FIRST, LET'S FIRE ALL THE MANA

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PHOTOGRAPHY: ELIE HONEIN

Morning Star, a leading food processor, demonstrates how to create an organization that combines managerial discipline and market-centric flexibility—without bosses, titles, or promotions.
by Gary Hamel

AGERS

MANAGEMENT IS THE LEAST EFFICIENT ACTIVITY IN YOUR ORGANIZATION.

Think of the countless hours that team leaders, department heads, and vice presidents devote to supervising the work of others. Most managers are hardworking; the problem doesn't lie with them. The inefficiency stems from a top-heavy management model that is both cumbersome and costly.

A hierarchy of managers exacts a hefty tax on any organization. This levy comes in several forms. First, managers add overhead, and as an organization grows, the costs of management rise in both absolute and relative terms. A small organization may have one manager and 10 employees; one with 100,000 employees and the same 1:10 span of control will have 11,111 managers. That's because an additional 1,111 managers will be needed to manage the managers. In addition, there will be hundreds of employees in management-related functions, such as finance, human resources, and planning. Their job is to keep the organization from collapsing under the weight of its own complexity. Assuming that each manager earns three times the average salary of a first-level employee, direct management costs would account for 33% of the payroll. Any way you cut it, management is expensive.

Second, the typical management hierarchy increases the risk of large, calamitous decisions. As decisions get bigger, the ranks of those able to challenge the decision maker get smaller. Hubris, myopia, and naïveté can lead to bad judgment at any level, but the danger is greatest when the decision maker's power is, for all purposes, uncontestable. Give someone monarchlike authority, and sooner or later there will be a royal screwup. A related problem is that the most powerful managers are the ones furthest from frontline realities. All too often, decisions made on an Olympian peak prove to be unworkable on the ground.

Third, a multitiered management structure means more approval layers and slower responses. In their eagerness to exercise authority, managers often impede, rather than expedite, decision making. Bias is another sort of tax. In a hierarchy the power to kill or modify a new idea is often vested in a single person, whose parochial interests may skew decisions.

Finally, there's the cost of tyranny. The problem isn't the occasional control freak; it's the hierarchical structure that systematically disempowers lower-level employees. For example, as a consumer you have the freedom to spend $20,000 or more on a new car, but as an employee you probably don't have the authority to requisition a $500 office chair. Narrow an individual's scope of authority, and you shrink the incentive to dream, imagine, and contribute.

Hierarchies Versus Markets

No wonder economists have long celebrated the ability of markets to coordinate human activity with little or no top-down control. Markets have limits, though. As economists like Ronald Coase and Oliver Williamson have noted, markets work well when the needs of each party are simple, stable, and easy to specify, but they're less effective when interactions are complex. It's hard to imagine, for instance, how a market could precisely coordinate the kaleidoscopic array of activities at the heart of a large, process-intensive manufacturing operation.

Idea in Brief

How essential is it to have layers of executives supervising workers? Managers are expensive, increase the risk of bad judgment, slow decision making, and often disenfranchise employees. Yet most business activities require greater coordination than markets can provide.

Is there a way to combine the freedom and flexibility of markets with the control of a management hierarchy? Economists will tell you it's impossible, but the Morning Star Company proves otherwise. It has been managing without managers for more than two decades.

At Morning Star, whose revenues were over $700 million in 2010, no one has a boss, employees negotiate responsibilities with their peers, everyone can spend the company's money, and each individual is responsible for procuring the tools needed to do his or her work.

By making the mission the boss and truly empowering people, the company creates an environment where people can manage themselves.

That's why we need corporations and managers. Managers do what markets cannot; they amalgamate thousands of disparate contributions into a single product or service. They constitute what business historian Alfred D. Chandler Jr. called the visible hand. The downside, though, is that the visible hand is inefficient and often ham-fisted.

Wouldn't it be great if we could achieve high levels of coordination without a supervisory superstructure? Wouldn't it be terrific if we could get the freedom and flexibility of an open market with the control and coordination of a tightly knit hierarchy? If only we could manage without managers.

Peer inside an open-source software project, and you might think you've glimpsed that organizational nirvana. You'll find hundreds of programmers and few, if any, managers. In an open-source project, however, tasks are modular, volunteers work independently, interfaces are clearly defined, and scientific breakthroughs aren't expected. Coordination is plug-and-play. Contrast this with the challenge Boeing faces in building an all-new airliner. Here, a vast army of specialists must work shoulder-to-shoulder in tackling thousands of leading-edge design and manufacturing issues. As Boeing has learned, outsourcing chunks of development doesn't make coordination any less perplexing. A market can't build a Dreamliner.

Are we then stuck with these trade-offs? Is there no way to buy coordination and control tax-free? It might seem so, since most us have never come across a company that's both highly decentralized and precisely synchronized.

Beyond Management as Usual

We are all prisoners of the familiar. Many things—the first iPhone, J.K. Rowling's wizardly world, Lady Gaga's sirloin gown—were difficult to envision until we encountered them. So it is with organizations. It's tough to imagine a company where…

- No one has a boss.
- Employees negotiate responsibilities with their peers.
- Everyone can spend the company's money.
- Each individual is responsible for acquiring the tools needed to do his or her work.
- There are no titles and no promotions.
- Compensation decisions are peer-based.

Sound impossible? It's not. These are the signature characteristics of a large, capital-intensive corporation whose sprawling plants devour hundreds of tons of raw materials every hour, where dozens of processes have to be kept within tight tolerances, and where 400 full-time employees produce over $700 million a year in revenues. And by the way, this unique company is a global market leader.

This probably stretches your credulity; it sure stretched mine. That's why, when I heard about the Morning Star Company, I jumped at the chance to visit one of its plants in California's San Joaquin Valley.

If you've ever eaten a pizza, dumped ketchup on a hamburger, or poured sauce on a bowlful of spaghetti, you've probably consumed the company's products. Headquartered in Woodland, California, near Sacramento, Morning Star is the world's largest tomato processor, handling between 25% and 30% of the tomatoes processed each year in the United States.

The company was founded in 1970 as a tomato trucking operation by Chris Rufer, then an MBA student at UCLA, who is still its president. Today Morning Star has three large plants that process the fruit according to hundreds of slightly different customer recipes. In addition to bulk products, the company produces canned tomatoes that go to supermarkets and food service businesses. It also comprises a trucking company that moves over two million tons of tomatoes annually and a business that handles the harvesting.

Over the past 20 years, Morning Star's volumes, revenues, and profits have grown at a double-digit clip, claims Rufer. Industry growth, by contrast, has averaged 1% a year. As a private company, Morning Star doesn't share its financial results, but I was told that the company has funded virtually all its growth from internal sources, which suggests it is robustly profitable. On the basis of its own benchmarking data, Morning Star believes it is the world's most efficient tomato processor.

Morning Star is a "positive deviant"; indeed, it's one of the most delightfully unusual companies I've come across. Employees ("colleagues" in Morning Star argot) are ridiculously empowered yet work together like members of a carefully choreographed dance troupe. By digging into the principles and practices that underpin this company's unique management model, we can learn how it might be possible to escape—or at least reduce—the management tax.

Unpacking the Morning Star Model

Morning Star's goal, according to its organizational vision, is to create a company in which all team members "will be self-managing professionals, initiating communications and the coordination of their activities with fellow colleagues, customers, suppliers, and fellow industry participants, absent directives from others."

Did you stumble on those last four words? How the heck do you run a company where nobody gives orders and nobody takes them? Here's how Morning Star does it:

Make the mission the boss. Every employee at Morning Star is responsible for drawing up a personal mission statement that outlines how he or she will contribute to the company's goal of "producing tomato products and services which consistently achieve the quality and service expectations of our customers." Take Rodney Regert, who works in the company's Los Banos plant. His mission is to turn tomatoes into juice in a way that is highly efficient and environmentally responsible.

Personal mission statements are the cornerstone of Morning Star's management model. "You are responsible for the accomplishment of your mission and for acquiring the training, resources, and cooperation that you need to fulfill your mission," explains Rufer. Adds Paul Green Sr., an experienced plant technician, "I'm driven by my mission and my commitments, not by a manager."

Let employees forge agreements. Every year, each Morning Star employee negotiates a Colleague Letter of Understanding (CLOU) with the associates who are most affected by his or her work. A CLOU (pronounced "clue") is, in essence, an operating plan for fulfilling one's mission. An employee may talk to 10 or more colleagues during the negotiations, with each discussion lasting 20 to 60 minutes. A CLOU can cover as many as 30 activity areas and spells out all the relevant performance metrics. All together, CLOUs delineate roughly 3,000 formal relationships among Morning Star's full-time employees.

CLOUs morph from year to year to reflect changing competencies and shifting interests. Over time experienced colleagues take on more-complex assignments and off-load basic tasks to recently hired colleagues. In explaining the logic behind the CLOUs, Rufer emphasizes the idea that voluntary agreements among independent agents can produce highly effective coordination. "The CLOUs create structure," he says. "As a colleague, I agree to provide this report to you, or load these containers into a truck, or operate a piece of equipment in a certain

THE ROAD

Your organization probably wasn't built around the principles of self-management. It's most likely a bureaucracy—with a thicket of policy rules, a multilayered hierarchy, and a host of management processes—built to ensure conformity and predictability.

Control is the philosophical cornerstone of bureaucracy, as Max Weber pointed out nearly a century ago. In a bureaucracy managers are enforcers who ensure that employees follow rules, adhere to standards, and meet budgets.

fashion. This is spontaneous order, and it gives you more fluidity. Relationships can change form more easily than if we tried to fix them from above."

Strikingly, Rufer doesn't see freedom as the enemy of coordination; he sees it as its ally. Every person at Morning Star is a contractor in a web of multilateral commitments. As one team member told me, "Around here, nobody's your boss and everybody's your boss."

Morning Star's 23 business units also negotiate customer-supplier agreements with one another annually, in a CLOU-like process. Since each unit has a profit and loss account, the bargaining can be fierce. The farming unit and the processing plants, for example, will haggle over volumes, pricing, and delivery schedules. The philosophy is the same as with the employee CLOUs: Agreements reached by independent entities are better at aligning incentives and reflecting realities than centrally mandated arrangements are.

Empower everyone—truly. In most companies the reality of empowerment falls far short of the rhetoric. Not at Morning Star, though. Nick Kastle, a business development specialist, draws a stark comparison between Morning Star and his previous employer: "I used to work in a company where I reported to a VP, who reported to a senior VP, who reported to an executive VP. Here, you have to drive the bus. You can't tell someone, 'Get this done.' You have to do whatever needs to be done."

That includes obtaining the tools and equipment you need to do your job. At Morning Star, there's no central purchasing department or senior executive who has to sign off on expenditures; anyone can issue a purchase order. If a maintenance engineer needs an $8,000 welder, he orders one. When the invoice arrives he confirms that he has received the equipment and sends the bill to accounting for payment. Although purchasing is decentralized, it's not uncoordinated. Morning Star colleagues who buy similar items in large quantities or from the same vendors meet periodically to ensure that they are maximizing their buying power.

Rufer explains the thinking behind the process: "I was signing checks one day and I recalled the saying, 'The buck stops here.' I thought to myself,

TO SELF-MANAGEMENT

Bureaucracy and self-management are ideological opposites, like totalitarianism and democracy. To build a self-managing organization, you can't just prune the brambles of bureaucracy—you have to uproot them. The founders of the United States didn't set out to temper the excesses of a monarchy; they sought to supplant it. In the same way, if you don't make an unequivocal commitment to self-management, you'll content yourself with easily reversed half measures when you should press for more.

Nevertheless, no one is going to just give you permission to blow up the old structures. You will have to demonstrate that self-management doesn't mean no management and that radical decentralization isn't anarchy. Here's how to get started.

FIRST, ask everyone on your team to write down a personal mission. Ask each person, "What's the value you want to create for your peers? What are the problems you want to solve for your colleagues?" Challenge people to focus on benefits delivered rather than activities performed. Once everyone has developed a short sentence or two, organize people into small groups and have them critique one another's mission statements. In the process you will start shifting the focus from rule-driven compliance to peer-negotiated accountability.

SECOND, look for small ways to expand the scope of employee autonomy. Ask your colleagues, "What are the procedures that handicap you in achieving your mission?" Once you've identified the most exasperating ones, roll them back partially and see what happens. It's possible to ratchet back control, and if you're serious about self-management, you'll do that notch by notch.

THIRD, equip every team with its own P&L account. To exercise freedom wisely, employees must be able to calculate the impact of their decisions. The road to self-management is paved with information.

FINALLY, you must look for ways to erase the distinctions between those who manage and those who are managed. If you're a manager, you can start by enumerating your commitments to your team. Ask everyone who works for you to annotate the list. Getting leaders to be more accountable to the led is essential to building a web of reciprocal responsibilities.

For traditional companies, the road to self-management will be long and steep, but the experiences of Morning Star and W.L. Gore, another champion of self-management, suggest that the journey is worth the effort. At the end you'll arrive at an organization that is highly effective and deeply human.

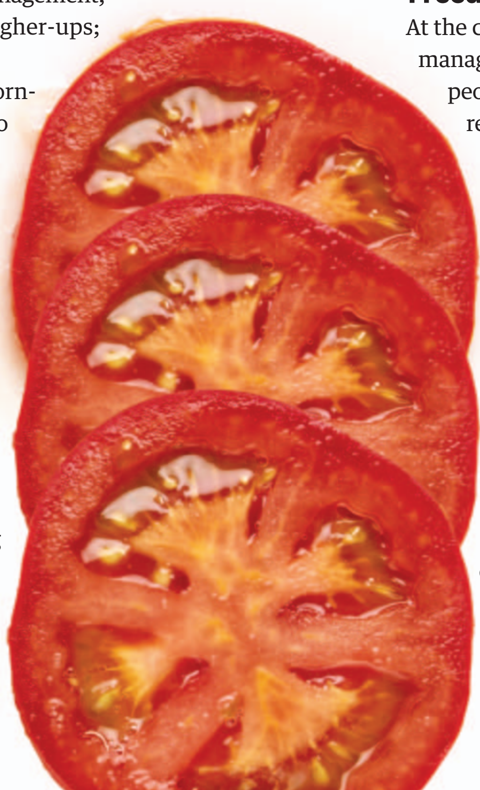
That isn't true. In front of me was a purchase order, a note that said the stuff had been shipped, we had received it, and that the price on the invoice matched the purchase order. A check had been prepared. Now, do I have the choice not to sign the check? Nope. So the question isn't where the buck stops, but where it starts—and it starts with the person who needs the equipment. I shouldn't have to review the purchase order, and the individual shouldn't have to get a manager's approval." Occasionally, there are more projects than cash, and when this happens, investments will be postponed. Still, the role of Morning Star's finance staff is to find capital rather than to allocate it.

Self-management extends to staffing decisions as well. Colleagues are responsible for initiating the hiring process when they find themselves overloaded or spot a new role that needs filling. It's a rare company that shares the corporate checkbook with frontline employees and expects them to take the lead in recruiting. To Rufer, though, it's common sense: "I don't want anyone at Morning Star to feel they can't succeed because they don't have the right equipment or capable colleagues."

During my visit to Morning Star, I didn't hear anyone use the term "empowerment." That's because the notion of empowerment assumes that authority trickles down—that power gets bestowed from above, as and when the powerful see fit. In an organization built on the principles of self-management, individuals aren't given power by the higher-ups; they simply have it.

Don't force people into boxes. Morning Star has no centrally defined roles, so employees get the opportunity to take on bigger responsibilities as they develop their skills and gain experience. "We believe you should do what you're good at, so we don't try to fit people into a job," says Paul Green Jr., who leads the company's training and development efforts. "As a result, our people have broader and more complicated roles than elsewhere."

Everyone has the right to suggest improvements in any area. While employees elsewhere often assume that change comes from above, at Morning Star, colleagues understand that it's their responsibility to take the lead. "Since we believe you have a right to get involved anywhere you think your skills can add value, people will often drive change outside their narrow area," Green says. "We have a lot of spontaneous innovation, and ideas for change come from unusual places."



Encourage competition for impact, not for promotions. With no hierarchy and no titles, there's no career ladder to climb at Morning Star. That doesn't mean everyone is equal. In any area of expertise, some colleagues are recognized as more competent than others, and these differences are reflected in compensation levels. While there's internal competition, the rivalry is focused on who can contribute the most rather than who gets a plum job. To get ahead an employee must master new skills or discover new ways of serving colleagues. "Around here, there's no such thing as a promotion," says Ron Caoua, an IT specialist. "What strengthens my résumé is more responsibility—not a bigger title."

Rufer offers a golfing analogy to explain how people advance at Morning Star: "When Jack Nicklaus was competing, was he concerned about becoming an executive senior vice president golfer? No. He knew that if he got good at it, he would achieve what everyone longs for: a sense of accomplishment. He also knew accomplishment would give him an income to enjoy the life he wanted. Moving up is about competency and reputation, not the office you hold."

Freedom to Succeed

At the core of Morning Star's eccentric yet effective management model is a simple idea: freedom. "If people are free, they will be drawn to what they really like as opposed to being pushed toward what they have been told to like," says Rufer. "So they will personally do better; they'll be more enthused to do things." Morning Star's employees echo this sentiment. "When people tell you what to do, you're a machine," says one operator.

Therein lies the dilemma. To run a large-scale operation you need people to occasionally behave like machines—to be reliable, precise, and hardworking. Typically, supervisors and managers ensure that noses stay on grindstones by setting quotas, monitoring variances, and disciplining slackers. But what happens when supervisors and managers don't exist? Morning Star's lattice of commitments may enable a high degree of coordination, but what about discipline?

AT MOST PLACES, EMPLOYEES ASSUME THAT CHANGE COMES FROM ABOVE. MORNING STAR COLLEAGUES KNOW IT'S THEIR JOB TO LEAD IT.

How does an organization exercise control when no one is in charge?

Freedom without responsibility is anarchy. Yet, when you walk through one of Morning Star's enormous, intricate plants, what you see is the opposite of anarchy. What is it that channels all the freedom that people at Morning Star enjoy into operational effectiveness?

Clear targets, transparent data. Visit a winter resort, and you will see hundreds of skiers schussing the steep slopes unaided. A blind skier, on the other hand, must be coached down by a guide who shouts out directions. People can't be self-managing without information. At Morning Star the goal is to provide staffers with all the information they need to monitor their work and make wise decisions.

Every CLOU lays out a set of detailed "steppingstones." These metrics allow employees to track their success in meeting their associates' needs. In addition, detailed financial accounts for each business unit are published twice a month and are available to every employee. Colleagues are encouraged to hold one another accountable for results, so an unexpected uptick in expenses is bound to get noticed. With this sort of transparency, folly and sloth are quickly exposed.

Because Morning Star is integrated vertically and horizontally, employees need cross-company information to calculate how their decisions will influence other areas. Rufer knows his people will think about the business holistically only if everyone has access to the same systemwide data. That's why there are no information silos and why no one questions anyone else's need to know.

Calculation and consultation. While employees are free to spend the company's money, they must build a business case that includes return on investment and net present value calculations. They are also expected to consult their colleagues. An employee pushing for a $3 million investment, for example, might talk with as many as 30 coworkers before pulling the trigger. Similarly, someone who wants to expand a unit's payroll must sell the idea to his or her peers.

Morning Star colleagues have a lot of authority but seldom make unilateral decisions. Conversely, no individual has the power to kill an idea. Rather than acting as judge, jury, and executioner, experienced team members serve as coaches. A young employee with a bold idea will be encouraged to seek the advice of a few veterans, who will often provide a brief tutorial: "Here's a model you can use to analyze your idea. Do some more homework, and when you're ready, let's talk again."

Conflict resolution and due process. What happens when someone abuses his or her freedom, consistently underperforms, or is simply at loggerheads with other colleagues? Morning Star has no managers to settle disputes, and no one has the authority to force a decision. Disagreements between contracting parties in the commercial world are often settled through mediation or in front of a jury, and so it is at Morning Star.

Suppose you and I work in different business units, and you believe I've failed to meet my CLOU commitments. As a first step, we'd meet, and you'd argue your case. I might offer an excuse, agree to do better, or toss the blame back at you. If the two of us couldn't resolve the matter, we would pick an internal mediator whom we both trust and present our views. Let's say the mediator agreed with you, but I objected to the proposed remedy. At this juncture, a panel of six colleagues would assemble to help us settle our squabble. It might endorse the mediator's recommendation or propose another solution. If I demurred again, the president would bring the parties together, hear the arguments, and make a binding decision. It is highly unusual, though, for a dispute to land on Rufer's desk.

ADVANTAGES

LOWER COSTS
Having no managers reduces head count and wage costs. The savings can be used to pay better salaries to everyone and to fuel growth.

MORE COLLEGIALITY
Backstabbing, politicking, and sycophantic behaviors drop dramatically when employees stop competing for promotions.

GREATER INITIATIVE
Employees are proactive because they have the freedom to act. They are also willing to help colleagues because it increases their reputational capital.

HIGHER LOYALTY
Few employees leave to join rivals, and even temporary workers are dedicated to the organization.

DEEPER EXPERTISE
Because everyone is responsible for the quality of his or her work, employees are forced to invest in developing their skills.

BETTER DECISIONS
By pushing expertise down to the front lines, rather than escalating decisions, self-management promotes smarter, faster decisions.

INCREASED FLEXIBILITY
Employees respond rapidly, coming together in teams to tackle challenges and to experiment with new ideas.

When concerns about someone's performance are serious enough, the conflict resolution process can end with his termination. Nevertheless, at Morning Star, an employee's fate never rests in the hands of a capricious boss. Rufer explains the benefits: "When a panel of peers gets convened, people can see that the process is fair and reasonable. Everyone knows they have recourse. We've taken away the power a boss has to treat an employee as a punching bag because, say, they have something else going on in their lives."

Peer review and the challenge process. Accountability is woven into Morning Star's DNA. New employees attend a seminar on the basics of self-management, where they learn that responsibility is freedom's twin. Consult as widely as you like, they're told, but in the end you have to take responsibility for your decisions. No one gets the option of handing off a tough call.

At the end of the year, every employee in the company receives feedback from his or her CLOU colleagues, and in January every business unit is required to defend its performance over the previous 12 months. Since the discussion about each unit can consume the better part of a day, the process extends over several weeks. Each unit presentation is, in effect, a report to shareholders. Team members have to justify their use of the company's resources, acknowledge shortfalls, and present plans for improvement.

Business units are ranked by performance, and those near the bottom can expect an interrogation. "If a business unit has made investments that aren't paying off," notes Rufer, "they'll be subject to a fair amount of ridicule. It will be more difficult for them to get their colleagues on board for future investments." Agreed one team member: "There is a social risk in doing something your colleagues think is stupid."

In February of each year, a strategy meeting provides another opportunity for peer review. Each business unit gets 20 minutes to present its plan for the coming year before a companywide audience. Colleagues then have the opportunity to invest in the most promising strategies using a virtual currency. Any business unit that fails to attract its share of fantasy money knows it will be under intense scrutiny.

Elected compensation committees. Morning Star's approach to compensation is more akin to that of a professional services firm than a manufacturing business. At the end of each year, every colleague develops a self-assessment document outlining how he or she performed against CLOU goals, ROI targets, and other metrics. Colleagues then elect a local compensation committee; about eight such bodies are created across the company each year. The committees work to validate self-assessments and uncover contributions that went unreported. After weighing inputs, the committees set individual compensation levels, ensuring that pay aligns with value added.

The Advantages of Self-Management

Many colleagues at Morning Star have worked for other employers. If you ask them about the advantages of self-management, they're passionate and eloquent. Here's what they say:

More initiative. At Morning Star the recipe for initiative is simple: Define roles broadly, give individuals the authority to act, and make sure they get lots of recognition when they help others.

"What is it," I inquired of a plant mechanic, "that prompts team members to be proactive in offering help to colleagues?" His answer: "Our organization is driven by reputational capital. When you have some advice to add to another part of the company, that increases your reputational capital."

More expertise. The self-management model encourages employees to develop their skills. At

Morning Star, the experts aren't managers or senior staffers; they're the people doing the work. For example, the folks filling aseptic containers on the packaging line are also deeply knowledgeable about microbiology. "Everyone here is responsible for the quality of their work," says Scott Marnoch, an internal quality expert. "There's a lot of pride. Besides, there's no boss to take the fall if things go wrong."

More flexibility. Morning Star's management model promotes speed and flexibility, a point Rufer makes with an analogy. "Clouds form and then go away because atmospheric conditions, temperatures, and humidity cause molecules of water to either condense or vaporize," he says. "Organizations should be the same; structures need to appear and disappear based on the forces that are acting on the organization. When people are free to act, they're able to sense those forces and act in ways that fit best with reality." Paul Green Jr. notes that his colleagues come together to launch hundreds of change initiatives every year as they hunt for ways to serve their missions better.

More collegiality. When you dismantle the pyramid, you drain much of the poison out of an organization. While competition for advancement can spur individual accomplishment, the zero-sum nature of the contest encourages politicking and accentuates rivalries. In a pancake-flat organization, there are no bosses to please and no adversaries to elbow aside. Paul Terpeluk, a Morning Star colleague who has done stints at two *Fortune* 500 companies, describes the benefits of a promotionless company: "There's less backstabbing, because we're not competing for that scarce commodity called a promotion. All your energy goes into doing the best you can do and into helping your colleagues."

Better judgment. In most organizations key decisions are usually escalated to executives trained in the science of business analysis. They have a wealth of data and analytical sophistication, but what they lack is context—an understanding of the facts on the ground. That's why decisions that appear brilliant to top-level executives are often regarded as boneheaded by those on the front lines. Rather than pushing decisions up, Morning Star pushes expertise down. For example, roughly half the company's employees have completed courses on how to negotiate with suppliers. Many have also been trained in financial analysis. Since the doers and the thinkers are the same, decisions are wiser and more timely.

More loyalty. Few colleagues leave Morning Star for a competitor, but the reverse frequently happens. What's more, even temporary employees are dedicated to the company. Each summer, as the tomatoes come off the vine, Morning Star's processing plants take on more than 800 seasonal workers. Ninety percent of them return each year, and the company has trained them in the principles of self-management. When a team of independent researchers recently measured this group's sense of empowerment and ownership, they found that the temporary workers had the sort of engagement scores that are typical of senior executives in other companies.

Finally, a manager-free payroll has cost advantages. Some of the savings go to Morning Star's full-time employees, who earn 10% to 15% more than their counterparts at other companies do. By avoiding the management tax, the company can also invest more in growth.

A Cheap Lunch but Not a Free One

While Morning Star's organization reduces management costs, it does have drawbacks. First, not everyone is suited to Morning Star's model. This is less a matter of capability than of acculturation. An individual who has spent years working in a highly stratified organization often has difficulty adjusting. Rufer estimates that, on average, it takes a new associate a year or more

DISADVANTAGES

TOUGHER ADJUSTMENT
Self-management doesn't suit everyone. Employees who've worked all their lives in hierarchical organizations may not be able to cope.

LONGER INDUCTION
It takes time to fit in. New employees may need a year or more to become fully functional in the system.

ACCOUNTABILITY CHALLENGES
If employees fail to deliver a strong message to colleagues who don't meet expectations, self-management can become a conspiracy of mediocrity.

GROWTH ISSUES
Without a corporate ladder to climb, employees find it difficult to evaluate their progress relative to peers. That can become a handicap when someone wants to switch companies.

to become fully functional in the self-management environment.

That adds time and complexity to the hiring process. When the company was smaller, Rufer spent half a day interviewing every prospective employee, usually in the candidate's home. The bulk of the conversation focused on assessing the fit between Morning Star's philosophy and the applicant's expectations. Today every potential hire gets a two-hour introduction to self-management and is interviewed by 10 to 12 Morning Star colleagues. Even then, mistakes happen. Paul Green Jr. estimates that as many as 50% of seasoned hires leave within two years because they have a hard time adapting to a system where they can't play god.

Getting colleagues to hold one another accountable is a second challenge. In a hierarchical organization the boss deals with troublemakers and underperformers. At Morning Star everyone is responsible for safeguarding quality, efficiency, and teamwork by calling out colleagues who violate policies or norms. If employees shirk that duty and fail to deliver tough love when needed, self-management can quickly become a conspiracy of mediocrity. That risk is explicitly addressed in Morning Star's training programs, which stress the fact that peer regulation won't work without courageous colleagues.

Growth is a third challenge. Though Morning Star continues to grow faster than the industry average, Rufer and his colleagues are wary of diluting the company's culture—a concern that makes them reluctant to acquire companies. Although Morning Star has been looking for ways to expand, it has so far resisted the urge to trade away its management advantage for even faster growth.

Tracking personal development is also tough. In most companies the rungs of the corporate ladder serve as benchmarks. With no hierarchy, Morning Star colleagues can find it difficult to evaluate their progress relative to industry peers. That can be a handicap for someone who wants to switch companies but can't claim to have attained a particular rank.

Managers Versus Managing

When I suggested to Rufer that Morning Star had learned how to manage without managers, he immediately corrected me. "Everyone's a manager here," he said. "We are manager rich. The job of managing includes planning, organizing, directing, staffing, and controlling, and everyone at Morning Star is expected to do all these things. Everyone is a manager of their own mission. They are managers of the agreements they make with colleagues, they are managers of the resources they need to get the job done, and they are managers who hold their colleagues accountable."

Nevertheless, Rufer knew what I was driving at. For decades the assumption has been that the work of managing is best performed by a superior caste of formally designated managers, but Morning Star's long-running experiment suggests it is both possible and profitable to syndicate the task to just about everyone. When individuals have the right information, incentives, tools, and accountabilities, they can mostly manage themselves.

Turns out we don't have to choose between the advantages of markets and hierarchies. Morning Star is neither a loose confederation of individual contractors nor a stultifying bureaucracy; it's a subtle blend of both market and hierarchy.

On the one hand, you can think of Morning Star as a *socially dense marketplace*. Colleagues are free to negotiate marketlike contracts with their peers. While this might seem a contentious and complicated process, several factors mitigate those risks. First, everyone involved in the negotiations shares the same scorecard. In a pure market, a consumer doesn't really care whether a deal is good for the seller. By contrast, people at Morning Star know they won't have a great place to work if the company doesn't do well.

Second, team members at Morning Star know that if they take advantage of a colleague or fail to deliver on a promise, the repercussions will catch up with them. This encourages associates to think in terms of relationships rather than transactions. Finally, because most folks at Morning Star have been in the tomato business for years, they have a good sense of what needs to be done and who needs to do it. Not every aspect of every contract needs to be rewritten each year. Without this social glue—shared goals, long-term relationships, and industry knowledge—Morning Star's system would be much less efficient.

On the other hand, Morning Star is a collection of *naturally dynamic hierarchies*. There isn't one formal hierarchy; there are many informal ones. On any issue some colleagues will have a bigger say than others will, depending on their expertise and willingness to help. These are hierarchies of influence, not position, and they're built from the bottom up. At Morning Star one accumulates authority by demonstrating expertise, helping peers, and adding value. Stop doing those things, and your influence wanes—as will your pay.

In most companies the hierarchy is neither natural nor dynamic. Leaders don't emerge from below; they are appointed from above. Maddeningly, key jobs often go to the most politically astute rather than the most competent. Further, because power is vested in positions, it doesn't automatically flow from those who are less capable to those who are more so. All too often managers lose their power only when they're fired. Until then they can keep mucking things up. No one at Morning Star believes that everyone should have an equal vote on every decision, but neither does anyone believe that one person should have the last word simply because he or she is the boss.

WHILE MANAGEMENT'S future has yet to be written, the folks at Morning Star have penned a provocative prologue. Questions remain. Can the company's self-management model work in a company of 10,000 or 100,000 employees? Can it be exported to other cultures? Can it cope with a serious threat, such as a low-cost offshore competitor? These questions keep Rufer and his colleagues up at night. They readily admit that self-management is a work in progress. "Ideologically, we're about 90% of the way there," says Rufer. "Practically, maybe only 70%."

I believe Morning Star's model could work in companies of any size. Most big corporations are collections of teams, departments, and functions, not all of which are equally interdependent. However large the company, most units would have to contract with only a few others. With $700 million a year in revenues, Morning Star certainly isn't a small business, but it's not a humongous one, either.

There's no reason why its self-management model wouldn't work in a much larger company where Morning Star was, say, a single division—as long as other divisions shared its management philosophy. It's not too hard to imagine divisional representatives within a global giant negotiating the same sorts of intracompany agreements that Morning Star's business units forge each year. In fact, the real question is not whether the model can be scaled up but whether it can be adopted by a traditional, hierarchical organization. Again, I believe the answer is yes, but the metamorphosis will take time, energy, and passion. (See the sidebar "The Road to Self-Management.")

Whatever the uncertainties, Morning Star's example makes two things clear. One, with a bit of imagination, it's possible to transcend the seemingly intractable trade-offs, such as freedom versus control, that have long bedeviled organizations. Two, we don't have to be starry-eyed romantics to dream of organizations where managing is no longer the right of a vaunted few but the responsibility of all.

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