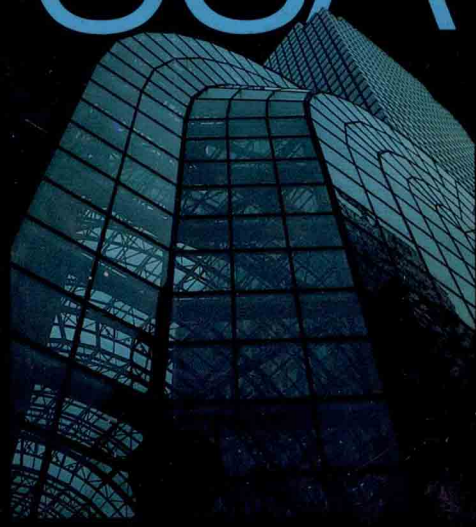


THE
NEW
CORPORATE
FRONTIER

THE BIG
MOVE TO
SMALL TOWN
USA



DAVID A. HEENAN

The New Corporate Frontier

**The Big Move to
Small Town, U.S.A.**

David A. Heenan

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***To Doris, the ultimate frontiersmom,
with love and thanks***

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Preface

April 18, 1987. That was the day when the seeds of the idea for this book were sown. Over lunch at the beautiful Kapalua Bay Club on Maui, I was introduced to Randall Fields, chairman of Mrs. Fields Cookies Inc., probably the world's preeminent maker of chocolate chip cookies. Randy explained how, a few years earlier, he and his vivacious wife, Debbi, had moved their company from the congested San Francisco Bay area to the high mountain country of Park City, Utah. The reason: a superior lifestyle. To the Fields, their new home meant cleaner air, better schools, more time for family, fewer hassles—all with considerable cost savings.

A big-city boy at heart (Boston, New York, Tokyo, and Sydney had been my favorite haunts), I was skeptical at first about running a major business from the American Alps. After all, the high frontier—in its most pejorative form, the “boondocks” (from *bundok*, the word for “mountain” in Tagalog, the main language of the Philippines)—was synonymous with “remoteness.” It was “out of it,” literally and figuratively. Besides, my image of small-town America was clouded by the mythical Peyton Place, Bedford Falls, and Twin Peaks of fiction and television. How, I wondered, could a company have access to its customers, bankers, lawyers, and accountants from a primitive outback location? How could it lure talented professionals from the cultural amenities of major metropolitan centers?

My skepticism vanished after several visits to Mrs. Fields' headquarters in the Wasatch Mountains. Park City, I soon discovered, is much more than a popular year-round resort nestled in a magnificent landscape of

forested hills and grassy vales. Large-town facilities and services exist hand in hand with the “everybody knows everybody” atmosphere and civic pride of a smallish burg. Although life in this former mining town of 5000 people proceeds at a leisurely pace, a sophistication and a cultural awareness unusual for a community its size are also present. Mrs. Fields’ Cookies convinced me that a location off the beaten path can, indeed, be good for business.

With the aid of modern technology, Debbi and Randy Fields are able to more than compensate for the size limitations of Park City and the remoteness of the Utah highlands. Today, their \$130-million business boasts a dominant share (roughly 30 percent) of the U.S. market for specialty cookies—and, on the international scene, is booming. Randy, a highly acclaimed computer guru, has linked the company’s 520-plus units to the head office with a variety of software packages—packages so advanced that the cookie maker markets them to other multiunit companies. The computer network is, however, no panacea. Despite voluminous reports that hit her desk every day, Debbi Fields, president of Mrs. Fields, logs up to 350,000 miles a year to oversee the firm’s day-to-day operations.

In the end, though, space age telecommunications is the key to managerial success at Mrs. Fields. By redefining the concept of distance, the talented husband-and-wife team have reaped the benefits of a publicly traded, global business while enjoying the lifestyle advantages of the ultimate picture postcard setting.

Is Mrs. Fields Cookies a fortuitous corporate anomaly? Is the call of the wild reaching other U.S. businesses? To evaluate the viability of a nontraditional headquarters, I crisscrossed the country—focusing on both established and embryonic firms based in Small Town, U.S.A., as well as businesses that had recently relocated or were contemplating a move to the new frontier. My conclusion—and the central theme of this book—is that U.S. corporations are demonstrating a clear and growing preference to domicile in smaller, relatively remote townships. As we shall demonstrate, this preference is part of a prevailing national trend to redistribute power—organizationally as well as geographically.

In my travels, I also found that the corporate culture that evolves in firms headquartered away from the metropolis incorporates features well established in Japanese companies—features of loyalty and commitment glamorized a decade ago by William Ouchi, Ezra Vogel, and other scholars. In this regard, frontier-based businesses may be well worth emulating.

The New Corporate Frontier is not a treatise on urban planning or relocation strategy. It is a book about power—about how and where power will best be exerted in the coming years. We argue that command has shifted

from, and will continue to shift from, the center (traditional, monolithic headquarters and large cities) to the periphery (so-called miniheadquarters and small- to medium-sized communities). U.S. companies that partake in this important trend will be better equipped to face the competitive realities of the 1990s and beyond.

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David A. Heenan

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1

Overview

To Sinclair Lewis, Sherwood Anderson, and other early twentieth-century observers of the American scene, small towns were spelled “hick-town,” “the sticks,” or “the burgs.” They were insular places, provincial, boring, and small-minded places, from which any youth with ambition absolutely had to escape. Serious careers, the argument went, could be forged only in boisterous urban centers smugly nicknamed “the Big Apple,” “the Hub,” or “the Windy City.”

Today, however, these ideas are absurdly outdated. Executives are discovering that dynamic businesses can be run from relatively remote hamlets. My research of several hundred U.S. corporations shows that location does not have a negative impact on earnings. In fact, many of this country’s most famous corporate names built their reputations in “the sticks.” To illustrate:

- Wal-Mart Stores Inc. (Bentonville, Arkansas), the nation’s biggest retailer, has consistently been ranked the best managed in its industry by several major business publications. The company has made its cofounder, Sam M. Walton, one of the wealthiest people in the United States.
- J. M. Smucker Company (Orrville, Ohio) commands an impressive 38 percent market share of the jams and jelly business, far ahead of its next competitor, Welch’s, which has 12 percent. The 94-year-old company has parlayed a small family-run business into a \$407-million-a-year public company.
- Caterpillar Inc. (Peoria, Illinois) dominates the world market for earth-moving equipment. From its home base in the heartlands, Cat has successfully rebuffed the competitive forays of Komatsu, Fiat, and

other foreign multinationals. The \$11-billion giant consistently appears among the nation's top 10 exporters.

- Herman Miller Inc. (Zeeland, Michigan), repeatedly named by *Fortune* magazine as one of the "10 most admired U.S. companies," is an industry leader in design—the Eames chair and Chadwick modular seating are Miller products. Despite spending twice the furniture industry average on research and development, it has ranked seventh among major U.S. firms in total return to investors over the past 10 years.
- L. L. Bean Inc. (Freeport, Maine), the legendary mail-order retailer of hunting and camping equipment, generated sales of approximately \$600 million in 1990. So successful has its catalog business been that the 79-year-old company boasts its own zip code.

These companies are proof that businesses can thrive in the boonies. Increasingly, small towns are serving as fertile environments for U.S. industry. How and why this phenomenon is unfolding as well as its implications for corporate America are the subjects of this book.

Outward Bound

Glorification of big cities prevailed for the better part of this century. Even as recently as 30 years ago the notion that small cities and towns might evolve into serious commercial centers was considered unthinkable, even heretical. Entering the 1960s, however, managers began to question the conventional wisdom that wedded companies and careers to the metropolis.

Not surprisingly, rising costs were the impetus for this reappraisal. The economic burdens of big cities had begun to take their toll on corporate America where it hurt most: the bottom line. Pressured by rising global competition, U.S. companies operating in big cities were faced with some hard questions: Can we afford to pay \$50 a square foot for office rent and \$11 an hour to people who clean floors? Can we continue to attract top-notch employees if up to 40 percent of their gross incomes will be devoted to housing? Can we compete in the world economy with workers who have graduated from substandard high schools where dropout rates often exceed 35 percent? For more and more businesses, the answer was "No."

Solutions to the difficulty posed by cities seemed close at hand. By fleeing just beyond the city's limits, firms could secure the advantages of metropolitan living without its costs. From 1960 to 1990, an astonishing

two-thirds of U.S. *Fortune* 500 companies headquartered in New York City left town. Typically, their destination was the neighboring greenbelt of upstate New York, New Jersey, and Connecticut. Similar migrations took place in Chicago, Philadelphia, Detroit, and San Francisco.

Suburbs, for their part, welcomed these industrial migrants. Corporate headquarters not only replenished a community's tax coffers but also provided precious white-collar jobs. So town fathers across the country went on fishing expeditions for corporations. Their bait: industrial revenue bonds, tax abatements, and zoning changes.

Their efforts helped spawn the corporate boomtowns that border America's principal cities. Lower Fairfield County, Connecticut, was the first headquarters community to result from urban flight. At one time, it was the third-largest seat of *Fortune* 500 headquarters. Other locales followed: Tysons Corner, Virginia, west of Washington; King of Prussia, Pennsylvania, northwest of Philadelphia; Plano, Texas, on Dallas's northern outskirts; and Oak Brook, Illinois, near Chicago's O'Hare Airport. These and other suburbs have evolved into burgeoning communities, gleaming with contemporary architecture, that rival and often surpass traditional inner cities as centers of economic power and vitality.

They have not gained their new stature without cost, however. Companies and their employees are experiencing many of the frustrations they thought they had left behind. "It's not a big city, but it's beginning to feel like one," is a frequent lament of those who have moved to suburbia. As populations bulge, local roads become congested, landfills overflow, and once-superior schools lose their luster. The demands on public services give rise to an infuriating string of tax hikes. Affordable housing, too, quickly dries up.

Ironically, the cost advantages that originally spurred the move to the suburbs have also almost disappeared. Recent surveys by the Metropolitan Consulting Group, a relocation and real estate affiliate of the Metropolitan Life Insurance Company, found that the office operating costs of 20 major cities were not even 10 percent higher than those of their suburbs—so a savings in operating costs would probably be offset by the expense of a relocation. "Generally, you can no longer justify moving out to the suburbs for cost alone," says L. Clinton Hoch, Metropolitan's president.

Disenchantment has emerged on both sides of the bargain. As living costs soar and public services suffer, the suburbs have turned from friendly to frosty toward incoming businesses. Many local governments are calling for a halt—or a sharp limitation—on economic development.

Corporate America's next frontier? Out of town, all the way! Look for more and more farsighted businesses to leapfrog the megalopolis—and in one dramatic move settle in grass-roots America.

Greener Pastures

During the past 20 years, the United States has experienced a historic shift in population trends. The nation is seeing more people move to semirural areas than to urban areas. In the Northwest, West, Midwest, and Southwest, Americans are seeking more space and affordable housing, less congestion and pollution, reduced crime rates, better public schools, and stronger community values by moving away from the highly populated metropolises to smaller cities and towns.

Between one-third and one-half of the American middle class will live outside metropolitan and suburban areas by 2010, according to Jack Lessinger, professor emeritus of real estate and urban development at the University of Washington. "The first migration," he says, "was north and south with the first colonies, between 1735 and 1846; the second was west to the Mississippi–Ohio River valley towns, between 1789 and 1900; the third was from the country to the cities, between 1846 and 1958; the fourth, beginning around 1900, was from the cities to the post-World War II suburbs." The fifth migration is to what Professor Lessinger terms "penturbia": "small cities and towns, and subdivisions, homesteads, industrial and commercial districts interspersed with farms, forests, lakes and rivers." These outback areas, lying beyond the normal commuting range of the nation's central cities, represent the new American dream.

Penturbia carries many names. Some label the next wave of cities and towns with various adjectives: *new*, *free-form*, *edge*, *spread*, or *fringe*. Others call them *exurbs*, *shurbs*, or *ruburbs*. Although each moniker has its own subtle differences, urbanologists generally agree on three points. First, penturban communities have personalities of their own; they don't depend on a major city for jobs, shopping, or entertainment. In that regard, traditional definitions of "metropolitan" and "nonmetropolitan" are not helpful in explaining this phenomenon. According to most official census takers, a *metropolitan area* includes a central city of at least 50,000 people, with other cities and towns economically tied to it. Nonmetropolitan areas are rural, beyond the suburbs. However, distinctions between "metropolitan" and "nonmetropolitan" are hollow. What's more, the Census Bureau has changed the definitions of these terms with little regard to their characteristics. *Penturbia*, the experts agree, embraces metropolitan, nonmetropolitan, rural, and semirural communities.

Second, demographers believe that penturban growth will not result in the urban and suburban creep that typifies today's metropolitan areas. For these reasons, John Herbers, author of *The New Heartland*, de-

scribes the penturban phenomenon as “anticity, quite different from that of the established suburbs, which for all their sprawl, grew in close relation to the cities.”

Third, urban watchers contend that penturbia represents the next wave of population growth. Recent U.S. Census Bureau data confirm that Americans are spilling out from traditional cities into the penturbs, as young people seek affordable housing or older folks migrate toward retirement communities near the mountains or seashore areas. “One of the great national stories of the 1980s is the continuing development of exurban areas,” says Alan Heslop, a professor of government at California’s Claremont McKenna College. This trend, he predicts, will extend well into the next century.

Two misconceptions about the present trend should be cleared up. First, it is not a repopulation of the hinterlands. The so-called rural renaissance of the 1970s was definitely misnamed. It reached its zenith about 15 years ago but never significantly changed the mix of city and small-town residents in this country. Today, many rural areas are bleeding. In 1950, about 44 percent of Americans lived on farms and tiny towns. That number has declined to about 23 percent. Consequently, backwaters with names synonymous with “Nowheresville” are not about to take off. The Great Plains has been abandoned; little remains of the twentieth-century homesteaders gone bust. “America’s Ethiopia” is how some observers describe the Mississippi Delta country. Equally sad are the decimated mining and lumber towns in the West and the bankrupt textile communities in the South. Much of rural America remains in a rut, with large chunks of it resembling a kind of domestic third world.

Second, the flight to penturbia should not be confused with the back-to-the-land movement of the 1960s and 1970s, when many Americans sought solace in the cozy confines of rural living. The current revolution is being instigated by ambitious, career-oriented professionals. They are searching for a serious business environment where the daily tasks of living—work, getting to work, and leisure—can be simple, easy, and fun. They want it all: the stimulation of a first-class job with the ambience of a simpler lifestyle.

The ability to control lifestyle environments is a major driving force behind the appeal of the new corporate frontier. People desperately want to influence the quality of their public schools, the character of the open spaces, the caliber of local services, and more. They believe that small, low-density cities and towns offer the best potential for making a difference. Therefore, many Americans are *downshifting*—heading for the hills, the plains, the exurbs in search of communities where they can have an impact.

What we are seeing unfold is the selective preference for penturbia, particularly for those medium- and small-sized communities capable of providing the career opportunities and social amenities normally associated with big cities and suburbs. The most favored frontier towns are often linked to a major university, a state capital, a research park, or a similar institution that tends to provide the diversity and cultural spark sought by young professionals.

Typically, these cities are outlying townships of 200,000 or fewer people that are located at least 50 miles from a major city. We used to derisively call them the "boondocks," but any definition is highly personalized. It is largely a matter of perspective, measured more in terms of attitude than size or distance.

To die-hard San Franciscans, Oakland is miles away—spatially and economically. "It's in the boonies," many Bay Area loyalists would argue. By the same token, Staten Island might as well be on the far side of the moon to sophisticates from Manhattan Island. Staunch Back Bay Bostonians speak derisively of the Cradle of Liberty communities of Concord and Lexington as "the sticks." Southern California's car cultists, on the other hand, consider any Podunk town that is within driving range of a full tank of gas to be part of the Los Angeles galaxy.

Our frontier cities and towns carry a small "f." Independent of the nation's metropolises and large enough to have evolved a cultural identity of their own, they are places more akin to Colorado Springs (Colorado), Santa Fe (New Mexico), and Charlottesville (Virginia) than to Big Arm (Montana), Big Foot (Illinois), and Bow Legs (Oklahoma). They are locales where the best restaurant in town is not named McDonalds; where bingo, choir practice, and snipe hunts are not the high points of the day; where the one-room schoolhouse and the country doctor have long since disappeared; and where diversity is not only tolerated, but encouraged. Cities and towns small and somewhat isolated? Definitely. But hickish and clannish? Absolutely not.

Winds of Change

From a commercial wasteland a few decades ago, many midtier locales are winning the respect of big business. The odds makers had all but counted them out. It would take a miracle, the experts said, to reverse the steady decline of the hinterlands. But miracles, on occasion, do happen. Those miracles are the result of sweeping societal changes in the direction of the decentralization and demassing. They include the democratic revolution, the technological revolution, the minimalist revolution, and the revolution of corporate culture.

The Democratic Revolution

A revolution is sweeping the world—a revolution of democracy. There is a global loathing of centralized control, from the city streets of New York to Moscow. “Out” are closed, centralized, monolithic bureaucracies; “in” are open, decentralized, sleek organizations.

From Budapest to Beijing, socialist countries—starved for technology, capital, and goods from their capitalist peers—are becoming unlikely laboratories for free markets. Ideology has given way to pragmatism. Contempt for democratic capitalism has been replaced by envy. No longer do socialist hard-liners associate open democracies with trigger-happy imperialists or repressive dictatorships. Consequently, grand notions of a class struggle with the bourgeois have been eclipsed by a new set of concerns: creativity and innovation, access to the latest technology and training, and efficient business enterprises. To an increasing number of nations, the future lies in democratic reforms.

The force of this democratic revolution has shaken the communist world to its foundations. Eastern Europe and, more begrudgingly, the Soviet Union are discovering that economic and political freedom are closely connected. Despite its stops and starts, the manifesto of *perestroika* continues to wrest basic authority for economic management and decision making away from Moscow’s central planning organs and hand it over to the 48,000 enterprises that make up the Soviet economy.

An American version of *perestroika* has been unfolding for some time. Since the early 1970s, U.S. presidents have favored the dispersal of influence and power away from Washington toward the states and cities. Revenue sharing was a major part of Richard Nixon’s New Federalism, which in the early 1970s gave states the money to carry out their new authority. Every subsequent administration, Republican and Democrat alike, has reaffirmed its belief that local government is better equipped than Washington to assess needs and draw up programs on grass-roots issues. While pundits often disagree on how much of the federal pie, in fact, has been redistributed to states and municipalities, they concede that the axis of political power is tilting toward local government. Witness the rising number of congressional leaders abandoning Capitol Hill for gubernatorial or mayoral careers.

In 1990, former U.S. Senator Lawton Chiles and Senator Pete Wilson won the governorships of Florida and California, respectively. A few years earlier, Judd Gregg (R-N.H.), John R. McKernan, Jr. (R-Maine), and Carroll A. Campbell, Jr. (R-S.C.) retired from the House of Representatives to run for governor, while Congressmen Parren J. Mitchell (D-Md.) and Stan Ludine (D-N.Y.) set their sights on the lieutenant governorship. Another Capitol Hill expat: Bill Bonner, a five-term Democratic