections of this summary, constitute a composite framework of options that allow top management to make choices about how and where to generate emotional energy and which "alignment" approaches to use in channeling that energy into higher performance.

For the most part, companies do not create this energy from scratch. Instead, they draw on *energy sources*, such as past heroes or fierce competitors. Your company probably already has one or more sources of energy on which you can draw. The key is to identify and tap into these sources effectively. The sources of the energy will guide you to choose the most appropriate of the five paths. ■

The Mission, Values and Pride Path

Those who succeed in energizing workers along a Mission, Values and Pride (MVP) path typically benefit from an existing legacy of accomplishment, reputation and history in which front-line employees can take pride. Another characteristic is the strong identification of employees with the corporate values of the company. These values are so deeply ingrained in the enterprise that those who cannot accept them invariably leave.

Also, employees believe in the importance of the company's mission, which allows them to place the team's or company's interests on a par with their own individual interests when performance requires it.

The U.S. Marine Corps: Mission, Values and Pride

The best example of the MVP path is the U.S. Marine Corp, which draws on a 200-year history of defending American values. Perhaps no other organization — military or civilian — better demonstrates the power of a noble purpose and core values.

The primary source of energy that motivates the Marine Corps is its history and legacy of winning against all odds.

Marines are prepared to handle a variety of missions around the globe, and to win decisively. They succeed by drawing on a history that goes back to its birth in Philadelphia in 1775. Over the years, Marines have become legendary for their bravery and enthusiasm. During World War I the Germans called them "devil

dogs." They fought a fierce battle and raised the flag over Iwo Jima. One Marine division defended itself against eight Chinese divisions during the Korean War. Bangladeshi flood victims rescued in 1989 called their Marine saviors "sea angels." With every victory and heroic rescue, Marines draw on, as well as add to, their unique history.

Another source of energy was Commandant Al Gray, an "up from the ranks" general who was able to revive the discipline, values and commitment of the Marines after the debacle of Vietnam.

The Marines use three approaches or tools to tap into and channel this energy in order to inspire and sustain a peak performance workforce comprised of people many corporate recruiters would reject:

Distributing Leadership Broadly. The Corps has an unsurpassed commitment to developing superior leaders. It selects high-caliber individuals with different patterns of leadership potential, instills in them the basics of Marine philosophy, and develops each with a combination of practical experience and mentoring.

Articulating What Matters Most. The minute new recruits step off the bus at the processing center and step onto yellow footprints on the ground for their first

(continued on page 4)

Perpetual Innovators at 3M

Another successful company choosing the MVP path is 3M. The company is the \$15-billion-dollar producer of everything from office supplies to medical devices and cleaning products. Innovation plays a large role in 3M's success. Take the invention of Post-it Notes. The sticky memo pages are one of the top five office products sold in the United States. They were invented by 3M researcher Art Fry in 1980 because he was frustrated that the pieces of paper he used to mark hymns in his song book fell out between practices. He remembered that another researcher had invented a glue that the company had rejected because it wasn't permanent and thought it would be great to have temporary glue on a bookmark. The idea was, of course, brilliant.

The corporate vision that allows inventions like Post-it Notes was first introduced in 1948 by the company. It states:

"As our business grows, it becomes necessary to delegate responsibility and to encourage men and women to exercise their initiative. This requires considerable tolerance. Those men and women to whom we delegate authority and responsibility, if they are good people, are going to want to do their jobs their own way."

The Mission, Values, and Pride Path

(continued from page 3)

encounter with their drill instructor, they begin learning the values of the Marine Corps. The first day, each recruit is given a card to carry with the Marine mission statement, “Honor, Courage and Commitment.” The bulk of effort during boot camp will then be focused on value shaping, not skill building. Most recruits enter the Marines with poorly formed personal values; the goal is to change those values. Those who don’t take to heart the core values don’t make it through basic training.

Spreading and Regenerating Collective Energy.

For example, new recruits are energized by their role models, the drill instructors. These instructors, in turn, are energized by the positive changes in the new recruits. In addition, the Corps makes the most of both individual and team achievements. No accomplishment goes unnoticed. ■

The Process and Metrics Path

To some degree every good company pursues the Process and Metrics path. The path is based on sound principles of accountability and consequence management. Performance goals are set, and revenue, cost and profitability measures are established, tracked and compared. The company reports on its competitive position and market share regularly. If this all sounds very familiar, it should. This is how most companies have chosen to measure themselves. But higher-performing companies who rely on the Process and Metrics path don’t lean on it exclusively. Instead, they pursue one or more additional paths at the same time. In addition, they involve employees more actively in shaping the processes.

One successful enterprise pursuing the Process and Metrics Path in its manufacturing facilities is beauty products giant Avon.

Process and Metrics at Avon

Avon is probably best known for its 2.6 million-member direct marketing sales force, but should perhaps be better known for some of its excellent manufacturing operations. The company’s mission is to “deliver quality products and services, defect free, on time every time, and at the lowest total delivered cost to our sales representatives and customers.”

At Avon, the Process and Metrics (P&M) path works well because the cosmetic industry demands close attention to quality as well as cost. Quality problems would erode customer confidence and hurt future sales. To produce quality products, Avon must engage its workforce so it is willing to be measured against precise standards. The cosmetic industry is also subject to rapid changes in preference and products, so Avon must be

capable of meeting changing demands against tight time constraints.

The dynamic global marketplace for beauty products and the accomplishments of Avon in this field are key sources of energy for employees. To channel this energy, Avon takes a number of different approaches.

One secret to Avon’s success in using the P&M path is that **leadership is distributed broadly**. Workers are called associates, and supervisors are advisors. There is only one additional level in the hierarchy: leaders. Input and innovation is expected from everyone, whether associate, advisor or leader.

Avon clearly **articulates what matters most** through carefully thought-out metrics and measures. Workers know what is expected of them. Just as important, they play an important role in determining which metrics should be used.

Performance transparency is also key. Workers are frequently and publicly rewarded for meeting goals — and performance metrics are charted as often as weekly. Every processing station, assembly line and packaging operation has huge placards that display the relevant metrics on daily and weekly production, quality and safety activities — an open display of performance information that not only provides direct feedback but also a sense of accomplishment and pride.

At Avon, workers value the feeling that they belong to a family, and they want the manufacturing facility they work at to be the best. Many Avon workers, in fact, fully expect to work at the facility until they are ready for retirement — at one facility, the average seniority is fifteen years. ■

The Entrepreneurial Spirit Path

Entrepreneurs are a special breed. Few of us have the determination, courage and creative attributes required both to envision a unique business opportunity and to incur the personal and financial risks required to bring it to fruition. It is a high stakes game full of pressure. People who pursue this path do so for more than wealth; many simply want to create their “own thing.”

Today, there’s much talk about developing entrepreneurial spirit in established business operations. Unfortunately, this is a tough task. One example of the successful transfer of entrepreneurial spirit to a corporate structure is venture capital firm Hambrecht & Quist (H&Q), a Silicon Valley leader in financing rapidly growing entrepreneurial companies.

H&Q has cultivated — and sustains — a higher-per-

(continued on page 5)

The Entrepreneurial Spirit Path

(continued from page 4)

forming workforce by creating a high-risk/high-reward environment — thus following the Entrepreneurial Spirit path to peak performance.

The Entrepreneurial Spirit at Hambrecht & Quist

H&Q concentrates on growth companies in four sectors: high technology, health care, branded consumer companies and professional services companies. Its approach to serving emerging companies is to purposely mirror the way the companies it serves operate. It builds its business by finding high-growth-potential companies at an early stage and offering them financial services throughout their growth cycle, from private placements to mergers and beyond. Its best-known initial public offerings include Apple, Amazon and Starbucks.

H&Q draws much of its energy from its customers: passionate companies in exciting cutting-edge business areas led by energized and committed entrepreneurs. These emerging companies are still small enough to be influenced by advisors, thus enhancing the direct contribution of H&Q to their success. H&Q employees are excited about working with companies that are changing the way business is done and are thrilled to have the opportunity to work directly with upper-level management.

The fast-paced Silicon Valley marketplace and the firm's dynamic leadership are other sources of energy.

H&Q channels this energy into a high-performance workforce first by **creating widespread opportunity**. The firm offers big opportunities early and allows people to take risks and make mistakes.

The firm strives to **generate collective energy**, encouraging collaboration and teamwork, preferring a collegial atmosphere over the macho competitive atmosphere of Wall Street investment banks.

Leaders at H&Q **value their people** and treat them with respect. There is a non-hierarchical, open-door atmosphere where even junior employees can walk into upper-management offices to discuss professional or personal issues.

Finally, H&Q **carefully selects its employees**, looking for a cultural fit with the firm's core values. Intelligence, attitude and an admiration of entrepreneurs are more important than investment banking credentials.

The company offers a unique opportunity for entrepreneurial people to take risks in a relatively low-risk environment. Workers are given opportunities to invest in some of the companies they advise as a way of building personal wealth without the high level of risk actually starting a new company entails. ■

The Individual Achievement Path

America was built on the principle of individual initiative. Horatio Alger's stories capture the essence of rags-to-riches dreams, in which those who work hard will become successful, wealthy and happy. These visions are part of our shared understanding of how things work. Individual initiative is what many believe holds the key to success for individuals and companies. The Individual Achievement (IA) path incorporates our culture's belief that everything is possible with enough hard work.

It isn't surprising, then, that many companies want to incorporate the cultural norm of achievement into their corporate culture. The IA path lets workers say, "This company offers opportunities that allow me to take initiatives and lets me be judged and rewarded based on my achievements."

In order to make the IA path work, you will have to make sure your company is deeply committed to developing people. Training, coaching and evaluation all take center stage on the Individual Achievement path. Along with that commitment comes a belief on the part of the leadership that every worker has the ability to contribute to the company's overall mission. IA path companies also are known for going to extraordinary efforts to help employees in need.

Home Depot is a good example of a company pursuing the IA path.

The Individual Achievement Path at Home Depot

Home Depot started as a local hardware store and within twenty years has grown into one of America's most successful ventures. Sales for the nearly 700-store chain topped \$24 billion in 1998 — rather remarkable for a company started by two mavericks, Bernard Marcus and Arthur Blank, who had just been fired from their jobs at Handy Dan's, a Los Angeles-based hardware chain.

The affection generated by Bernie and Arthur, as most employees refer to the two friendly founders, is one important energy source for Home Depot workers. Also important: an obsession with the customer. The Home Depot approach to hardware is to offer superior customer service and low price on a vast array of merchandise.

One key to the success of Home Depot is instilling every associate with a sense of ownership. Every manager, for example, controls what is sold in the store, who is hired, what they are paid, and how much inventory to carry.

Home Depot emphasizes individual achievement, job

(continued on page 6)

The Individual Achievement Path

(continued from page 5)

enhancement, and broadened personal achievement. For example, it gives its employees more freedom than is usual in retail to innovate in their responses to customers. Almost every promotion is from within. And employees can acquire real ownership of the company through the stock purchase plan.

In sum, Home Depot **shows people their true value, creates widespread opportunity, distributes leadership broadly and enhances the work itself** — four approaches key to pursuing the IA path.

Ask top Home Depot executives what their chief competitive advantage is and they will tell you it's their associates (the company's name for employees.) This sincere attitude explains why Home Depot has been successful on the IA path. ■

The Recognition and Celebration Path

Most good companies make a conscious effort to celebrate the accomplishments of their people with rewards that don't involve money. These efforts range from Christmas parties and picnics to employee-of-the-month awards, million-dollar sales clubs and handwritten thank-you notes from top management.

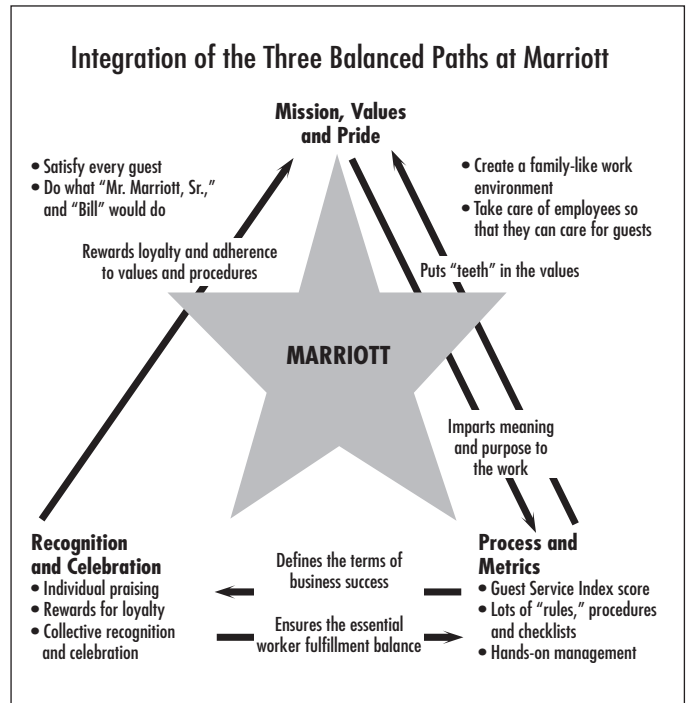
Those choosing the Recognition and Celebration (R&C) path to peak performance, however, go far beyond the annual picnic; they will use any excuse to celebrate employee accomplishments. Typically in businesses that offer few opportunities for monetary rewards and incentives — and for stimulating work — R&C companies nevertheless find ways to effectively motivate their employees.

It should be noted that R&C companies usually combine this path with other paths. Recognition and Celebration is almost never the primary path. Marriott International, for example, combines the Recognition and Celebration path with a strong Process and Metrics path as well as the Mission, Values and Pride path.

Recognition and Celebration at Marriott

Marriott started in 1927 as a root beer stand in Washington, D.C. From there it grew into a chain of restaurants, and finally into an international leader in hotel operations. The company places employees at the top of its value chain, creating a peak-performance workforce. The company's stated goal is to become the employer of choice in any market in which it develops a property or establishes a presence.

In an industry that can't rely on high financial rewards to attract workers, the company has chosen to praise a



job well done. This taps into people's insatiable desire for recognition. One example is the Marriott Pathways to Independence program, which trains welfare recipients into productive workers. At the end of training, participants get a framed certificate, a permanent nameplate and a job.

Like many other companies, the demographics of the Marriott workforce consists of untrained workers who need a job to provide for basic family needs. Because the company draws from a demographic group whose members may at times lead chaotic lives, there is a premium set on providing a clear sense of order, discipline and direction. People need structure for stability and consistency, which then enables them to gain fulfillment in other parts of their lives.

In addition, the workforce consists largely of first-level entrants who come from dozens of ethnic backgrounds. Marriott emphasizes the idea that workers are part of the family and assimilates them.

Marriott manages to integrate three paths successfully. The pursuit of customer satisfaction is the primary source of energy at Marriott. The Marriott culture is thus driven by customer reaction, which is measured and reported on relentlessly — reflecting the Process & Metrics path. For example, every associate gets regular reports on customer feedback through a performance measure nicknamed the "Guest Service Index" or GSI. Then there is the rich history of the company, which serves as the Mission, Values and Pride energizer. Finally, there is the recognition and celebration of associates who make it possible for customers to walk away satisfied. ■

Applying The Lessons Learned

Not every company needs or wants the kinds of higher-performing workforces described so far. Many enterprises can achieve success focusing on traditional consequence management and remain satisfied with average workforce performance. But if you see a lasting value in the pursuit of a strong emotional commitment within key segments of your company's workforce, you are ready to embark on one or more of the five paths.

Whichever path(s) you choose to adopt for your company, the most critical factor is the relentless determination to balance enterprise performance with worker fulfillment. Achieving that balance requires more than one source of emotional energy plus the desire to channel that energy into performance results consistently over time.

Generating the Energy

The most compelling sources of emotional energy for companies can be grouped into three categories:

Magnetic Leaders. Magnetic leaders often start with an impossible dream. Examples include Michael Dell's decision to sell computers without wholesalers or retailers in the distribution chain and Sea-Land Services founder Malcolm McLean's decision to transform global shipping by combining railroads, trucking and ocean shipping to create containerized shipping. Seemingly impossible dreams inspire.

One of the most notable characteristics of a magnetic leader who can tap into workforce energy is the ability to tell a compelling story. But a magnetic leader can't do it all for long. Such leaders often provide the jump start a company needs to get energized. However, over the long haul, other factors, including dynamic marketplaces, come into play — although the leader's "legend" will continue to galvanize employees.

Dynamic, Chaotic Marketplaces. Unpredictable and explosive marketplace dynamics can also provide compelling sources of energy. Responding to such a marketplace requires carefully listening to the customer. Indeed, an obsession with a satisfied customer is a characteristic of many high-performing workforces. A truly delighted customer can be a powerful source of energy for a workforce. In the same vein, explosive growth is

Three Compelling Springs of Energy

- Magnetic leaders with impossible, larger-than-life dreams who capture the imagination;
- Dynamic marketplaces created by aggressive competitors and demanding customers; and
- Remarkable legacies of accomplishment, complete with legends, heroes and martyrs.

also energizing. This is natural since growth means increasing opportunities for those who are delivering that growth for the company. But explosive growth eventually trails off, so don't depend on it for sustained energy. Fierce competition can also fuel high energy levels. Competition taps into the human desire to be a winner, and is essential for sustaining a competitive advantage.

Compelling Legacies. Legacies on which your workforce can draw are another source of immense energy. Take the Johnson Space Center. Long after the last moon landing, the workforce is energized by the legacy of those historic space events that captured the minds and hearts of millions around the world. Legends create pride in individual as well as group efforts.

Management Practices

Unfortunately, not all companies can tap into all three kinds of sources. Nor will every company with all three kinds automatically be able to transform the workforce into a high-performing one. Finding the source for generating emotional energy is only half the battle. To achieve higher levels of performance for your company, you must work at aligning the extra energy using the three techniques that follow:

Build Personal Self-Image. The first alignment tool is to build your workers' personal self-image. Workers must be constantly reminded that what they do matters to the company and its customers. They must be made to feel special, no matter how menial or routine their job. You must show people their true value to the company, the customer, their families and themselves. Mistakes are understood and accepted, and well-intentioned personal initiative is rewarded.

Employees need a complete picture of the context in which they work. When workers see the big picture, they understand the internal and external environment in which they work. Regular "town meetings," reports on customer satisfaction, and competitor tracking are essential.

Keep the Focus on Performance. Next, you must sustain the focus on enterprise performance. Focus on performance requires you to use a myriad of appropriate selec-

Creating Strong Self-Images

Creating employees with great self-images requires you to invest heavily in training, development and the creation of opportunity and to always:

- show respect for all individuals at all times,
- place importance on **every** job in the company,
- encourage mutual trust and confidence.

(continued on page 8)

Applying the Lessons Learned

(continued from page 7)

tion, evaluation and recognition tools to inspire, develop and excite workers into world-class performance.

It all starts with *purposeful selection* of workers who fit the needs of the organization in skills and personality, and proper placement of those hired. Applicants must be screened carefully to ensure that the environment in which they will work is compatible with their skills, attitudes and beliefs.

Articulate what matters most so that workers know what to deliver. At NASA, it's crew safety; at Marriott, guest reaction; and at Avon, complete and on-time orders. Every organization must determine what it is that matters most and find a way to communicate that to the workforce. Don't let them guess at priorities. Instead, provide performance transparency so that employees know what is expected of them and how it will be measured. Workers are more likely to please if they know how they will be measured.

Make recognition and rewards meaningful. Don't reward average performance at the same level as superior performance and make sure rewards are meaningful to the recipient.

Open up options and opportunities. Let workers have a sense of personal challenge. You will succeed if you *create widespread opportunity*. If your company is in a high-growth stage, this will be relatively easy. If it is not, you will have to go out of your way to find ways to make jobs more interesting, challenging and exciting. Take the case of a typical manufacturing plant, Hill's Pet Nutrition. Workers are given the opportunity to do more than work in the line. Some even serve as part-time tour guides.

Distribute leadership broadly. A distributed leadership system will be essential to the organization of the future. Distributing leadership means that many people at many levels play leadership roles as needed. Leadership becomes everyone's responsibility and created opportunity.

Enhance the work itself so that specific jobs or work activities are enjoyable, meaningful and satisfying. People work hard at what they do when they get great personal satisfaction out of the work they do. ■

Enforcing Disciplined Behavior

While the sources of energy and alignment approaches may vary, one constant element runs through high-performing workforces. That principle is discipline where it counts. Enforcing disciplined behavior is the only way that an enterprise can hope to ensure a bal-

Disciplines

High-performing workforces are self-disciplined in a number of areas. These include:

- **Punctuality:** Employees arrive on time, meet deadlines and maintain schedules.
- **Cost:** Employees learn to provide the most with the least.
- **Customer Service:** Workers know it's the customer who matters most.
- **Recruiting and Training:** The right people are hired and trained even if that means operating without some key positions filled from time to time.
- **Common Language:** Companies develop ways of communicating that bond workers.

ance between enterprise performance and worker fulfillment. Self-discipline rarely occurs in large organizations without wise enforcement by top management.

Perhaps the best example of the use of enforcement to instill self-discipline can be found in the Marine Corps. With a combination of institutional and peer pressure discipline, Marines learn how to discipline themselves. Another example is the disciplined punctuality that characterizes Southwest Airlines. Meetings begin on time, not a minute late or a minute early. Planes are turned around in 18 minutes. Luggage reaches the carousel within 10 minutes. As a result of disciplined punctuality, the airline serves 2,400 customers per employee daily in an industry where the nearest competitor only serves half as many.

Higher-Performing Management

If you are going to create a higher-performing workforce, you must also create a higher-performing management group. Managers of higher-performing workforces face special challenges. Crucial to success as a manager is the notion that you must look for those "moments of truth" when something can be done for employees that will earn their best efforts and loyalty for years, even if it means making a decision contrary to company policy.

Finding and following your path to a higher-performing workforce is demanding and can be fearful. The challenge is not for every company, nor is the job ever done. Maintaining the momentum is like hitting a moving target. The dynamics of a competitive marketplace push market leaders to better their previous best efforts. But for those who choose to face the challenges, difficulties and inevitable setbacks along the way, the benefits are well worth it. ■