How self-management works.

A coherent set of structures and practices to get rid of bosses, hierarchy and the pyramid.

M-Prize

A detailed description of structures and practices of self-managing organizations

SELF-MANAGEMENT
(STRUCTURES)

Why do so many people work so hard so they can escape to Disneyland? Why are video games more popular than work? … Why do many workers spend years dreaming about and planning for retirement?

The reason is simple and dispiriting. We have made the workplace a frustrating and joyless place where people do what they're told and have few ways to participate in decisions or fully use their talents. As a result, they naturally gravitate to pursuits in which they can exercise a measure of control over their lives.

In most organizations I have been exposed to around the world, … we still have the offices "above" the working people … who, without consulting workers, make decisions that dramatically affect their lives.

Dennis Bakke

The concentration of power at the top, separating colleagues into the powerful and the powerless, brings with it problems that have plagued organizations for as long as we can remember. Power in organizations is seen as a scarce commodity worth fighting for. This situation invariably brings out the shadowy side of human nature: personal ambition, politics, mistrust, fear, and greed. At the bottom of organizations, it often evokes the twin brothers of powerlessness: resignation and resentment. Labor unions were born from the attempt to confederate power at the bottom to counter power from the top (which in turn tries to break the power of unions).

The widespread lack of motivation we witness in many organizations is a devastating side effect of the unequal distribution of power. For a few lucky people, work is a place of joyful self-expression, a place of camaraderie with colleagues in pursuit of a meaningful purpose. For far too many, it is simply drudgery, a few hours of life "rented out" every day in exchange for a paycheck. The story of the global workforce is a sad tale of wasted talent and energy.

If you think this is too strong a statement, consider the 2012 survey conducted by Tower Watson, a human resources consulting firm. It polled 32,000 workers in the corporate sector in 29 countries to measure employee engagement (as well as the key factors contributing to engagement, such as confidence in senior management and the perceived interest by senior management in employee well-being). The overarching conclusion: just around a third of people are engaged in their work (35 percent). Many more people are "detached" or actively "disengaged" (43 percent). The remaining 22 percent feel "unsupported." This survey is not a negative outlier. The same survey has been administered for years, and in some years results have been worse still. Gary Hamel, a scholar and writer on organizations, aptly calls survey results such as these *the shame of management*.

Many progressive organizations seek to deal with the problem of power inequality through empowerment, pushing decisions down the pyramid, and they often achieve much higher employee engagement. But empowerment means that someone at the top must be wise or noble enough to give away some of his power. What if power weren't a zero-sum game? What if we could create organizational structures and practices that didn't need empowerment because, by design, everybody was powerful and no one powerless? This is the first major breakthrough of self-managing organizations: transcending the age-old problem of power inequality through structures and practices where no one holds power over anyone else, and yet, paradoxically, the organization as a whole ends up being considerably more powerful.

This chapter will address in detail the *structures* that make self-managing organizations possible—what becomes of the pyramid, the staff functions, the executive team, the project teams that we know from today's organizations? The following chapter (2.3) will then describe the practices needed to make self-management work: who gets to make what decisions; how information flows; how people are evaluated, promoted, and compensated in these new structures.

A case example: from hierarchy to self-management

Buurtzorg, a Dutch neighborhood nursing organization, is perhaps the best available case example to illustrate the change from today's dominant organizational model to the emerging paradigm of self-management.

First, some background: Since the 19th century, every neighborhood in the Netherlands had a neighborhood nurse who would make home visits to care for the sick and the elderly. Neighborhood nurses are an essential piece of the Dutch health care system, working hand-in-hand with family doctors and the hospital system. In the 1990s, the health insurance system (which over time had taken on footing most of

the bill), came up with a logical idea: why not group the self-employed nurses into organizations? After all, there are obvious economies of scale and skill. When one nurse is on vacation, sick, or simply trying to get a good night's sleep, someone else can take over. If one has too much work while another has a lull, the organization can balance the load. And not every nurse knows how to treat every type of pathology, so there are complementarities in terms of skills.

Soon enough, the organizations that grouped the nurses started merging themselves, in pursuit of ever more scale: the number of organizations dropped from 295 to 86 in just five years, from 1990 to 1995. Piece by piece, our current management logic grew deeper roots. Tasks were specialized: some people would take care of intake of new patients and determine how nurses would best serve them; planners were hired to provide nurses with a daily schedule, optimizing the route from patient to patient; call center employees started taking patients' calls; given the growing size of the organizations, regional managers and directors were appointed as bosses to supervise the nurses in the field. To ensure accurate planning and drive up efficiency, time norms were established for each type of intervention: in one company, for instance, intravenous injections would be allotted exactly 10 minutes, bathing 15 minutes, wound dressing 10 minutes, and changing a compression stocking 2.5 minutes. To reduce costs, these different health treatments (now called "products") were tiered according to the expertise they required. The more experienced and expensive nurses perform only the more difficult products, so that cheaper nurses can do all the others. To be able to keep track of efficiencies, a sticker with a bar code is placed on the door of every patient's home and nurses have to scan in the barcode, along with the "product" they have delivered, after every visit. All activities are time-stamped in the central system, and can be monitored and analyzed from afar.

Each of these changes makes perfect sense in the pursuit of economies of scale and skill. But the overall outcome has proved distressing to patients and nurses alike. Patients have lost the personal relationship they used to have with their nurse. Every day (or several times a day if their situation calls for it) a new, unknown face enters their home. The patients—often elderly, sometimes con-fused—must gather the strength to re-tell their medical history to an unknown, hurried nurse who doesn't have any time allotted for listening. The nurse changes the bandage, gives the shot, and then is out the door. The system has lost track of patients as human beings; patients have become subjects to which products are applied. The human connection is lost, and the medical quality is compromised too: there is no continuity in care; the subtle but important cues about how a patient's health is evolving are often overlooked when a different nurse comes along every day.

Nurses find these working conditions degrading. Most of them chose their profession out of vocation to care for those in need—nursing is hardly a profession in which to get rich—and these practices make a mockery of their vocation. One of the nurses now working at Buurtzorg says this about her previous work in a neighborhood nursing organization:

> *The whole day, the electronic registration system that you have to carry with you is making you crazy. Some evenings I had to go and see 19 different patients. Then there is nothing you can do but run inside, put on a bandage or give a shot, and run out. You can never finish your work in a qualitative way. And when you go home, you keep thinking all the time, "I hope the nurse that comes after me doesn't forget to do this or that."*[1]

Another nurse tells a similar story of her experience in one of the neighborhood nursing organizations:

> *The last years I was responsible for 80 patients that I never got to know well. … The planning was done somewhere else by someone who didn't know the patients. It went wrong so many times that at some point I could no longer explain to patients why nobody would come or why the agreed time wasn't respected. In seven years I had 14 managers and was tired of that too. The organization had become too big and difficult to navigate. Nobody felt responsible for the care of patients. Every day there were complaints and conflicts among colleagues.*[2]

A third nurse tells the following story:

> *The final straw came when my previous organization wanted us to sell stuff to our patients. We had to sell products from the internal pharmacy that the organization had set up. We felt deeply troubled because our expertise and integrity were abused. … For me and for many colleagues, this was a turning point in our loyalty towards our employer.*[3]

People who work in the headquarters of these organizations don't find work much more meaningful. As these organizations grew, so did the number of levels of management. In good faith, managers at each level are trying to do their job—supervising their direct reports, paying close attention to budget variances, double-checking each request for resources, ensuring that all the bases are covered by all relevant superiors before approving a change in course. In the process, motivation and initiative are choked out.

Buurtzorg, the organization that has caused a revolution in neighborhood nursing, was founded in late 2006 by Jos de Blok. Jos had been a nurse for 10 years and had then climbed the ladder to assume management functions and staff roles in a nursing organization. When he saw that he couldn't effect change from the inside, he decided to start his

own organization.[4] An entirely different paradigm would inform the care and the organizational set-up. Buurtzorg, the organization he created, has become extraordinarily successful, growing from 10 to 7,000 nurses in seven years and achieving outstanding levels of care.

Self-managing teams

Within Buurtzorg (which means "neighborhood care" in Dutch), nurses work in teams of 10 to 12, with each team serving around 50 patients in a small, well-defined neighborhood. The team is in charge of all the tasks that were previously fragmented across different departments. They are responsible not only for providing care, but for deciding how many and which patients to serve. They do the intake, the planning, the vacation and holiday scheduling, and the administration. They decide where to rent an office and how to decorate it. They determine how best to integrate with the local community, which doctors and pharmacies to reach out to, and how to best work with local hospitals. They decide when they meet and how they will distribute tasks among themselves, and they make up their individual and team training plans. They decide if they need to expand the team or split it in two if there are more patients than they can keep up with, and they monitor their own performance and decide on corrective action if productivity drops. There is no leader within the team; important decisions are made collectively.

Care is no longer fragmented. Whenever possible, things are planned so that a patient always sees the same one or two nurses. Nurses take time to sit down, drink a cup of coffee, and get to know the patients and their history and preferences. Over the course of days and weeks, deep trust can take root in the relationship. Care is no longer reduced to a shot or a bandage—patients can be seen and honored in their wholeness, with attention paid not only to their physical needs, but also their emotional, relational, and spiritual ones. Take the case of a nurse who senses that a proud older lady has stopped inviting friends to visit because she feels bad about her sickly appearance. The nurse might arrange a home visit from a hairdresser, or she might call the lady's daughter to suggest buying some new clothes.

Buurtzorg places real emphasis on patients' autonomy. The goal is for patients to recover the ability to take care of themselves as much as possible. What can patients learn to do themselves? Can patients structure their support networks? Are there family members, friends, or neighbors who could come by and help on a regular basis? Nurses will often go ring at a neighbor's door to inquire if they would be open to helping support the older lady living next door. Buurtzorg effectively tries to make itself redundant whenever possible. Vocation is restored in its true sense: the patient's well-being trumps the organization's self-interest. The result is that patients are thrilled by how Buurtzorg's nurses serve them. And so are their families, who often express deep gratitude for the important role nurses come to play in the life of the sick or elderly (it is not unusual for nurses to care for terminally ill patients until their last moments).

Outrageous results

The results achieved by Buurtzorg on the medical front are outrageously positive. A 2009 Ernst & Young study found that Buurtzorg requires, on average, close to *40 percent fewer hours* of care per client than other nursing organizations—which is ironic when you consider that nurses in Buurtzorg take time for coffee and talk with the patients, their families, and neighbors, while other nursing organizations have come to time "products" in minutes. Patients stay in care only *half as long*, heal faster, and become more autonomous. A third of emergency hospital admissions are avoided, and when a patient does need to be admitted to the hospital, the average stay is shorter. The savings for the Dutch social security system are considerable—Ernst & Young estimates that close to €2 billion would be saved in the Netherlands every year if all home care organizations achieved Buurtzorg's results. Scaled to the US population, this savings would be equivalent to roughly $49 billion. Not bad for just home care. Imagine if the incomparably bigger hospital organizations were to be run in a similar manner.

> *Humans are born to care. Our institutions magnify or depress the human capacity to care.*
> Jane Dutton

These numbers fail to include what might be even more important—how patients feel about the emotional and relational support they receive during their illness or the last years of their life. Trying to put numbers on this would be arbitrary and ultimately meaningless. It would be equally pointless to try to peg a dollar value to the sense of vocation that has been restored to nurses. A common phrase heard within Buurtzorg teams is, "I have my job back." Some numbers do testify to the level of job satisfaction: absenteeism for sickness is 60 percent lower at Buurtzorg and turnover 33 percent lower than in traditional nursing organizations. Nurses at traditional organizations are leaving in droves to join Buurtzorg, which has gone from a start-up with 10 nurses in late 2006 to a point in 2013 at which it employs two-thirds of all neighborhood nurses in the Netherlands. Buurtzorg is single-handedly transforming a key component of the health care industry in the Netherlands.

No boss

Buurtzorg teams have no boss. All team members—typically 10 to 12 people—are nurses. They deal with all the usual management tasks that arise in every team context: they set direction and priorities, analyze problems, make plans, evaluate people's performance, and make the

occasional tough decisions. Instead of placing these tasks on one single person—the boss—team members distribute these management tasks among themselves. The teams are effectively self-governing and self-organizing.

Anybody who has worked on a team with no boss knows that it can easily turn into a nightmare. Yet that only rarely happens at Buurtzorg. How come? Productive self-management rarely happens spontaneously. Buurtzorg has become very effective at giving teams the specific support (training, coaching, and tools) required for self-management to work in practice. To begin with, all newly formed teams and all new recruits to existing teams take a training course called "Solution-Driven Methods of Interaction,"[5] learning a coherent set of skills and techniques for healthy and efficient group decision-making. Within the training, team members deepen their knowledge in some of the most basic (and ironically often most neglected) building blocks of human collaboration: learning different types of listening and different styles of communication, how to run meetings, how to coach one another, and other practical skills.

> *The question is not how you can make better rules, but how you can support teams in finding the best solution. How can you strengthen the possibilities of the team members so that they need the least amount of direction-setting from above?*
> Jos de Blok

Let's take a look, for instance, at a team meeting where important issues need to be resolved. With no boss in the room, no one can call the shots or make the final call. Instead, Buurtzorg teams use a very precise and efficient method for joint problem solving and decision-making. The group first chooses a facilitator for the meeting. The agenda of topics to be discussed is put together on the spot, based on what is present for team members at that moment in time. The facilitator is not to make any statements, suggestions, or decisions; she can only ask questions: "What is your proposal?" or "What is the rationale for your proposal?" All proposals are listed on a flipchart. In a second round, proposals are reviewed, improved, and refined. In a third round, proposals are put to a group decision. The basis for decision-making is *not* consensus. For a solution to be adopted, it is enough that nobody has a principled objection. A person cannot veto a decision because she feels another solution (for example, hers!) would have been preferable. The perfect solution that all would embrace wholeheartedly might not exist, and its pursuit could prove exhausting. As long as there is no principled objection, a solution will be adopted, with the understanding that it can be revisited at any time when new information is available. The meeting process elegantly ensures that every voice is heard, that the collective intelligence informs decision-making, and that no one person can derail the process and hold others hostage trying to impose her personal preferences.

If, despite their training and meeting techniques, teams get stuck, they can ask for external facilitation at any time—either from their regional coach or from the pool of facilitators of the institute they trained with. A team that is stuck can also turn to other teams for suggestions, using Buurtzorg's internal social network platform, as most likely some team somewhere will already have grappled with a similar problem.

Often, nurses joining from other organizations find the switch to self-management quite challenging at first. The job brings up tough questions all the time. For instance, should the team add a second person to the night shift, even though no one likes to work at night? Or take the case of a team that has too much work already, when the family of a patient it has cared for before says to the team, "Our mother is terminally sick; could you please care for her?" Nurses can't offload these difficult decisions to a boss, and when things get tense, stressful, or unpleasant, there is no boss and no structure to blame; the teams know they have all the power and latitude to solve their problems. Learning to live with that amount of freedom and responsibility can take some time, and there are often moments of doubt, frustration, or confusion. It's a journey of personal unfolding, in which true professionals are born. Many nurses report their surprise at how much energy and motivation they discovered in themselves that was never evoked when they worked in a traditionally managed organization.

Let's add an important clarification straightaway, because this can be easily misunderstood: In Buurtzorg's teams, there is no boss-subordinate hierarchy, but the idea is not to make all nurses on a team "equal." Whatever the topic, some nurses will naturally have a larger contribution to make or more say, based on their expertise, interest, or willingness to step in. One nurse might be a particularly good listener and coach to her colleagues. Another might be a living encyclopedia of arcane medical conditions. Another might have a knack for handling conflict within the team or within the feuding family of a patient. Another might be a great planner and organizer. In any field, some nurses will naturally have more to offer than others. Some nurses build up reputations and influence even well beyond their team and are consulted by nurses from across the country on certain topics of expertise. Because there is no hierarchy of bosses over subordinates, space becomes available for other natural and spontaneous hierarchies to spring up—fluid hierarchies of recognition, influence, and skill (sometimes referred to as "actualization hierarchies" in place of traditional "dominator hierarchies").

No middle management

There is no boss within the team. Surely, then, there must be strong leadership coming from higher up in the hierarchy, say, from the regional managers that oversee a number of teams? The answer, as

you've probably guessed, is no. There are no regional managers. Instead, there are regional coaches. It's not merely semantics. Unlike typical regional managers, coaches at Buurtzorg have no decision-making power over teams. They are not responsible for team results. They have no targets to reach and no profit-and-loss responsibility. They receive no bonuses if their teams perform well. The vertical power transmission of traditional pyramidal organizations is taken off its hinges: the teams of nurses aren't simply *empowered* by their hierarchy; they are truly *powerful* because there *is no hierarchy* that has decision-making power over them.

In traditional organizations, the position of regional manager is often a breeding ground for young talents on their way up. At Buurtzorg, there is no managerial ladder to climb; coaches are selected for their coaching capacity—they tend to be older, highly experienced nurses with strong interpersonal skills. Those who have held management positions in other nursing organizations have to learn to approach their role from a very different angle, as one coach explains:

> *I had to free myself from previous ways of working, when I was trained to manage and control. I have to let go of that here. The big difference is that, really, I'm not responsible. The responsibility lies with the teams and Jos [de Blok, the founder].*[6]

Coaches have no hierarchical power, but make no mistake, they play a crucial role just the same. Self-management is no walk in the park. Newer teams in particular face a steep learning curve. They are effectively in charge of all the aspects of creating and running a small organization of 12 people (remember, there are no intakers, no planners, no call center operators, no administrators, no managers), and at the same time they are learning to manage interpersonal dynamics within a self-organizing, boss-less team. The regional coach is a precious resource to the teams; upon request she can give advice or share how other teams have solved similar problems. Mostly, though, the coach's role is to ask the insightful questions that help teams find their own solutions. Coaches mirror to teams unhelpful behavior and can at critical moments raise the flag and suggest that a team pause to deal with a serious problem.

There is no job description for the regional coach. Every coach is encouraged to find and grow into her specific way of filling the role, based on her specific character and talents. Nevertheless a few unwritten principles have emerged as part of Buurtzorg's culture:

- It's okay for teams to struggle. From struggle comes learning. And teams that have gone through difficult moments build resilience and a deep sense of community. The coach's role therefore is not to prevent foreseeable problems, but to support teams in solving them (and later help them reflect on how they've grown in the process).

- The coach's role is to let teams make their own choices, even if she believes she knows a better solution.
- The coach supports the team mostly by asking insightful questions and mirroring what she sees. She helps teams frame issues and solutions in light of Buurtzorg's purpose and its holistic approach to care.
- The starting point is always to look for enthusiasm, strengths, and existing capabilities within the team. The coach projects trust that the team has all it takes to solve the problems it faces.

The span of support (what in traditional organizations would be called "span of control") of Buurtzorg's regional coaches is broad; on average, a coach supports 40 to 50 teams. Jos de Blok, Buurtzorg's founder and CEO, explains the intention:

> *Coaches shouldn't have too much time on their hands, or they risk getting too involved with teams, and that would hurt teams' autonomy. Now they take care of only the most important questions. We gave some of the first teams from Buurtzorg quite intensive support and attention, and today we still see that they are more dependent and less autonomous than other teams.*[7]

Buurtzorg teams have incredible latitude to come up with their own solutions. Very little is mandated from the top. There are only a few ground rules that experience has shown are important so as to make self-management work in practice. The list of ground rules includes:

- A team should not grow larger than 12 persons. Beyond that number, it should split.
- Teams should delegate tasks widely among themselves. They should be careful not to concentrate too many tasks with one person, or a form of traditional hierarchy might creep in through the back door.
- Along with team meetings, teams plan regular coaching meetings where they discuss specific issues encountered with patients and learn from each other (using a specific group coaching technique).
- Team members must appraise each other every year, based on competency models they can devise themselves.
- Teams make yearly plans for initiatives they want to take in the areas of client care and quality, training, organization, and other issues.
- The target for billable hours in mature teams is 60 to 65 percent.[8]
- Teams make important decisions based on the specific decision-making technique outlined earlier.

Bare minimum staff functions

In the last decades, we have witnessed, especially in large organizations, a proliferation of staff functions: human resources (HR), strategic planning, legal affairs, finance, internal communications, risk management, internal audit, investor relations, training, public affairs, environmental control, engineering services, quality control, knowledge management.

There is a natural tendency for people in such staff functions, often with the best of intentions, to prove their worth by finding ways to "add value"—devising rules and procedures, building up expertise, finding new problems to solve. Ultimately, they concentrate power and decision-making away from the frontline. People there feel disempowered: they have to follow rules that often make sense only in principle but cannot accommodate the complexity of the concrete situations they face on the ground. Self-managing organizations, in contrast, keep staff functions to an absolute bare minimum. They understand that the economies of scale and skill resulting from staff functions are often outweighed by the diseconomies of motivation produced. As a result, there are very, very few people working in staff functions in self-managing organizations. And those that do typically have no decision-making authority. They can provide guidelines but cannot impose a rule or a decision. They truly deserve the name *support functions*, kicking into action only when teams request their support.

> *Bureaucracies are built by and for people who busy themselves proving they are necessary, especially when they suspect they aren't.*
> Ricardo Semler

At Buurtzorg, for example, the 7,000 nurses are supported by only 30 people working from a humble building in a residential part of Almelo, a town in the northern Netherlands—a far cry from the headquarters building you might expect for such a successful company. None of them are involved in the typical headquarters functions of nursing companies (intake, planning, call center). Buurtzorg has incredibly motivated employees (it is regularly elected "best company to work for" in the country) but, like many other self-managing organizations, it has no human resources department. People working at headquarters have a strong ethos of service to the teams of nurses—their duty is to support nurses with the same dedication and responsiveness that the nurses bring to their patients. Calls and emails from nurses are answered on the spot, or within a few hours at most.

How is it possible to manage a 7,000-person-strong organization with such a barebones headquarters? Many of the typical staff tasks are simply devolved back to the teams. Take recruitment for example: when a team feels the need to expand, it does its own recruiting (the regional coach might give advice when asked but is not involved in the decision). Chances are that the team will co-opt somebody who will fit in well.

Because the team members make the decision themselves, they are emotionally invested in making the recruit successful.

How about expertise? In every organization, there is a natural tension between the need for expertise and the need to let frontline people make decisions. At Buurtzorg, it doesn't make sense for every one of the roughly 600 Buurtzorg teams to develop expertise in every arcane medical condition they might encounter. The first instinct, in most organizations, would be to create a central pool of experts. The risk, of course, is that over time two castes emerge within the organization: the prestigious, and probably higher paid, group of central experts and the lesser-paid generalists scattered around the country. Buurtzorg has developed a number of effective alternatives to deal with expertise, medical and otherwise:

> *We were used to working in large organizations and to joking about the idiots from HQ that came up with all sorts of things. Now we have to do it ourselves and can't complain about others.*
>
> A nurse at Buurtzorg about the absence of staff functions

- Nurses on the teams are encouraged to build up expertise and become contact points beyond their team. Through Buurtzorg's intranet, nurses can easily identify and access colleagues with relevant expertise in a specific subject matter.
- Occasionally, volunteer task forces of nurses are set up that, in addition to their work with patients, investigate a new topic and build up expertise (for instance, how Buurtzorg should adapt in response to new legislation).
- When needed, an expert can be hired centrally as a freelancer, rather than brought into a staff role.
- If a staff function is hired, that person has no decision-making authority over teams.

A real-life example: one day, in a meeting of Buurtzorg's regional coaches, a suggestion was made to hire a specialist in labor law, a topic many teams occasionally need assistance with. The suggestion made sense. And yet, other avenues were explored; after closer examination, it appeared that most questions were recurring, and so the group decided to create a self-help section of "frequently asked questions on labor law" on Buurtzorg's intranet. This took care of most questions, but a year later, the group realized that some questions still popped up for which the FAQ provided no answers. It was decided to contract a freelance expert for a few days per month who would answer questions from teams on request.

Trying to avoid or limit staff functions is something I encountered not only in Buurtzorg, but in all self-managing organizations in this research. The absence of rules and procedures imposed by headquarters functions creates a huge sense of freedom and responsibility throughout the organization. Why is it then, we might wonder, that most organizations today rely so heavily on staff functions? I believe that there are two main reasons for this:

- Staff functions provide economies of scale, or so goes the usual rationale. Economies of scale can easily be estimated in hard dollar figures, whereas it is virtually impossible to peg a number to the diseconomies of motivation.
- Staff functions give CEOs and leaders a sense of control over employees working out in the field. Rarely do leaders invoke this reason for putting staff functions in place, but it is very real. In the old machine metaphor of organizations, staff functions are like levers that the C-suite leaders use to steer the ship—levers that are conveniently close at hand, just a few doors down the hall at headquarters. Yet it is often an illusion of control: from the perspective of headquarters, rules and procedures always make sense; one must be in the field to experience the counterproductive and dispiriting results they often produce and to realize how often people find creative ways around them or simply ignore them.

Leaders of self-managing organizations therefore must embrace trust twice: they must trust that they can give up a sure thing (economies of scale) for something less certain but probably much more beneficial (unbridled motivation). And, after having already severed the power transmission of middle management, they must give up the illusion that staff functions can provide control over frontline staff.

When blue collars self-manage

An organization like Buurtzorg might seem the natural place for self-managing practices to emerge. Many nurses wouldn't want to climb a career ladder to become managers, even if there was one. For that reason, when I started the research that led to this book, I wondered if perhaps I would find self-managing organizations only in serving professions—in health care, education, or the nonprofit sector. I was happy to be proven wrong more than once. FAVI, a family-owned French brass foundry, was the first example I stumbled upon of a blue-collar company that operates with self-management. FAVI was created in the late 1950s and started off creating brass pieces for faucets. Today most of its revenue comes from the gearbox forks it produces for the automotive industry; its other products include compo-nents for electrical motors, water meters, and hospital equipment.

Work at FAVI is physically demanding; it's real blue-collar work. The factory is not a squeaky clean automotive assembly where you can see robots perform elegant and silent dances. It's a workshop where operators work hard loading and unloading metal pieces onto noisy workstations. The nature of batch production at FAVI allows for only limited automation. Walking through the factory, you might not notice immediately what is special about it. You could be forgiven for thinking that cranking out gearbox pieces isn't a very sexy or rewarding business.

Yet FAVI's results are far from ordinary. All its competitors have moved to China to enjoy cheaper labor costs. And yet FAVI is not only the one producer left standing in Europe; it also commands a 50 percent market share for its gearbox forks. Its product quality is legendary, and its on-time delivery close to mythical: workers are proud of their record of not a single order delivered late in over 25 years. FAVI delivers high profit margins, year in and year out, despite Chinese competition, salaries well above average, and highly cyclical demand patterns. There is virtually no employee turnover; workers who have tasted FAVI's ways of working can't see themselves going back to traditionally run factories.

FAVI used to be operated like a traditional factory, before the family appointed Jean-François Zobrist, a charismatic metallurgist and former paratrooper, as new CEO of the brass foundry in 1983.[9] (He remained CEO until his retirement in 2009, when Dominique Verlant took over that role). Despite its relatively small size (80 people), it was firmly stacked like a pyramid: shop-floor workers reported to a *chef d'équipe* that reported to a *chef d'atelier* that reported to a *chef de service* that reported to the *chef de production* that reported to the CEO. The *chef de production* was part of the management team, together with the heads of sales, engineering, planning, maintenance, HR, and finance, all of whom reported to the CEO. This setup is still typical for a manufacturing organization today, with perhaps one or two layers taken out to flatten the structure and reduce costs. No academic or management consultant would find fault with such a structure.

But with Zobrist at the helm, within two years FAVI was fundamentally reshaped, along lines that bear a striking resemblance to Buurtzorg's way of operating. Today, the factory has more than 500 employees that are organized in 21 teams called "mini-factories" of 15 to 35 people. Most of the teams are dedicated to a specific customer or customer type (the Volkswagen team, the Audi team, the Volvo team, the water meter team, and so forth). There are a few upstream production teams (the foundry team, the mold repair team, maintenance), and support teams (engineering, quality, lab, administration, and sales support). Each team self-organizes; there is no middle management, and there are virtually no rules or procedures other than those that the teams decide upon themselves.

The staff functions have nearly all disappeared. The former HR, planning, scheduling, engineering, production-IT and purchasing departments have all been shut down. Their tasks have been taken over by the operators in the teams, who do their own hiring, purchasing, planning, and scheduling. At FAVI, the sales department has been disbanded too. The sales account manager for Audi is now part of the Audi team, just as the sales account manager for Volvo is part of the Volvo team. There is no head of sales above the group of account managers. In the old structure, white-collar workers in offices with windows overlooking the shop floor planned in detail what the workers needed to do, by when, and how. Now

blue-collar workers effectively wear their own white collars and no longer receive instructions from above.

How a client order makes its way through the system perhaps best illustrates how deeply the new model departs from the traditional one. Previously, when an order came in, it would arrive first at the sales department. The planning department would give sales a predicted shipment date and allocate the necessary machine times into the master planning. Then, the day prior to production, scheduling would make the detailed planning of what exactly would need to be produced when on which machine. Based on the scheduling, HR would allocate workers to the machines according to schedule. Workers then simply did what they were told. They had no insight into the order book, whether business was good or bad, and why on that specific day they were allocated to this product or that machine. All they were asked to do was show up at the right place and time and then perform the prescribed tasks for a number of hours. Workers were given no information or say in their work; this state of affairs might or might not have been intentional, but with a fragmented order process, where successive departments refine the planning, it could not be any other way. Workers weren't the only blind ones in the process; the sales account managers did not know what happened on the shop floor any more than workers knew about the order history. They weren't able to understand and tell their customers why certain orders would be delivered on time and others not. Orders, once put in, landed in something of a black box; no one could easily untangle the complex flow that had taken the order through planning, scheduling, HR, and the shop floor.

Now, in the team setup, the process looks very different. Every week, in a short meeting, the account manager of, for example, the Volkswagen team will share with his dozen colleagues the order the German carmaker has placed. Everybody joins in the joy when the order is high or the disappointment when it is low. Planning happens on the spot, in the meeting, and the team jointly agrees on the shipment date. Account managers now have a good understanding of how their agreements with clients affect people and processes in the factory, and when they are put under pressure to reduce prices, they can enlist workers in finding solutions. Can the process be somehow improved, or productivity increased, to shave off another few cents per unit?

The account managers do not report to a head of sales; in practice, they report to their own teams. No one gives them sales targets (you read that right—sales people without sales targets). Their motivation is to serve their clients well and, in the face of Chinese competition, to maintain and when possible increase the number of jobs the factory can provide. Shop floor operators are not faceless workers, but colleagues they know well from their weekly interactions. To account managers, feeding their team with work is a motivation far stronger than any sales target from a head of sales could ever provide. Incidentally, at FAVI, sales orders are always discussed in terms of employment, not in monetary terms; so there is no "we got a $1 million order," but rather "we got an order for 10 people's work."[10]

No executive team, few meetings

The functional structure at FAVI has disappeared, and so there are no more executive team meetings. No one meets at the top! The weekly meetings that used to bring together the heads of sales, production, maintenance, finance, HR, and other departments are now held at the level of every team. At FAVI, each team decides on its meeting schedule—typically they hold three regular meetings: a short tactical discussion at the start of every shift, a weekly meeting with the sales account manager to discuss orders, and a monthly meeting with an open agenda. There are no fixed weekly or monthly meetings across teams that would resemble the previous executive team meeting. When cross-team meetings happen, it's because a specific need has prompted someone to organize it ad hoc. The same holds true for Buurtzorg. Jos de Blok, the CEO, does not meet every week with his regional coaches, for instance. In many ways, such meetings would make a lot of sense: the regional coaches have great insight into what's happening in the field; collectively, they could spot issues and opportunities and determine which actions to take and initiatives to launch. But that would exactly be the problem, in Buurtzorg's perspective—people from up high believing they know what is needed down below. Jos de Blok and the regional coaches have recognized that meeting frequently would most likely spur them to get busy in all sorts of ways. Therefore, they decided to come together just four times a year, with an open agenda to discuss any topics that emerge. This rhythm, they found, is infrequent enough to prevent the risk of their taking the reins from the teams in the way an executive team would.

In a pyramid structure, meetings are needed at every level to gather, package, filter, and transmit information as it flows up and down the chain of command. In self-managing structures, the need for these meetings falls away almost entirely. Meeting overload in traditional organizations is particularly acute the higher you go up the hierarchy. The typical day of a top manager consists of back-to-back meetings. The joke goes that in most organizations, people low in the hierarchy work, while people higher up do meetings. But think of it: in functional pyramidal structures, it could hardly be otherwise. The higher you go, the more lines converge. It is only at the very top that the different departments such as sales, marketing, R&D, production, HR, and finance meet. Decisions are naturally pushed up to the top, as it's the only place where decisions and trade-offs can be informed from the various angles involved. It's almost deterministic: with a pyramidal shape, people at the top of organizations will complain about meeting overload, while people below feel disempowered.

> *Traditional pyramidal structures demand too much of too few and not enough of everyone else.*
>
> Gary Hamel

In the type of structure adopted by Buurtzorg, FAVI, and other self-managing organizations we will meet, the lines converge at the lowest level, within teams. Teams hold short meetings (daily, weekly, or monthly) to align and make decisions; beyond that, there tend to be no regularly scheduled meetings at all. Meetings are planned only ad hoc, when a topic demands attention, with the relevant people around the table. It's an organic way of running an organization, where structure follows emerging needs and not the other way around.

Coordination and knowledge exchange across teams

Of course, coordination is often needed across teams. Traditionally, that's when bosses and staff functions step in. Take load-balancing: because customer orders fluctuate, on any given day some teams might have too much work and others too little. Perhaps a COO role might be needed after all, with an assistant planner to allocate workers across teams. Yet this would be a step back toward reinstating a dominator hierarchy.

FAVI chose a more organic and elegant solution. At regular intervals, a group composed of one designated person from each team comes together for a few minutes; they quickly discuss which teams are over or understaffed; back in their teams, they ask for volunteers to switch teams for a shift or two. The person from the Audi team, for example, might ask who in the team is willing to spend the day with the Volvo team. Things happen organically on a voluntary basis; nobody is being allocated to a team by a higher authority.

Let's look at another example of coordination: the capital expenditure process. Once a year, every team at FAVI establishes the investment budget for the next year—new machines, new tooling, and so on. In most organizations, the finance department challenges these requests and ultimately the executive committee or the CEO arbitrates across departments to channel more money in one direction or another. This opens up the can of worms of politics. Everyone jockeys for a bigger part of the pie. For middle managers, the size of the budget is often the yardstick by which their status is measured. They try, as best as they can, to influence the decision makers in the executive committee through any formal and informal channels at their disposal.

At FAVI, there are no middle managers that fight for budgets, and Zobrist refused to play the role of the father who would decide how to divide up the candy among his children. Teams know that no haggling will take place, so they don't throw in inflated numbers to start with; they make realistic requests based on realistic needs. In most years, when the budgets of the teams are added up, the resulting number is reasonable, and all plans get the green light, with neither discussion nor scrutiny. Teams are trusted to do the right thing; if one team were to get itself golden-plated machines, other teams would quickly notice, and peer-pressure would self-regulate the problem away. In those years where the combined projects exceed what would be reasonable, the CEO simply asks teams to sit together and to come back to him with a revised plan. Representatives from each team come together and put all the plans on a table. They look at what is most important and what might be deferred in everyone's plans. In one or two meetings, the problem is always sorted out.

When opportunities arise that span the boundaries of several teams, the same mechanism plays out: workers self-nominate to create a temporary project team. Sometimes a person is appointed for a staff role to coordinate across teams, but that person receives no authority to impose decisions on the teams. For example, at FAVI there is Denis, an engineer, whose role is to help teams exchange insights and best practices. He spends his days encouraging machine operators to go and see what other teams have come up with. He can't coerce a team into adopting another team's ideas. He must get them interested and excited. If he fails to do so, if teams stop seeing added value in his work, then his role will naturally disappear and Denis will need to find himself another role to fill. In the true sense of the word, he has a support function. In case you are not familiar with manufacturing environments, let me point out how unusual this is—an engineer who is in service and not in command of less-educated (but highly skilled) blue-collar workers.

> *Every decision made at headquarters takes away responsibility from people elsewhere in the organization and reduces the number of people who feel they are making an effective contribution to the organization.*
>
> Dennis Bakke

Another support role in the FAVI environment is held by Frank, a former machine operator. He is FAVI's idea scout. Frank joined the factory as an unskilled operator at the age of 18 when he could hardly read and write. Zobrist noticed a fierce curiosity in Frank's eyes. He prodded him to attend local night classes in French literature to feed his curiosity and to build up self-confidence. After a few years of working on the shop floor, Frank felt ready for more. He told Zobrist: "I'm sure we could be more innovative if we were to scout more actively for new machines, materials, and suppliers. I want to do that job." Zobrist gave him an answer in keeping with his usual leadership style: "Go do it. I believe you have what it takes to be successful in that role. But it's not my decision. You need to show the teams that your role is worthwhile to them." Frank made a success of it. He has been traveling the world, looking for new technologies and new suppliers. He works without a budget and without targets, just like everyone else at FAVI. He is trusted to be reasonable in his travel and hotel expenses. Roughly once a month, he comes back to the factory on a Friday morning and holds a conference

to share his findings. The topic determines who among the operators or engineers show up. That people choose to attend the meeting and pick up on his ideas is proof that his role is valuable. If at some point colleagues were to stop coming to his Friday morning meetings, his role would naturally cease to exist. In that case, Frank would need to find a new role for himself, possibly rejoining a team as a machine operator.

Just like Denis and Frank, the teams at FAVI that offer staff-like support—maintenance and quality, for instance—have no decision-making power over the shop floor teams. They can only rely on their powers of persuasion. Mostly they act upon request from the shop floor. The general philosophy is one of *reverse delegation*. The expectation is that the frontline teams do everything, except for the things they choose to push upward.

These examples—load balancing, investments, task forces, expert functions—show how self-managing organizations deal with the need for coordination across teams: form follows function. When a problem or an opportunity arises, an ad hoc meeting is convened across teams. When a more permanent form of coordination is needed, a staff function might emerge from the teams in a process of reverse delegation. None of this needs approval from above. The decision to create a role like Frank's, or to put an end to it, is not in the hands of the CEO. Things happen organically. Meetings and roles in self-managing structures emerge spontaneously; they subsist as long as they add value to the ecosystem.

Information technology tools such as internal social networks and knowledge repositories can play a critical role in steering clear of unnecessary structures, especially when companies grow larger and people are spread throughout different locations. At FAVI, where the 500 employees all work in the same factory, a colleague is never far away. Much of the knowledge exchange and coordination happens informally on the shop floor or over lunch. At Buurtzorg, there are 7,000 nurses scattered over the country, and most of them have never met. The company's internal social network helps nurses locate a colleague with a specific expertise; they can then pick up the phone and ask a question. Nurses can also post questions directly on the platform in a continuous Facebook-like stream. Collectively, the 7,000 nurses have an extraordinary breadth of medical and technical knowledge; in almost all cases, the answer to a question is out there somewhere. The trick is to find the right person! The engagement level on the platform is so high (nurses tend to log onto it at least once a day, if not more) that within hours, a new question is seen by thousands of colleagues and will attract one or several responses. From Buurtzorg's inception, Jos de Blok envisioned that the "BuurtzorgWeb" would be a critical piece in the company's self-managing puzzle. The alternative—attempting to centralize knowledge within a staff of experts—would most likely be less effective and more costly. Above all, it would undermine the sense of pride with Buurtzorg's nurses that they are the experts and collectively have invaluable knowledge to offer one another.

Trust versus control

With no middle management and little staff, self-managing organizations dispense with the usual control mechanisms; they are built on foundations of mutual trust. Zobrist has written a book outlining FAVI's practices that is subtitled: *L'entreprise qui croit que l'Homme est bon* ("The organization that believes that mankind is good"). The heart of the matter is that workers and employees are seen as reasonable people that can be trusted to do the right thing. With that premise, very few rules and control mechanisms are needed.

Before Zobrist sparked change at the company, it had, like most of its manufacturing peers still have today, intricate systems to exert control and ensure compliance. Workers clocked in and clocked out (white-collar employees were exempt from the system), and the hourly output of every machine was registered. Every minute a worker showed up late for work, and any output below the hourly target, would be recorded and lead to a deduction from the monthly paycheck. Shortly after taking over as CEO, Zobrist got rid of the clocks and the production norms with no warning. The management team he had inherited was aghast. This was a recipe for disaster! Productivity would collapse! Zobrist admits he checked the productivity numbers every day for a week after he had gotten rid of the control systems, not sure what would happen. He firmly believed in the power of trust and was hoping productivity would not decrease, but he had no guarantee his wager would pay off. It turned out that productivity didn't decrease but increased! When Zobrist saw the numbers, he inquired with the operators to understand what happened. When you operate a machine, they told him, there is an optimal physiological rhythm that is the least tiring for the body. In the old system, with the hourly targets, they had always intentionally slowed down. They gave themselves some slack in case management increased the targets. For years, operators had effectively worked below their natural productivity, at a rhythm that was more tiring and less comfortable for them—and less profitable for the company. Now they simply worked at their natural rhythm.

Another unexpected outcome: when time clocks were still around, workers used to leave their machines the minute the shift came to an end; they now regularly stay a few minutes or half an hour longer to finish the work they have started. When you ask them why, they say that their self-image has changed: they used to work for the paycheck; now they feel responsible for their work and they take pride in a job well done.

One administrative staff member, Ginette, had worked full time on maintaining the control system and calculating the pay deductions. Zobrist sat down with her and said *"Ginette, I can't imagine you can be happy in the role of the factory sentry, spending your days fining people. I apologize; I should have put an end to this earlier. … Take the time you need to find yourself another job within FAVI. Your salary will stay the same."* Ginette talked to her colleagues and found out that reception really needed to be staffed in two shifts; clients increasingly expected their calls to be answered early in the morning and late into the afternoon. She had found herself a new job.

At FAVI, trust extends well beyond working hours and production norms. Keys to company cars are freely available at the reception. Any worker can decide to leave the factory floor, pick up a car, and drive to a supplier or a client, no approval needed (though the habit is to inform colleagues, should someone be interested in joining). There used to be a stock keeper in the stock room who would give workers tools and supplies only if they came with a signed request from a shift supervisor. Whenever he went for a break, the stock room would be locked. Now the stock room is always open; workers can pick up anything they need. They just need to submit an entry in a logbook for replacement orders. When a drill was stolen one day, Zobrist put up a flipchart in the stock room with the following message *"A drill was stolen. You know that as a matter of principle we would fire someone for stealing toilet paper. So it's a stupid thing to do, especially as no one was ever denied permission to borrow a tool for an evening or a weekend."* That was enough to put an end to the matter; no further items were stolen. Experience shows that such breaches of trust are exceedingly rare at FAVI, as well as in other organizations that have gone down the road of self-management.

> *I'd rather get burned now and then than to treat my employees like snakes. My colleagues are honorable men and women, and they prove it every day by their actions in a workplace where they're at liberty to run amok if they're so inclined. They're just not so inclined, that's all. The exceptions are so rare that to clamp heavy restrictions on the whole work force just to try to control the actions of the potential bad apples would be a colossal self-sabotage.*
>
> Stan Richards

When trust is extended, it breeds responsibility in return. Emulation and peer pressure regulates the system better than hierarchy ever could. Teams set their own objectives, and they take pride in achieving them. When a person tries to take advantage of the system, such as by not pulling his weight and slacking off, his team members will be quick to let him know their feelings. At FAVI, workers are well aware, from their weekly meetings with the sales account manager, what sharp competition they are up against from China. Nurses at Buurtzorg know their patients intimately and care deeply for their well-being. Teams at FAVI and at Buurtzorg don't need management or control systems to spur them on.

The energy of trust

When people work in small teams of trusted colleagues, when they have all the resources and power to make the decisions they feel are needed, extraordinary things begin to happen. If you care to listen, Zobrist can fill a night telling stories about the energy that self-management has unleashed at FAVI. One such story happened a few years after the factory had adopted the new practices. One Monday morning, Zobrist sensed that something was up with the group producing gearbox forks for FIAT, the Italian car manufacturer (which also owns Alfa Romeo and Ferrari and recently acquired Chrysler). The team was used to a steady order pattern: every Sunday night, a fully loaded truck would depart from FAVI in the north of France to FIAT in Italy. That Monday morning, colleagues from the team told him, "Can you believe it? We did two trucks!" Zobrist had no clue what they were talking about. They were quick to share the story: on Friday, while Zobrist was traveling and away from the factory, FIAT inquired whether they could make an exception and send over two trucks on Sunday night. The team came together, and after a bit of thinking and planning, decided to take on the challenge. They enlisted some volunteers from other teams and added three shifts on Saturday and Sunday. Exhausted but proud, they sent two full trucks out to Italy on Sunday night. It didn't cross their mind to inform the CEO or to seek permission. No one asked to be paid overtime; the team self-organized so as to recover the extra time they had put in over the coming weeks. Zobrist observes:

> *We have used rules and regulations … to make ourselves safe. But there is no safety in separation. … We find well-being only when we remember that we belong together.*
> M. Wheatley & M. Kellner-Rogers

> *Had we been organized like everybody else, that is to say, with a planning department that processes client orders, that planning department would certainly have concluded that FIAT's request was impossible. Or, if it had accepted the request, the operators would certainly have felt that the extra hours were forced upon them, rather than making of it a collective adventure.*[11]

Another day, an operator at the Volkswagen team noticed a quality problem on a part he was working on. He stopped the machine, and with a member of the quality team, sifted through all other finished pieces and works-in-progress. They found no other defective pieces. He chose nevertheless to discuss the incident with the Volkswagen sales account manager. Together, they decided to pick up the keys to a company car and go for the eight-hour drive to the German Volkswagen plant. Once there, they explained the reason for their impromptu visit and were allowed to inspect all similar parts FAVI had previously shipped. All items proved to be perfect, and no defect was found. The quality manager at Volkswagen was flabbergasted. Normally, a defective piece at a supplier leads to some official notification and legal paperwork in the best of cases; more likely, an operator might quietly try to cover up the problem, for fear of reprisals from management. This machine operator not only owned up to his mistake, but he also felt responsible for driving all the way to his client to personally make sure any possible problem was prevented!

> *Everything that is really great and inspiring is created by the individual who can labor in freedom.*
> Albert Einstein

These cases might seem extraordinary, but they testify to a spirit that can be found every day in self-managing organizations—at FAVI, Buurtzorg, and elsewhere. Ultimately, it comes down to this—fear is a great inhibitor. When organizations are built not on implicit mechanisms of fear but on structures and practices that breed trust and responsibility, extraordinary and unexpected things start to happen.

Projects

Sun Hydraulics, a 900-person-strong Florida-based global producer of hydraulic cartridge valves and manifolds, is another industrial organization thriving on self-management. Bob Koski, one of the two engineers who founded the company in 1970, wanted to create a "healthy, self-managed, and informal" organization, instead of what he considered "mostly a poisonous and disrespectful atmosphere of bureaucracy and intimidation" in the companies he had worked for previously.[12] Like FAVI, Sun has no quality control, scheduling, or purchasing departments. There are no standard production times, no time clocks, no piece rates. People work in natural clusters and self-organize to get their work done. The results have been spectacular here too. Sun Hydraulics, now a public company quoted on the NASDAQ stock exchange, has a stellar reputation for quality and service in the industry. The atmosphere on the shop floor and in the offices is unlike anything I have experienced in other manufacturing environments, save for FAVI. In Florida, and throughout engineering schools in the country, people know that if you can land a job at Sun, you'd better take it! Financially, Sun's results are impressive too. In a highly cyclical industry, the company never took a loss in over 30 years. In 2009, at the height of the financial crisis, its revenues were cut in half, and yet it posted a profit for the 38th consecutive year, even though it didn't lay off workers (it never has in any previous downturn either). In a normal year, its profit margins are off the charts[13] and it has been growing at double-digit rates since the 1970s.

Radically simplified project management

Sun makes a good illustration of another aspect: how projects are run in a self-managing environment. Sun is an engineering-heavy company. At any point in time, there are hundreds of engineering projects running in parallel, ranging from product modifications prompted by machine operators, custom-designed manifolds for clients, new cartridge valves to extend the line, or entirely new products the company is inventing. Running so many projects in parallel and getting them completed on time and within budget is a difficult feat for any organization. Prioritizing resources across all these projects can easily turn into a logistical and political quagmire. A whole industry has come into being, trying to help organizations get control of this complexity. Software systems help track all the projects with elaborate Gantt charts that calculate interdependencies and resource needs. Project and program managers are trained in specific methodologies to keep things under control. A major part of their job is to produce monthly reports and indicators to track progress, so that people higher up can understand the situation and make informed decisions.

> *As you've found out by now, you were not hired to fill a specific job description. You were hired to constantly be looking around for the most valuable work you could be doing.*
>
> Valve handbook for employees

At Sun Hydraulics, all of this is radically simplified. There is no management that wants to understand and control the complexity. Projects happen organically and informally. Engineers are typically working on several projects in parallel. They constantly rearrange their priorities, based on what they sense is the most important, most urgent, or most fun to do. Google has the famous practice of "20 percent time"—engineers are free to decide how to spend their Fridays. Sun and other self-managing organizations basically extend this to the whole week. There is no master plan. There are no project charters and no one bothers with staffing people on projects. Project teams form organically and disband again when work is done. Nobody knows if projects are on time or on budget, because for 90 percent of the projects, no one cares to put a timeline on paper or to establish a budget. A huge amount of time is freed by dropping all the formalities of project planning—writing the plan, getting approval, reporting on progress, explaining variations, rescheduling, and re-estimating, not to mention the politics that go into securing resources for one's project or to find someone to blame when projects are over time or over budget. When I discussed with Kirsten Regal, one of Sun's leaders, how little their meeting rooms seemed to be used, she quipped, "We don't waste time being busy."

Project prioritization

But then how are things prioritized? Who decides what should take precedence? "Things have a natural way of taking priority," one of

Sun's engineers told me. At Sun, people have dropped the illusion that one person, however competent, could master all the information of such a complex system and heroically, from above, make the right call for hundreds of decisions that need to be made every week. Instead, they trust the collective intelligence of the system.

If the notion of trusting the collective intelligence of a system seems risky or outright foolish, think about this: the idea that a country's economy would best be run by the heavy hand of central planning committees in Soviet style has been totally discredited. We all know that a free-market system where a myriad of players pick up on signals, make decisions, and coordinate among themselves works much better. Yet for some strange reason, inside organizations, we still trust the equivalent of central planning committees. Self-management brings the principles that account for successful free-market economies inside organizations. "Things do fall through the cracks occasionally," the engineer conceded. But that is often to be welcomed as the outcome of a collective prioritization effort; the system simply roots out a project that doesn't seem promising or important after all. If it had been, someone would have picked it up. Contrast this with failing projects in traditionally run companies: they are often kept alive way too long; everyone knows they are doomed, and everyone also knows that once the project is finally axed, someone will carry the blame. In the hope that the blame will fall on someone else, everyone keeps a low profile.

FAVI relies on the same principle of prioritization as Sun. The factory was an eager and early adopter of Japanese manufacturing techniques; it masters continuous improvement like few others, a critical capability to survive and thrive in the low-margin automotive business. FAVI, you might not be surprised to hear, has no continuous improvement department and no lean production experts; these ideas are all embedded deeply within the teams. A very simple process is at work: whenever a team stumbles upon a problem or an opportunity, as happens every day, the issue is logged in a logbook. Anybody can volunteer to tackle an item by writing his or her initials next to the issue in the logbook. Typically, the two or three people that are most affected or interested decide to join forces and analyze the issue. If no one picks up a certain problem or opportunity, it probably means it is not important. Otherwise it will come up again, and someone will end up tackling it. Like at Sun, no one bothers with statistics, master plans, project management software, or reporting. There is a simple reminder mechanism: operators have asked a woman working in administration to go through the logs once in a while, and if there are items that have been open for more than three months, to remind people who had signed up to tackle the issue about their commitment. Teams have found this gentle prodding to be helpful.

Companies whose work involves lots of projects have started to rethink the physical architecture of their spaces. The office at Sun

Hydraulics is a big open space with custom-designed cubicles that go only waist high. At a glance, people can see who is there and can overhear many conversations. It greatly improves collaboration, colleagues say: many problems that would initiate an email exchange or the scheduling of a meeting at another company are solved by people simply talking to each other over the low dividers.

Valve, a Seattle game-software company whose 400 employees work entirely based on self-management principles, has pushed the physical fluidity a step further. All employees have desks on wheels. Every day, some people will roll their desk to a new place, depending on the projects they join or leave. All it takes is unplugging the cables from the wall in one place and plugging them in somewhere else. The fluid way Valve runs projects (people vote with their feet) is physically reflected in the office space, in the form of ever-morphing clusters of desks huddling together to get work done. Because people move around so often, the company has created an app on its intranet to locate colleagues. It renders a map of the office in real-time, showing the spots where people have plugged their computers into the wall.

Scaling to tens of thousands of employees

Can such self-governing organizations scale beyond a few hundred or thousand coworkers? Can they go global? Applied Energy Services (AES), a global energy provider with headquarters in Arlington, Virginia, shows that self-management principles can work in all cultures and scale to an organization with tens of thousands of employees. From its founding in 1982, the company grew to 40,000 employees in the year 2000, operating power plants and power distribution grids in 31 countries on all continents—from Argentina to El Salvador, from Hungary to Kazakhstan, from Bangladesh to China, and from South Africa to Tanzania. The story of AES, incidentally, also highlights how a company can revert to traditional management under new leadership—a topic picked up in more detail in chapter 3.1. Today, unfortunately, not much is left of the self-managing structure and practices that AES pioneered.

The company was founded in 1982 by Roger Sant and Dennis Bakke. They had conceived the business plan for the company two years earlier while driving from Maryland to Washington, D.C. As Sant dropped Bakke at his house, he added, "And let's make it fun." Bakke, the driving force behind AES's innovative management practices, had spent years working in different departments of the federal government, which profoundly shaped his thinking about organizations. There, he learned that purpose was necessary to make work meaningful, but he also experienced the dispiriting nature of hierarchical organizations and staff functions:

> *As a line executive responsible for the Energy Conservation Program in the federal government … I experienced the debilitating effects of "serving" central staff groups. It seemed as if I had 15 bosses. Each one of the offices was responsible for something I thought was essential to operating my program. … People like me couldn't even testify before a congressional committee without an entourage of people concerned that I might say something related to their area of responsibility. As the executive of the program, I was not really trusted to operate it or speak freely about it. It was almost as if I didn't have a job. At best, my "line" job was about coordinating all the "staff" people who drifted in and out of my program.*[14]

Bakke recounts an earlier anecdote that explains how his view on work was shaped from early childhood—one of a strand of many experiences that would determine his vocation to create organizations that make work fun and fulfilling:

> *On this particular day, my mother had organized the evening work in her usual style. The kitchen was abuzz with activity. I was 16 years old and charged with cooking creamed peas for supper. My younger brother was carrying wood from the shed to the storage area next to the kitchen. Kenny's older sisters [Kenny and his sisters were foster children at the Bakke home] were clearing dirty cooking dishes and setting the table with dinner ware. …. No one was paying attention to Kenny. …. Suddenly the two-year-old … picked up the spoon on his tray. "I want jobs, I want jobs, I want jobs," he chanted as he pounded his spoon.*
>
> *I think this little guy with a crooked smile and troubled past was saying, "I want to contribute. I can make a difference. I want to be part of the team. I'm somebody. I want to have fun working, too!" Over the years, I have reflected on that moment and come to believe that it captures the early and substantial influence Mom had on my concept of fun in the workplace. Somehow, she created an environment in which everyone was energized, not from fear of punishment or promise of reward, but from a desire to accomplish something positive. She had unbridled confidence in our ability to accomplish the tasks at hand. … She gave us enormous freedom to work and make decisions. Somehow she made work so attractive that even an abused two-year-old wanted desperately to pitch in for the sheer joy and excitement of it.*[15]

Under Sant and Bakke, AES, a massive 40,000-employee organization, functioned in self-managing teams of 15 to 20 people. Believing that bad things start to happen when any site becomes too big, they also tried to limit the number of employees in a site to a maximum of 300 to 400 (15 to 20 teams of 15 to 20 people)—the natural limit, they felt, for colleagues to more or less put names and faces together and enter into a casual discussion with any colleague.

Like their counterparts at FAVI and Sun, teams at AES were responsible for decisions relating to all aspects of day-to-day operations: budgets, workload, safety, schedules, maintenance, hiring and firing, working hours, training, evaluations, compensation, capital expenditures, purchasing, and quality control, as well as long-term strategy, charitable giving, and community relations. Let me invite you to pause for a second, as you would be forgiven for having read through that long list of responsibilities too quickly. AES is an energy provider, operating thermal and hydroelectric power plants as well as electrical grids. This equipment is absolutely central to the lives of many people and businesses. Operating problems can lead to disastrous blackouts for the economy, and accidents to the loss of many human lives. And yet millions of customers throughout the world were supplied with energy produced by self-governing teams responsible for such crucial matters as safety and maintenance. With 40,000 people scattered across different continents, AES only had about 100 people working at headquarters in Arlington—hardly a number that could claim to control what was happening in faraway places like Cameroon, Colombia, or the Czech Republic.

And yet, it worked. A front-page article in the *Wall Street Journal* by reporter Alex Markels illustrates with a story how far teams at AES went with taking on responsibilities typically handled by headquarters:

> *MONTVILLE, Conn. — His hands still blackened from coal he has just unloaded from a barge, Jeff Hatch picks up the phone and calls his favorite broker. "What kind of rate can you give me for $10 million at 30 days?" he asks the agent, who handles Treasury bills. "Only 6.09? But I just got a 6.13 quote from Chase."*
>
> *In another room, Joe Oddo is working on J.P. Morgan & Co. "6.15 at 30 days?" confirms Mr. Oddo, a maintenance technician at AES Corp.'s power plant here. "I'll get right back to you." Members of an ad hoc team that manages a $33 million plant investment fund, Messrs. Oddo and Hatch quickly confer with their associates, then close the deal. …*
>
> *It sounds like "empowerment" gone mad. Give workers more autonomy in their area of expertise? Sure. Open the books to employee purview? Perhaps. But what good could possibly come from handing corporate finance duties to workers whose collective borrowing experience totals a mortgage, two car loans, and some paid-off credit-card debt?*
>
> *Plenty of good, says AES. … "The more you increase individual responsibility, the better the chances for incremental improvements in operations," argues Dennis W. Bakke, the company's chief executive and one of its founders. … "And more importantly" he says "it makes work a lot more fun."*
>
> *Is giving coal handlers investment responsibility risky? Mr. Bakke thinks not. He notes that the volunteer team in Montville does have a financial adviser, and they work within a narrow range of investment choices. They aren't exactly buying derivatives. What the CEO likes about the arrangement is that "they're changed people by this experience. They've learned so much about the total aspect of the business, they'll never be the same."[16]*

Volunteer task forces

Scale changes surprisingly little in the structures and practices of self-management. Buurtzorg operates with 7,000 people in pretty much the same way as it did with a few hundred. Before it reverted to more traditional management practices, AES, with its massive size and geographical dispersion, operated in nearly identical ways to Buurtzorg, FAVI, or Sun Hydraulics. There is one element, though, in the toolbox of self-management that AES relied on much more than its smaller counterparts needed to: the use of temporary and permanent task forces.

With only around 100 staff in its headquarters in Arlington, Virginia, AES had no central maintenance or safety departments, no purchasing, no HR, and no internal audit departments. In a smaller company, like FAVI and Sun, when an issue arises in one of these areas, people can simply call a meeting, or delegate a specific coordinating role to a colleague. At AES, with 40,000 people scattered around the globe, that was no longer feasible. The company came up with the "80-20 rule": every person working at AES, from cleaning staff to engineer, was expected to spend on average 80 percent of their time on their primary role and make themselves available for the other 20 percent in one or more of the many task forces that existed around the company.

> *The reality is that centralized decision makers simply don't have enough information to manage the specifics of corporate life. But because centralization is an idea in good currency, corporations apply the model … to solve almost every problem. In so doing, power is amassed at the very top, rigid hierarchies are developed, workers lose their freedom while productivity eventually slows down.*
>
> Bob Fishman

Take investment budgeting, normally the prerogative of finance staff at headquarters. At AES, everything happened in the field; every team established its investment budget once a year. Investment budgets would be added up at the plant level, sometimes running as high as $300 million in a year. When teams were satisfied with the consolidated budget for the plant, it was reviewed, together with those from all other plants, by a budget task force that would suggest possible changes and improvements (but didn't have power to enforce changes). That task force was staffed with a few people from headquarters with relevant expertise, but predominantly with people from local units with all sorts of backgrounds—a security guard could sit next to a technician and an engineer. Internal audits were performed in the same way, by volunteer task forces: each plant would be audited by colleagues from other plants. Task forces were put in place for topics as diverse as compensation, community service, environmental work, and corporate values.

AES found out that using voluntary task forces instead of fixed staff functions has multiple benefits. Employees find avenues to express talents and gifts that their primary role might not call for. They develop a true sense of ownership and responsibility when they see they have real power to shape their company. Dennis Bakke insists on another point: these task forces are formidable learning institutions. At any point in time, thousands of people would be involved in task forces, picking up technical and leadership skills from more experienced colleagues. It's a modern-day form of apprenticeship, scaled to a massive level. No classroom training could ever provide the amount of learning that was taking place day in and day out in the voluntary task forces.

No organization chart, no job description, no job titles

Traditional organizations come with organization charts. Boxes on the charts come with titles and job descriptions, which in turn come with an implicit expectation: people must adapt to the box they have been recruited or promoted into. Self-managing organizations reverse the premise: people are not made to fit pre-defined jobs; their job emerges from a multitude of roles and responsibilities they pick up based on their interests, talents, and the needs of the organization.

The traditional tasks of a manager—direction-setting, budgeting, analyzing, planning, organizing, measuring, controlling, recruiting, evaluating, and communicating—are now scattered among various members of a team. A worker at FAVI, for example, might operate a number of different machines, be in charge of ordering supplies for his team, lead a number of continuous improvement actions, and be responsible for recruitment to his team. Except perhaps for recruitment purposes, no one bothers to write down a job description. Try giving the above person's job a name—is he an "operator-recruiter-supply coordinator"? Job titles and descriptions hardly do justice to unique combinations of roles, and they are too static to account for the fluid nature of work in self-managing organizations. Colleagues frequently switch and trade roles according to workload and preferences. A nurse at Buurtzorg whose patients suddenly require more care might ask a colleague to take over her role of team planner, for instance. For a while, some nurses might carry more than their fair share of management tasks for the teams and less at other times. Thinking in terms of granular *roles* instead of pre-defined *jobs* creates great fluidity and adaptability. People can give up one role and take up another without needing to go through the cumber-some and often political processes of appointment, promotion, and sala-ry negotiation.

At Buurtzorg, teams are careful to keep management tasks somewhat spread out at all times. There is a risk, as some teams have experienced, that hierarchical practices creep back in when too many management roles are delegated to a single team member. Other

organizations, like FAVI for instance, have one person on the team that holds most management roles for the team (FAVI calls them, rather unhelpfully, a "team leader," which might imply hierarchical power over their colleagues). The nature of work in the two organizations accounts for the different approaches. It's easier for a nurse to spend some time in between two patients on a management role than it is for machine operators to stop their machines. FAVI found it works best to have one person free to roam among the team and only operate a machine occasionally when a helping hand is needed. FAVI's team leaders act as coaches for their colleagues, as a clearinghouse for information, and as a point person when coordination is needed with other teams. This choice nevertheless carries a risk. Our cultural baggage of hierarchy is so strong that over time, team leaders could start behaving like bosses and become the primary decision makers on their teams. At FAVI, a simple but powerful relief valve exists, should a team leader find the taste of power too sweet: workers can choose at any moment to join another team. Team leaders have no meaningful way of coercing people into desired behavior; they certainly don't have the authority to fire people unilaterally. If they start to behave autocratically, people can simply walk away.

In most organizations, job titles are a currency for status. Like all currencies, job titles are subject to the law of inflation. In many companies, they seem to swell and multiply—there are vice presidents, senior vice presidents, executive vice presidents, junior or senior directors, and ever more types of chief officers. It is a common expectation, in today's worldview, that people will work hard to achieve the next promotion and a bigger title.

Job titles are like honeypots to the ego: alluring and addictive, but ultimately unhealthy. We can quickly get attached to our job title if it carries social prestige, and we can easily fall into the trap of believing we "are" our job identity. And in a hierarchical system, it's all too natural to start considering that we are somehow above certain people and below others. Unsurprisingly, self-managing organizations mostly do without job titles.

Again, we have to be careful: it does not mean that everyone is equal, that all jobs are the same. Some roles have a rather narrow scope (say, the role of operating a certain machine or cleaning the office), while other roles take a broader perspective (for instance, the role of designing a new product line). In all organizations researched for this book, there is one person recognized for taking the broadest perspective, and usually that person is called the CEO, at least by the outside world (even though she doesn't hold the same prerogatives as a traditional CEO, a topic discussed in chapter 3.1). And there are certain sets of well-defined roles that people naturally give a name to—for example, the regional coaches at Buurtzorg or the team leaders at FAVI. But for the vast majority of employees, people don't bother trying to find the right label that would capture all the different roles they hold at any point in time. Thinking in terms of job titles is so ingrained in our culture's thinking, though, that for their family and friends, most people invent a job title for themselves that somehow captures what they do in the language of traditional organizations.

The organizations I researched didn't only drop job titles; almost all of them also decided to drop words like *employee*, *worker*, or *manager*, and replace them with something else—most often simply *colleague*. If we stop and listen carefully to the meaning carried by the words *employee*, *worker*, or *manager*, we end up wondering how we use them so freely in everyday life.

Outsiders, and sometimes even insiders, can find the absence of job descriptions and job titles confusing. Without boxes to put people into, the organization chart disappears and it's not always easy to know who is responsible for what. For that reason, many organizations elect to keep a log on their intranet where colleagues can indicate the roles they currently fill. This is the case, for instance, at Buurtzorg, where a function within the intranet helps nurses locate the relevant colleague if they have a question or want a tip from someone filling the same role.

It's hard to not think in terms of the traditional organization chart. Often during my research, I caught myself trying to figure out where in a traditional organization chart a person might fit, given her roles. It happened when I was talking to an engineer at Sun Hydraulics and asked him, "So you would be the equivalent of a plant manager in a normal company, right?" With just three words, he gave the best possible answer: "Yes and no." On the one hand, yes, he performs some roles a plant manager would. For instance, one of his roles entails exploring factory-wide improvement initiatives; another is sensing the atmosphere among colleagues at the plant and bringing up issues if the mood is low. He might take the lead on some large projects, say, the automation of a step in the manufacturing process. On the other hand, he has no profit-and-loss responsibility for the factory (or to be more exact, he has it to the same degree as everybody else); his job is not on the line if results are bad (everybody's job is); he cannot impose decisions; he has no privilege to hire or fire people. In that sense, he is not at all like a traditional boss.

Does this mean there are no bosses in a self-managing organization? Quite the contrary. Every role people take on is a commitment they make to their peers. They are not accountable to one boss; every one of their peers is a boss in respect to the commitments they made. And as we will see in the next chapter, which discusses the practices that bring self-managing structures to life, anybody can put on the hat of "the boss" to bring about important decisions, launch new initiatives, hold underperforming colleagues to account, help resolve conflicts, or take over leadership if results are bad and action is needed.

Self-managing students, teachers, and parents

Our schools today are probably further away from self-management than most other types of organizations. We have turned schools, almost everywhere, into soulless factories that process students in batches of 25 per class, one year at a time. Children are viewed essentially as interchangeable units that need to be channeled through a pre-defined curriculum. At the end of the cycle, those that fit the mold are graduated; castoffs are discarded along the way. Learning happens best, this system seems to believe, when students sit quietly for hours in front of all-knowing teachers who fill their heads with information. Children can't be trusted to define their own learning plans and set their own goals; that must be done by the teachers. But, really, teachers cannot be trusted either; they must be tightly supervised by principals and superintendents and school districts and expert commissions and standardized tests and mandatory school programs, to make sure they do at least a somewhat decent job.

This factory-like system seems increasingly out of date. More and more people are crying out for innovation in education and starting to experiment with curricula, technologies, and governance in schools. But is it possible to build a truly self-managing school? And what would it look like? A superb example can be found in the center of Berlin in Germany. The "ESBZ" is a grade 7-12 school that opened its doors in 2007 with more than a bit of improvisation. Just three months before the start of the school year, the city council had suddenly given a decrepit prefabricated building from communist times to a group of pesky parents who simply wouldn't let go of their dream. When the school year started, only 16 students were registered. A few months later, at the mid-year point, 30 more students had joined, mostly rejects and troublemakers other schools had expelled. Hardly a promising start for a new school. And yet today, only a few years later, the school has 500 students and attracts hundreds of principals, teachers, and education specialists from all over the country who want to study the ESBZ model.

The driving spirit of the school is Margret Rasfeld, a former science teacher and radical innovator, whom the group of parents recruited as principal from the other side of the country. The seed for the school was planted 20 years earlier, in an event that would profoundly change Rasfeld's outlook on children and education. In 1986, a few 8th-grade students she was teaching approached her to discuss the violence, bullying, and extortions that were taking place in their school. She said they were welcome to talk things out in the privacy of her home, if they wanted to. Sixteen students came. A week later there were 33. The teenagers were looking to her for answers; she didn't have any, but she helped them journey to find their own. In the process, she discovered a side of the children she had never seen before. She marveled at the courage, persistence, resilience, intelligence, and compassion students were finding in themselves and that the school had never evoked before. From then on, she was determined that education should do justice to children's true potential and true nature; she wanted to engage not only their minds, but their hands, hearts, and souls, too.

Fast-forward to the present at the beginning of a school day. As a visitor to ESBZ, even while still outside at the entry gate of the school, you can sense there is something different about the school. It has to do with the children's presence, the way they walk and interact. The students don't hang out at the gate waiting until the last minute to go in; they seem happy to walk straight toward their classroom. They sport an air of quiet determination and concentration, their mind already on some project. There is no adolescent posturing, no competition of cool. The school claims in its founding principles that all children are unique, that they all have talents to contribute, that they are valuable, valued, and needed. Somehow, the way these children walk into their school seems to say these are more than mere words; the students seem to have embodied the school's guiding principles in their very bodies, posture, and attitudes.

How are these principles translated in the school? First and foremost, children are given full responsibility for their learning. To a large degree, students teach themselves and each other. Adults are mostly mentors and coaches and only act as teachers in the traditional sense when needed. They offer encouragement, counsel, praise, feedback, and challenge. The responsibility for learning is firmly in the hands of the students.

It starts with the way basic subjects are taught—language, math, and science. For these subjects, the school has done away with frontal teaching. Subjects are divided into modules, and each module comes in oversized flashcards that the teachers have devised with theory, exercises, and tests. Students self-pace their learning. A student that struggles with math can choose to spend more time on the subject to come to grips with it and spend less time on another subject that comes easily. There are advanced elements in the modules that interested students can take but are not required to. Students learn on their own or form small groups when helpful. When they have questions, they inquire first among other students; only if their peers can't help do they turn to the teacher (whose time is thereby freed to provide in-depth individual coaching). Classes mix several grades—students from grades 7, 8, and 9 learn together. Children continuously toggle from being learners to being teachers. The older students in particular learn to help out the younger ones (which helps them review material they have learned in the past). Because learning is self-paced, ESBZ has become unusually inclusive. In every classroom, there are children with autism and with light or severe learning disabilities. Normally they would be relegated to a special needs school, but here they can simply work alongside other students at their own rhythm. The student body has an unusually broad spectrum of social backgrounds: 20 percent of students come from a minority background, and 25 percent are eligible for subsidized meals; roughly a quarter of the students come from the other end of the spectrum, from very privileged backgrounds.

Teachers open the door.
You enter by yourself.
Chinese proverb

Each student has a logbook, in which they record what they have accomplished. It's not a free-for-all. There are clear expectations of what is expected at the end of the year (students are free of course to go beyond the expectations when they are passionate about a subject, and many children choose to do so). Every child has a one-on-one meeting every week on Friday with their tutor-teacher. Together they discuss progress made during the week, problems that might have come up, and plans for the week ahead—and also, when relevant, emotional or relational topics that weigh on the child's mind. Through these weekly one-on-one discussions, teachers and students know each other on a much deeper level than in traditional schools. The children know: *Someone cares about me; someone is there to listen*. Twice a year, in a discussion with their tutor, students set themselves three goals for the upcoming months. For instance, Paul, a shy 13-year-old, set himself the goal of becoming more comfortable being seen by others. One of the things he wants to learn is to speak up more in public.

The self-paced learning of basic subjects takes the first two hours of the morning. A big chunk of the day is spent working on individual or collective projects with real-life implications. Some students redesign a part of their school building and then coordinate the actual renovations. Others might try to get the city council to adopt higher environmental standards. Students are encouraged to find out what matters to them, to aim high, to fail, to try again, and to celebrate their accomplishments. They learn that their voice matters, that they can make a difference, that others need them and that they need others.

All year long in grades 7 and 8, students spend two hours every Wednesday outside of school in a class called "Responsibility." In counsel with their tutor-teacher, the children find themselves an activity where they can make a meaningful contribution while learning at the same time. Paul, who wants to overcome his shyness, volunteered to teach chess at his former primary school. The chess class he had loved so much would no longer take place, he had heard, because the teacher was moving to another school. Paul was sad that other kids wouldn't enjoy learning chess the way he had. Suddenly it all made sense: Paul could teach chess; standing in front of a group of children fit with Paul's goal of learning to speak in public—and doing so in front of younger children would be an easier way to practice. All he needed to do now was convince the principal of his former school to let him have a go at it. Just like Paul, all students find a place that suits them. Some work in retirement homes, while others organize school plays in kindergartens. It all depends on their interests and learning objectives. Children experience what it's like to take initiative, to be needed, and to make a difference in other people's lives.

In grades 8, 9, and 10, students have a class called "Challenge" (the beautiful German word "Herausforderung" literally means "being called to grow from the inside out"). They are invited to delve into some inner potential that lies dormant. During the year, they organize and prepare for a special three-week session, where they, alone or in small groups, will challenge themselves to step out of their comfort zone. One group of four students prepared for a three-week survival camp deep in the woods, where they lived in a shelter they built and on food they gathered. Daniel, a 16-year-old extroverted youngster, found his challenge in a three-week silent meditation in a monastery. A music teacher challenged a group of children to do intense music practice eight hours a day for three weeks in an abandoned old farm. Other students biked through Germany together, with little money, having to ask for accommodation and food along the way. The experience is often taxing, but students rave about their accomplishments and the personal growth they experienced, confronting their fears and growing beyond them.

The most daring experiment with student self-management is currently underway. At the end of grade 12, students in Germany must pass a state exam; the grades they get determine what university they can apply to. The stakes are so high that grades 10, 11, and 12 at ESBZ have thus far relied on more traditional teaching-to-the-test methods than students and faculty would like. Could it be possible, students and faculty wondered, to completely redesign the curriculum of grades 10, 11, and 12 in accordance with the school's guiding principles, while still preparing students well for the state exam? This year, all students from those grades will work in an ambitious yearlong project to redesign these three grades. Experts in Design Thinking (a methodology developed by IDEO, a celebrated design firm) will help the children and faculty, in an intensive two-day design workshop, to develop an overall concept. Students and teachers will then work the rest of the year, with support from leading education experts, to turn the concept into concrete structures and practices. Students and teachers are effectively redesigning their own school.

Teachers at ESBZ self-manage too. Teaching is often a lonely profession; at ESBZ it is a team sport. Every class has two tutor-teachers, so all teachers work in tandem. Three classes form a mini-school—they share a floor with a small faculty room where the six teachers meet weekly. The mini-schools are effectively what teams are to FAVI, Buurtzorg, or AES—flexible units that can react quickly to the daily flow of issues and opportunities. On paper, the school has a traditional hierarchy (it is publicly financed, and with that privilege comes a mandatory structure consisting of a principal, two vice-principals, and a

pedagogical director), but mini-schools can make almost all decisions without needing approval from the principal.

Parents also self-manage. The school was created under a special status—the city only pays 93 percent of the teachers' salaries; for the building and all other expenses, the city provides no funds at all. Parents have to close the gap with a contribution calculated on the basis of their income. To minimize the cost, parents have decided that they would each contribute three hours of time every month to the school. What they do and how they do it all happens based on self-managing principles. The building renovation team, for instance, regularly organizes big festive weekends where 50 parents get their hands dirty and renovate a few classrooms. Piece by piece, parents have created warm, colorful, and functional school premises in what a few years ago were rundown leaky buildings. After school hours, the premises now host workshops attended by hundreds of principals and teachers who want to understand ESBZ's magic. The workshops (as you might have guessed) are taught almost exclusively by students, not by teachers or by Margret Rasfeld, the founder and principal.

What is remarkable is that ESBZ enjoys no free pass. The school has to make do with the same amount of teacher hours as any other school in Berlin. Even with the parents' contribution, the school has a lower budget than public schools. Every school can replicate ESBZ's success, because more money or resources are not the decisive factor. All it takes, really, is to look at children, teachers, parents, and education with fresh eyes.

SELF-MANAGEMENT
(PROCESSES)

Self-organization is not a startling new feature of the world. It is the way the world has created itself for billions of years. In all of human activity, self-organization is how we begin. It is what we do until we interfere with the process and try to control one another.

Margaret J. Wheatley and Myron Kellner-Rogers

Self-management requires an interlocking set of structures and practices. The previous chapter dealt with the structural aspects of self-management—for example, how the pyramid makes way for teams and how typical staff functions can be embedded within the teams. Change only the structure, though, and you are left hanging in midair. With the pyramid gone, many of the most fundamental organizational processes need to be reinvented—everything from decision-making practices to information flow, from investments to performance evaluations and compensation processes. We need answers to some very basic questions: if there is no longer a boss to call the shots, how do decisions get made? Who can spend company money? How is performance measured and discussed? What prevents employees from simply slacking off? Who gets to decide who deserves a salary increase or a bonus? This chapter will explore each of these questions in turn.

Decision-making—the advice process

If there is no formal hierarchy, how are decisions made? Can anybody just make any decision? That sounds like a recipe for chaos. Are decisions then made by consensus? That sounds exhausting and impractical, certainly for organizations with hundreds or thousands of employees.

Almost all organizations in this research use, in one form or another, a practice that AES called the "advice process." It is very simple: in principle, any person in the organization can make any decision. But before doing so, that person *must* seek advice from all affected parties and people with expertise on the matter. The person is under no obligation to integrate every piece of advice; the point is not to achieve a watered-down compromise that accommodates everybody's wishes. But advice must be sought and taken into serious consideration. The bigger the decision, the wider the net must be cast—including, when necessary, the CEO or the board of directors. Usually, the decision maker is the person who noticed the issue or the opportunity or the person most affected by it.

With the advice process, any person can make any decision but must seek advice from affected parties and people with expertise.

Dennis Bakke recounts a story that exemplifies the advice process in action. One day Shazad Qasim, a recently hired financial analyst at AES, consulted with Bakke. He was intending to leave his role to go back to his native Pakistan and research the opportunity for electricity-generating capacity there on behalf of AES. Bakke remembers his reaction:

> *I told him I was skeptical. Several years earlier, Agency for International Development (AID) representatives from the U.S. Department of State had encouraged us to expand into Pakistan. We had told them that we hardly knew what we were doing in the United States, let alone a place like Pakistan. Besides, it ranked as one of the most corrupt countries in the world for doing business. The ethical standards at AES probably ensured that we would never get any business there.*[1]

Despite the CEO's recommendation, the advice process meant the decision was Shazad's. He decided to go to Pakistan, effectively creating a new position for himself as business developer, retaining his previous salary. Six months later, the former financial analyst invited Bakke to Pakistan to meet the prime minister. Two and a half years later, a $700 million power plant was running. In line with AES's principles, the decision that AES would invest $200 million of its equity wasn't made by Bakke or the board, but by Shazad and people with less seniority (who of course, given the amounts at stake, asked Bakke and the board for advice).

We often think that decisions can be made in only two general ways: either through hierarchical authority (someone calls the shots; many people might be frustrated, but at least things get done) or through consensus (everyone gets a say, but it's often frustratingly slow and sometimes things get bogged down because no consensus can be

reached). The advice process transcends this opposition beautifully: the agony of putting all decisions to consensus is avoided, and yet everybody with a stake has been given a voice; people have the freedom to seize opportunities and make decisions and yet must take into account other people's voices. The process is key to making self-management work on a large scale. It is actually so critical that, at AES and other self-managing organizations, colleagues know that forgetting to uphold the advice process is one of the few things that can get them fired (we'll touch later on the topic of how someone can be dismissed in the absence of hierarchy).

It's interesting to hear Bakke elaborate on the many benefits of the advice practice: in his experience, it creates community, humility, learning, better decisions, and fun:

> *First, it draws people whose advice is sought into the question at hand. They learn about the issues and become knowledgeable critics or cheerleaders. The sharing of information reinforces the feeling of community. Each person whose advice is sought feels honored and needed.*
>
> *Second, asking for advice is an act of humility, which is one of the most important characteristics of a fun workplace. The act alone says, "I need you." The decision maker and the adviser are pushed into a closer relationship. In my experience, this makes it nearly impossible for the decision maker to simply ignore advice.*
>
> *Third, making decisions is on-the-job education. Advice comes from people who have an understanding of the situation and care about the outcome. No other form of education or training can match this real-time experience.*
>
> *Fourth, chances of reaching the best decision are greater than under conventional top-down approaches. The decision maker has the advantage of being closer to the issue and … usually has to live with the consequences of the decision.*
>
> *Fifth, the process is just plain fun for the decision maker because it mirrors the joy found in playing team sports. … The advice process stimulates initiative and creativity, which are enhanced by wisdom from knowledgeable people elsewhere in the organization.*[2]

It might be interesting to note that AES, unlike Buurtzorg and some other organizations we are yet to meet, did not completely figure out how to work entirely on peer-based systems. It still had some pyramid-like "layers" in place—operators, plant managers, regional directors, the executive committee. And yet, the simple practice of the advice process transcended these layers. Whatever someone's place in the organization, he or she could initiate any decision. People "higher up" could not simply overrule these decisions based on hierarchical position. Everybody, including the executive committee and Dennis Bakke (the co-founder and CEO), had to seek advice to make decisions.

Bakke even pushed the board to play by these rules. Its members actively participated in decision-making when consulted by employees on important decisions through the advice process; beyond that, he felt they should not make any decisions themselves other than those mandated by law.

Avoid jumping to any hasty conclusions. The CEOs and other leaders of self-managing companies are anything but weak, hands-off leaders. Arguably, these CEOs and senior leaders are better informed and more influential than leaders invested with the powers of hierarchy. With the advice process, they are continually consulted regarding decisions by people from all corners of the organization. Information and decisions that reach them are not vetted and filtered many times over as they climb up the chain of command. In traditional organizations, senior leaders must do the hard work of integrating conflicting perspectives into a decision; because this process takes time, senior leaders become bottlenecks for decision-making. With the advice process, they can ask tough questions and give their opinions forcefully, but then move on to the next question; meanwhile, someone else will do the work of integrating different perspectives and advice.

> *The [advice] process is bottom-up, but it is not a loosey-goosey, anything-goes affair. It involves creativity, careful analysis, meticulous planning, and disciplined execution.*
>
> Dennis Bakke

There is no prescribed format for seeking advice. People might reach out to colleagues in one-on-one discussion, or convene the relevant group for a meeting. When large groups are affected by a decision, email or the intranet is often the best way to collect input. Buurtzorg, for instance, has a very active internal social network. When Jos de Blok, the founder and CEO, or anybody else, is contemplating changes that might affect a great number of coworkers (for instance, a decision about compensation), he simply puts out the issue and the proposed solution on the social network to collect colleagues' advice.

No, it's not consensus

The advice process is a simple form of decision-making that transcends both consensus and unilateral action. In some cases, more elaborate decision-making approaches might be applied. Buurtzorg's elegant integrative process (discussed on page 9) is one example, and we'll encounter another one later in this chapter when we discuss Holacracy's governance process. It is worth repeating that these decision-making processes work *without consensus*. I have noticed that for some reason, many people naturally assume that in the absence of bosses, decisions in self-management organizations will be made by consensus. And because they have been scarred by the paralysis and endless discussions that often come when people seek consensus, they are quick to dismiss self-management as a viable way to run organizations.

In principle, consensus sounds appealing: give everyone an equal voice. In practice, it often degenerates into a collective tyranny of the ego. Anybody has the power to block the group if his whims and wishes are not incorporated; now it's not only the boss, but everybody, who has power over others (albeit only the power to paralyze). Attempting to accommodate everyone's wishes, however trivial, often turns into an agonizing pursuit; in the end, it's not rare that most people stop caring, pleading for someone to *please* make a decision, whatever it turns out to be. With the advice process, no one has power over anybody else. The process transcends the need for consensus by giving everyone affected a voice (the appropriate voice, not an equal voice), but not the power to block progress.

Consensus comes with another flaw. It dilutes responsibility. In many cases, nobody feels responsible for the final decision. The original proposer is often frustrated that the group watered down her idea beyond recognition; she might well be the last one to champion the decision made by the group. For that reason, many decisions never get implemented, or are done so only half-heartedly. If things don't work out as planned, it's unclear who is responsible for stepping in. With the advice process, the ownership for the decision stays clearly with one person: the decision maker. Convinced that she made the best possible decision, she sees things through with great enthusiasm, trying to prove to advice givers that their trust was well placed or their objections immaterial. While consensus drains energy out of organizations, the advice process boosts motivation and initiative.

Decision-making in times of crisis

Can the advice process be upheld in times of crisis, when swift and even harsh decisions might be needed—say, to lay off staff in a downturn or to sell parts of a business? Can we genuinely consult with a group of coworkers about laying them off? Perhaps an extreme situation calls for extreme measures; perhaps self-management needs to be suspended temporarily for the CEO to make a few necessary, top-down decisions. But then, how can workers maintain trust in their organization's self-management, if every now and again the CEO can decide to step in and make autocratic decisions? FAVI, Buurtzorg, and AES have all faced crisis moments. The graceful ways they found to deal with such situations can provide inspiration for other self-managing organizations facing a crisis.

No one would call Jean-François Zobrist, a bear of a man and former paratrooper, a softie. But when he was faced with difficult and critical decisions at FAVI, he readily admitted he needed help to find a good answer. More than once, on impulse, he went around the shop floor, asked everybody to stop the machines, climbed on a soapbox and shared his problem with all the employees, trying to figure out a course of action. The first major crisis under his leadership happened in 1990 when car orders plummeted in the wake of the First Gulf War. Stocks were piling up, and there simply wasn't enough work to keep workers busy. Capacity and costs needed to be reduced. There was one obvious solution: fire the temp workers. But at FAVI, no one was really considered a temp worker. For reasons related to labor laws in France, new recruits were hired as temp workers for 18 months before they were offered a full contract. Most of them were already considered full members of their teams. By firing the temps, FAVI would rescind its moral commitment to them, and it would lose talent it had invested in, with a recovery perhaps only a few months away. With many questions and no clear answers, Zobrist found himself on the soapbox and shared his dilemma with all employees in that shift (including the temp workers whose fate was being discussed). People in the audience shouted questions and proposals. One worker said, "This month, why don't we all work only three weeks and get three weeks' pay, and we keep the temp workers? If we need to, we will do the same thing next month as well." Heads nodded, and the proposal was put to a vote. To Zobrist's surprise, there was unanimous agreement. Workers just agreed to a temporary 25 percent salary cut. In less than an hour, the problem was solved and machine noise reverberated around the factory again.

Most leaders I know would consider Zobrist's approach extremely risky. Sharing their dilemma openly with everybody would make them feel so vulnerable that this course of action probably wouldn't even cross their mind. Indeed, no one could have predicted with certainty how employees would react to the news that their jobs were on the line. The gathering could have descended into chaos, with fear of layoffs pitting people against each other in heated exchanges. Zobrist had no preconceived idea, no script, for how to lead the discussion once he had shared the company's problem. He chose to trust—trust himself, trust employees, and trust the process.

> *I finally figured out that not every crisis can be managed. As much as we want to keep ourselves safe, we can't protect ourselves from everything. If we want to embrace life, we also have to embrace chaos.*
>
> Susan Elizabeth Phillips

Obviously, the safer option would have been to ask the head of human resources (HR) to discreetly work out a number of scenarios, confidentially convene the management team to discuss them, and hide the problem from the workers until a decision was ready to be announced. (In the case of FAVI, of course, Zobrist didn't have an HR director nor an executive team at hand, but he could have convened a few trusted advisors.) This method is the tried-and-true way leaders have learned to handle sensitive issues in organizations. Whether they realize it or not, this approach is driven by a leader's fear: fear that employees might not be able to handle difficult news; fear that the leader's legitimacy might be questioned if he doesn't call the shots; and fear that he might look like a fool if he discusses a problem before he has

fully figured out a solution. Zobrist's ability to keep his fear in check paved the way for a radically more productive and empowering approach and showed that it is possible to confront employees with a harsh problem and let them self-organize their way out of it. In the right framework, it seems that the advice process can be upheld even in crisis situations, and a leader should think twice before reverting to top-down decision-making.

Buurtzorg faced a crisis in 2010 and mastered it using the advice process too. The young company was growing at breakneck speed when Jos de Blok heard that health insurance companies had threatened to withhold €4 million in payments to Buurtzorg, citing technical reasons (the more likely reason: the insurance companies wanted to signal to Buurtzorg that it was growing too fast at the expense of established providers). A cash crunch loomed. Jos de Blok wrote an internal blog post to the nurses exposing the problem. He put forward two solutions: either Buurtzorg could temporarily stop growing (new teams cost money at first) or nurses could commit to increasing productivity (increasing client work within the contract hours). In the blog comments, nurses overwhelmingly chose to work harder because they didn't like the alternative: slower growth would have meant saying no to clients and nurses wanting to join Buurtzorg. In a matter of a day or two, a solution to the cash problem was found (and after some time, the insurance companies eventually disbursed the withheld funds).

AES gives an example of how to suspend the advice process—as gracefully as possible—in times of crisis. In fall of 2001, after the terrorist attacks and the collapse of Enron, AES's stock price plummeted. The company needed access to capital markets to serve its high debt levels but found them suddenly closed. Swift and drastic action was needed to prevent bankruptcy. A critical question was: how many and which power plants would need to be sold off to raise the necessary cash? With 40,000 people spread around the world, Dennis Bakke, the CEO, could hardly convene everybody and stand on a soapbox like Zobrist at FAVI. And the problem was so complex that he couldn't simply send out a blog post with two alternatives, like Jos de Blok did at Buurtzorg.

Bakke chose a course of action that temporarily suspended the advice process in a way that nevertheless minimized the risk of undermining trust in self-management. He didn't work out a plan behind closed doors with his management team; instead, he publicly announced that top-down decision-making would be made during a limited time for a limited number of decisions, albeit critical ones. The advice process would remain in force for all other decisions. To investigate the best course of action and make the tough calls, Bakke appointed Bill Luraschi, a young and brilliant general counsel. Luraschi wasn't regarded as one of the most senior leaders nor as someone who would seek a leading role in the future. The signal was clear: the senior leaders of the organization were not looking to exert more power. Top-down decision-making would be handled by someone with no thirst for power, and it really would be temporary.

If the advice process needs to be suspended in times of crisis, these two guidelines can serve to maintain trust in self-management: give full transparency about the scope and timeframe of top-down decision-making, and appoint someone to make those decisions who will not be suspected of continuing to exert such powers when the crisis is over.

Purchasing and investments

Employees' power to make decisions using the advice process is perhaps most evident when it comes to spending company money. Most organizations put authorization limits in place. A frontline manager might be free to spend money up to $1,000 but require authorization from his bosses beyond that amount; a unit manager might have spending power up to $10,000 and a plant manager up to $100,000. Whatever the amounts, the purchase order must generally proceed through a central procurement department that coordinates the relationships and negotiations with suppliers.

In self-managing organizations there are no authorization limits and no procurement departments. An employee who needs a new $50 printer doesn't have to call the IT department, hope for a green light from his boss, and wait the days or weeks it takes for the printer to arrive. He can simply head down to Walmart and buy a printer. In principle, any person can spend any amount of money, provided he has sought the necessary advice before making the decision; the larger the purchase, the more people are typically involved in the advice process. At FAVI, Sun Hydraulics, and other self-managing organizations, workers rather than managers are in charge of purchasing the machines and equipment that they work with, even when they cost several hundred thousand dollars. They do the analysis, write up the necessary specifications, visit and negotiate with suppliers, and secure financing from the bank if needed. In hierarchical organizations, when engineers do the analysis and choose a machine model, workers often complain about the new machine and drag their feet when it comes to learning how to operate it. When they have chosen the model, there is no such resistance to change.

What about volume discounts? Surely money is left on the table if purchases are not pooled? As often, the answer is: trust people to make the right decisions within the framework of self-management. For items where volume discounts are too good to give up, colleagues who buy from the same vendor will choose to coordinate to maximize their buying power. At Morning Star, a tomato processing company we'll soon discuss in greater depth, colleagues noticed that lots of people were buying threadlocker, an adhesive that prevents nuts and bolts from

accidentally loosening, in dozens of different formats and from different vendors. They were not only losing out on volume discounts, but the uncoordinated purchasing generated unnecessary bureaucracy because regulations in the food industry required workers to painstakingly track every threadlocker format in a Material Safety Data Sheet. At some point, a worker suggested that he could walk around the plant once a quarter and ask colleagues if they wanted to order threadlocker through him. A similar solution emerged for purchasing packaging materials, an area where volume discounts can quickly add up. When there is value in coordination, people simply start to coordinate.

What about standardization? It makes sense to buy computer or telephone equipment from the same or compatible vendors, for instance. Again, one can simply trust the advice process. A secretary buying herself a new computer, unless she is very well versed in hardware and software specifications, will likely seek advice from a knowledgeable party to ensure the computer will easily fit in with the rest of the IT equipment. In this case, there is no need for a central department to enforce standards. In more complex cases, when standards need to be specified, someone will step up and call together a group that will look into the matter and define the standards.

Explicit assumptions

Founders and leaders of self-managing organizations get asked the same question over and over again: isn't it risky and foolish to let people make decisions without top-down control, especially when money is involved? In their experience, it is less, not more risky, because better decisions get made. But the really interesting thing is that the choice between trust and control is seldom debated on a rational level. It's a choice that gets made based on deeply held, often unconscious assumptions we hold about people and their motivations. Several leaders of self-managing organizations have found it useful, therefore, to talk often and explicitly about the assumptions underpinning self-management and to contrast them with the assumptions made by traditional hierarchies.

When AES acquired a new power plant, Bakke would often introduce AES's management practices to the new group of colleagues by asking them what assumptions owners and managers of a typical factory hold about their workers. Here is how Bakke summarizes the assumptions workers generally feel bosses have about them:

- *Workers are lazy. If they are not watched, they will not work diligently.*
- *Workers work primarily for money. They will do what it takes to make as much money as possible.*

- *Workers put their own interest ahead of what is best for the organization. They are selfish.*
- *Workers perform best and are most effective if they have one simple repeatable task to accomplish.*
- *Workers are not capable of making good decisions about important matters that affect the economic performance of the company. Bosses are good at making these decisions.*
- *Workers do not want to be responsible for their actions or for decisions that affect the performance of the organization.*
- *Workers need care and protection, just as children need the care of their parents.*
- *Workers should be compensated by the hour or by the number of "pieces" produced. Bosses should be paid a salary and possibly receive bonuses and stock.*
- *Workers are like interchangeable parts of machines. One "good" worker is pretty much the same as any other "good" worker.*
- *Workers need to be told what to do, when to do it, and how to do it. Bosses need to hold them accountable.* [3]

These assumptions sound harsh when they are put into words, and yet they are the basis for the structures and practices we have in organizations today. If this view of employees is true, leaders are prudent to build in controls, rewards, and punishments; only a fool would trust workers to make decisions using the advice process. Because the assumptions are often implicit, or even held subconsciously, Bakke felt it was critical to make them explicit and then to define a different set of assumptions.

AES people:

- *Are creative, thoughtful, trustworthy adults, capable of making important decisions;*
- *Are accountable and responsible for their decisions and actions;*
- *Are fallible. We make mistakes, sometimes on purpose;*
- *Are unique; and*
- *Want to use our talents and skills to make a positive contribution to the organization and the world.*[4]

With this set of assumptions, self-management and the advice process make perfect sense; while control mechanisms and hierarchy are needless and demoralizing distractions.

Jean-François Zobrist often initiated similar discussions with workers and new recruits at FAVI to explain the rationale for self-management. One day, for training purposes, he wrote down the following set of assumptions:

The analysis of our organization chart in the 1980s [when FAVI was still run like any other factory] *reveals without a doubt that men and women were considered to be:*

- ***Thieves*** *because everything was locked up in storage rooms.*
- ***Lazy,*** *as their working time was controlled and every late showing punished by somebody … who didn't even care to inquire about the reasons for being late.*
- ***Not dependable*** *because all their production was controlled by somebody else who must not have been very dependable either because random controls … had been put in place.*
- ***Not intelligent****, as a "manufacturing engineering" department did the thinking for them.*

Zobrist and his colleagues defined three new assumptions that over time have become mantras inside the factory.

- ***People are systematically considered to be good.***
  (Reliable, self-motivated, trustworthy, intelligent)
- ***There is no performance without happiness.***
  (To be happy, we need to be motivated. To be motivated, we need to be responsible. To be responsible we must understand why and for whom we work, and be free to decide how)
- ***Value is created on the shop floor.***
  (Shop floor operators craft the products; the CEO and staff at best serve to support them, at worst are costly distractions)[5]

If you are familiar with management theory, you will have recognized the similarity between the statements from AES and FAVI and the Theory X and Theory Y that Douglas McGregor developed in the 1960s when he was a professor at MIT. He stated that managers hold one of two sets of beliefs concerning employees: some think employees are inherently lazy and will avoid work whenever possible (Theory X); others think workers can be ambitious, self-motivated, and exercise self-control (Theory Y).

Which set of assumptions is true? People can debate this topic endlessly. McGregor had a key insight that has since been validated time and again: both are true. If you view people with mistrust (Theory X) and subject them to all sorts of controls, rules, and punishments, they will try to game the system, and you will feel your thinking is validated. Meet people with practices based on trust, and they will return your trust with responsible behavior. Again, you will feel your assumptions were validated.

At the core, this comes down to the fundamental spiritual truth that we reap what we sow: fear breeds fear and trust breeds trust. Traditional hierarchies and their plethora of built-in control systems are, at their core, formidable machines that breed fear and distrust. Self-managing structures and the advice process build up over time a vast, collective reservoir of trust among colleagues.

Organizations routinely talk about their values and mission; self-managing organizations talk about something even more fundamental—their basic assumptions about human nature. This has to do, I believe, with the fact that self-managing practices are still countercultural today. Many of us hold deeply ingrained assumptions about people and work that are based on fear, assumptions that call for hierarchy and control. Only by shining light on these fear-based beliefs can we decide to choose a different set of assumptions. FAVI, AES, and others have found that when colleagues know and talk about the two sets of assumptions frequently, people shift their belief system. The risk that fear-based control mechanisms will creep in through the back door is minimized. Someone will speak up and say, "Wait a minute! Does this new process fit our assumptions? I think not."

Whatever fundamental assumption you hold about human nature, it will be validated by the response your behavior will evoke from people around you.

Internal communications

The way information flows illustrates how assumptions (conscious or unconscious) shape organizational practices. In most workplaces, valuable information goes to important people first and then trickles down to the less important. Sensitive information is best kept within the confined circle of top management. If it must be released more widely, it needs to be filtered and presented carefully from the best possible angle. The underlying assumption is that employees cannot be trusted; their reactions could be unpredictable and unproductive, and they might seek to extract advantages if they receive too much information. Because the practice is based on distrust, it in turn breeds distrust among people lower in the hierarchy: *What are the bosses concealing now?*

In self-managing organizations, there are no unimportant people. Every-body expects to have access to all information at the same time. It's a "no secret" approach that extends to all data, including the most sensitive. This information includes not only financial data, but also salaries or the performance of individual teams. At Buurtzorg, for instance, teams can see every month how their productivity compares to that of other teams. The data of other teams is not anonymized or averaged out. People are trusted to deal with good and bad news. There is no culture of fear, and so teams with bad results are not deemed to need the protection of anonymity. Teams that go through a difficult phase are trusted to own up to the reality of the situation and to search for solutions.

Why go to this extraordinary length and share *all* information? Three reasons make this practice compelling for self-managing organizations:

- In the absence of hierarchy, self-managing teams need to have all available information to make the best decisions.
- Any information that isn't public will cause suspicion (why else would someone go through the trouble to keep it secret?), and suspicion is toxic for organizational trust.
- Informal hierarchies reemerge when some people are in the know while others are not.

In the case of AES, a publicly traded company, the decision to share all information with all employees brought up unprecedented questions with the U.S. Securities and Exchange Commission, as Bakke recalls:

> *If everyone had access to financial data of the company, then every AES employee, even those working in faraway plants, would be classified as "insiders." Instead of 5 to 10 "insiders" at a typical company, AES had thousands. All were subject to "blackout periods" in which they could not trade the company securities. Fairly soon after AES stock began trading publicly, we asked our people if they would like to limit their access to information so that they would not be considered insiders and would be free to trade AES stock at any time. By an overwhelming margin, they chose to have full access to financial information and to remain insiders.*[6]

In practice, to avoid information getting distorted or lost as it spreads from one person to another, self-managing organizations use their intranet as a central repository where everybody can publish and retrieve information in real time. At Buurtzorg, all data concerning performance of all the teams is put on the company's intranet. A team that struggles in one area can identify a team in the neighborhood with outstanding results and ask for advice and best practices. At FAVI and at Sun Hydraulics, there are computer stations with open access throughout the shop floor so that machine operators can log in to consult data at any time.

All-hands meetings are another standard practice in many self-managing organizations. They are typically held when there is new and important information to share: quarterly results, the annual values survey, a strategic inflection point, and so forth. The information is not simply shared top-down—it is discussed and debated. There tends to be no script to the meetings. Questions can take the meeting in any direction; frustrations can be vented; accomplishments and people spontaneously celebrated. In these moments, more is at play than simple information exchange. At a deeper level, trust in the organization and its values is tested and reaffirmed. All eyes are on the people in senior roles. Will they be candid, humble, and vulnerable? Will they face rather than dodge difficult questions or criticisms? Will they involve the whole group in problem solving? If traditional companies rarely hold all-hands meetings, it is precisely because they can be unpredictable and risky. But in that very risk lies their power to reaffirm an organization's basic assumptions and to strengthen the community of trust.

> *If you empower people but don't give them information, they just fumble in the dark.*
> Blair Vernon

Of course, not all news is pleasant to hear. The practice of sharing all information puts everyone in the same situation as the CEO of a traditional organization. It forces people to grow up and face unpleasant realities. In the 2002 recession, Sounds True, a media publishing company we will meet in the next chapter, was for the first time in its history facing a difficult financial situation. Its founder and CEO, Tami Simon, remembers that some people were then experiencing the other side of total transparency:

> *There is a certain kind of anxiety introduced in an environment where people know all about the business and its accompanying uncertainties. In companies where the executive team acts like parents who withhold difficult information from workers, people are protected from this anxiety. But I think that approach gives people a false sense of safety. Here, employees may feel anxious about finances more of the time, but at least everyone knows where they stand.*[7]

Conflict resolution

How do self-managing organizations deal with conflict? What happens when people have substantial disagreement on the right course of action? Or when two colleagues rub each other the wrong way? In a traditional workplace, people would send up the dispute to a boss to settle the matter. In self-managing organizations, disagreements are resolved among peers using a conflict resolution process. This process is so fundamental to collaboration without hierarchy that many self-managing organizations train every new recruit in conflict resolution.

That is the case, for instance, at Morning Star, the company in this research that has fleshed out, perhaps better than any other, the processes required for effective self-management. Morning Star is the world's largest tomato processing company, located on the West Coast of the United States. It began in 1970 when Chris Rufer, at the time a recent MBA graduate, started a one-person truck-driving operation hauling tomatoes. Today, Morning Star harvests tomatoes, runs a 200-truck hauling business, and operates three state-of-the-art processing plants that produce over 40 percent of the tomato paste and diced tomatoes consumed in the United States. Chances are that if you live in

the United States and you're not allergic to spaghetti sauce, ketchup, or pizza, you've enjoyed Morning Star's products many, many times.

Tomato processing is a highly capital-intensive business working to incredibly exacting standards. From the outside, the processing factories look very much like chemical plants—they are huge masses of interconnected steel pipes digesting hundreds of tons of tomatoes per hour. The business is highly seasonal; the company works with 400 colleagues (the word Morning Star uses for employees) in low season but employs 2,400 people during harvest time in the summer. All of these people operate entirely on self-managing principles. There are 23 teams (called Business Units), no management positions, no HR department, and no purchasing department. Colleagues can make all business decisions, including buying expensive equipment on company funds, provided they have sought advice from the colleagues that will be affected or have expertise.

The founding principles for Morning Star's way of operating were set early in its history. When the first tomato processing factory was built, Chris Rufer and the company's first employees met to define how they wanted to work together. They decided that two principles, two basic social values, should inspire every management practice at Morning Star: individuals should *never use force* against other people and they should *honor their commitments*. These principles are at the heart of the company's conflict resolution mechanism, a process that is described in great detail in the "Colleague Principles," a core document outlining Morning Star's self-managing practices.

The conflict resolution process (called "Direct Communication and Gaining Agreement"), applies to any type of disagreement. It can be a difference of opinion about a technical decision in a given situation. It can be interpersonal conflict. It can be a breach of values. Or it can be related to performance issues, when one colleague finds that another is doing a lousy job or not pulling his weight. Whatever the topic, the process starts with one person asking another to gain agreement:

- In a first phase, they sit together and try to sort it out privately. The initiator has to make a clear request (not a judgment, not a demand), and the other person has to respond clearly to the request (with a "yes," a "no," or a counterproposal).
- If they can't find a solution agreeable to both of them, they nominate a colleague they both trust to act as a mediator. The colleague supports the parties in finding agreement but cannot impose a resolution.
- If mediation fails, a panel of topic-relevant colleagues is convened. The panel's role, again, is to listen and help shape agreement. It cannot force a decision, but usually carries enough moral weight for matters to come to a conclusion.
- In an ultimate step, Chris Rufer, the founder and president, might be called into the panel, to add to the panel's moral weight.

Since the disagreement is private, all parties are expected to respect confidentiality during and after the processes. This confidentiality applies of course to the two persons at the heart of the conflict as well. They must resolve their disagreement between themselves and are discouraged from spreading the conflict by enlisting support and building rival factions.

Several other organizations in this research rely on virtually identical conflict resolution mechanisms: first a one-on-one discussion, then mediation by a trusted peer, and finally mediation by a panel. At first, I was struck by what seemed like an extraordinary coincidence. Before engaging in this research, I had never encountered a company with an explicit conflict resolution mechanism, and here I stumbled upon several organizations that had come up with virtually identical processes. In discussions with people at Morning Star, I came to understand that this process is about more than simply managing the occasional workplace conflict. Conflict resolution is a foundational piece in the puzzle of interlocking self-management practices. It is the mechanism through which peers hold each other to account for their mutual commitments. In traditional companies, when one person doesn't deliver, colleagues grumble and complain but leave it to the person's boss to do something about it. In self-managing organizations, people have to step up and confront colleagues who fail to uphold their commitments. Morning Star and other self-managing organizations readily admit that this essential piece can be tricky to put in place and to maintain. The process is effective to the degree that there is a culture within the workplace where people feel safe and encouraged to hold each other to account, and people have the skills and processes to work through disagreements with maturity and grace. Freedom and responsibility are two sides of the same coin—you can't have one without the other (at least not for long). Holding colleagues accountable to their commitment can feel uncomfortable. A clearly outlined conflict resolution process helps people confront each other when needed.

Role definition and allocation

We discussed in the previous chapter how self-managing organizations have done away with rigid job descriptions and job titles. Instead, every colleague has a number of roles that he has agreed and committed to fulfill. How are these roles created? And how are people appointed to new roles? In most cases, it happens organically without much fanfare. Someone senses an issue or an opportunity that calls for a new role. Say the receptionist notices that clients often call to ask about technical data of certain products. Wouldn't it make sense to put the technical data on the website? The logical next step is to discuss the idea with relevant people from product development and after-sales services. Most likely someone will step forward and take on the role. In

hierarchical organizations, with their silos and turfs, this question might spark lots of debates and meetings regarding which department the job belongs in, what budget and resources should be allocated, and on and on. Here, someone simply steps forward and takes on the role.

Depending on their company culture and the industry they work in, organizations can put different levels of formalism around the process of creating roles. At FAVI, AES, Sun, and Buurtzorg, the process is pretty informal; you might remember the story of Frank at FAVI who created his own role as idea scout, or that of Shazad at AES who chose to relocate to Pakistan to try to get a power plant going there. People simply follow the advice process: they bounce the idea off the relevant people that a role must be created (or modified or scrapped). Or they simply discuss it in a team meeting.

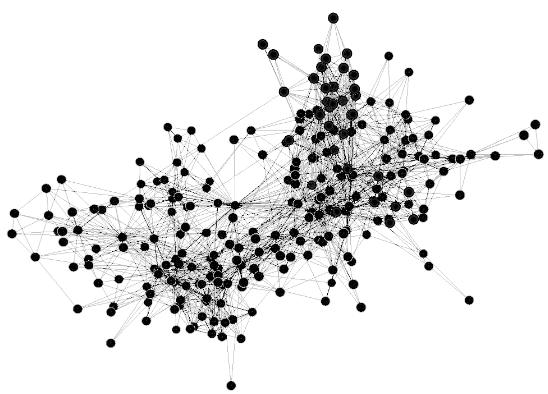
Formalized contracting

Morning Star has created a somewhat more formal process to define and allocate roles. Given the annual rhythm of the tomato business, roles at Morning Star are formally discussed and determined once every year. (Of course roles keep evolving during the year, and ad hoc discussions to agree on changes of roles take place regularly.) As a Morning Star colleague, you write a personal mission statement ("Personal Commercial Mission" in Morning Star's language) and spell out all of the roles you commit to in a document called *Colleague Letter of Understanding* (or simply CLOU). Roles at Morning Star are defined very specifically, so you might well hold 20 or 30 different roles (one might be *receiver of tomatoes at the unloading station*, another might be *trainer of seasonal whole peel sorters*). For each role, you specify what it does, what authority you believe you should have (act, recommend, decide, or a combination thereof), what indicators will help you understand if you are doing a good job, and what improvements you hope to make on those indicators.

Why this level of formality and granularity? At FAVI and Buurtzorg, colleagues don't bother to write down roles in such detail, nor to define performance indicators or targets for themselves. The nature of nursing at Buurtzorg requires constant shifting and flexibility, and so too does the type of small batch processing that happens at FAVI. Turning tomatoes into paste, in contrast, is one long continuous process. Trucks repeatedly dump in tomatoes on one side, and paste comes out in aseptic packaging on the other. In what is essentially a low-margin commodity business, the name of the game here is not flexibility but continuous improvement to increase efficiency by one or two more percentage points. In that context, it makes sense to define roles with great granularity and to track performance indicators very closely.

In a continuous process like Morning Star's, each person in the chain receives tomatoes or paste in some form from someone upstream and delivers them in another form to someone downstream. Therefore, colleagues at Morning Star chose to discuss the CLOUs, once written or up-dated, not in a team setting (which most self-managing organizations do), but in a series of one-on-one discussions with the handful of colleagues up and down-stream that people interact with most. People discuss and negotiate what's written in each other's CLOU documents very seriously—they want to make sure that people upstream commit to supplying them with the right input, so that they can in turn deliver to people downstream what they committed to. The chart below shows a visual depiction of the web of commitments within the company. Each dot represents a person, and the lines connect people who are joined by a commitment made in a CLOU. Morning Star has no organization chart. If it had one, this would be it.

The real organization chart in any company is a spider web of informal relations. Unfortunately, we insist on forcing a pyramid structure onto this web, which distorts the natural flow of work.



Web of commitments at Morning Star

Actually, one could argue that every organization's real structure looks like this: an intricate web of fluid relationships and commitments that people engage in to get their work done. Unfortunately, most organizations force a second structure, the one with boxes piled up in pyramid shape, on top of the first. No wonder it sits there so uneasily—it distorts more than it helps the real work going on in the web of relation-ships underneath.

Perhaps you noticed how many more lines there are in Morning Star's web than in a formal organization chart. The resulting structure weaves into a fabric that is highly resilient, like a spider web. Notice too how within such a system that there are no layers and thus no

promotions. What happens is that people, as they grow in experience, take on roles with larger responsibilities and offload simpler ones to new recruits or more junior colleagues. People don't need approval from a boss to change roles, but consent from their peers. The implication is profound, as one Morning Star colleague expresses:

> *The temptation to not be ourselves and look good in the eyes of a boss is much diminished, as it is hard to constantly look good to a dozen colleagues. We just give up even trying to play that game.*[8]

In self-managing organizations, people don't compete for scarce promotions. You can broaden the scope of your work and increase your pay if your colleagues are ready to entrust you with new roles. They will grant you important roles if you've developed your skills and have shown yourself to be trustworthy and helpful. In self-managing organizations, there can be internal competition, but it's a healthy type. Chris Rufer uses a golfing analogy to explain:

> *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.*[9]

Defining roles and governance within teams

At Morning Star, roles emerge from a series of one-on-one commitments, a practice that is well suited for an industry with a continuous process. In organizations where teams are the natural unit, Holacracy provides perhaps the most elegant process to define roles and help them evolve. Holacracy is not so much an organization as an *organizational operating model*, a brainchild of American entrepreneur Brian Robertson. In the 1990s, Robertson and two colleagues in the Philadelphia area founded and developed Ternary Software, which became a fast-growing software development company. The impulse for starting a new company was Robertson's deep dissatisfaction with organizations he had worked in:

> *I had gone through a several year period of just feeling like there was so much [in organizations] that was limiting our ability to express and to contribute everything we have to offer, that wasn't embracing … our whole range of skills and talents, and wasn't allowing us to integrate together in the most effective way that I could envision or imagine. I wasn't quite sure how to resolve a lot of those things but it was really a spark of dissatisfaction that led to starting the software company: "My*

God there's got to be a better way, there's just got to be something better than this."[10]

Robertson and his two co-founders started experimenting relentlessly with any organizational practice that sounded promising. Where the ideas came from didn't matter—inspiration was found in places as different as agile software development, sociocracy, and David Allen's *Getting Things Done*. Anything that worked was kept; anything that didn't work was discarded. The almost daily new experiments with different organizational practices were taxing, as Robertson recalls:

> *I think there was [at Ternary Software] a real appreciation for the kind of culture where experimentation and change was embraced. However, the actual experimentation process at the level we engaged in to get to Holacracy was very taxing. Things would change under you: one day we are doing it this way, the next day we'd completely change something core, and the next day it's yet different and we're always running to catch up. The sense of lack of stability was huge, and for good reason: there wasn't much stability in our processes and methods because we were evolving them so damn quick. …*
>
> *There was a lot of pain in that organization from the continual experimentation. It would have been so much easier just to say "we are going to run this company in a conventional way"! To be very concrete, there was a 12 month to 18 month period where we went through five different salary systems, each one of which changed the way people were paid, changed the level of pay, changed the way pay was calculated. … These were scary changes. Each system was better than the last, but that didn't change the impact of "oh my God everything is changing around here continually."*[11]

In time, from the crazy experimentation was distilled a sophisticated and coherent set of structures and practices that Robertson calls "Holacracy." When Robertson hired a new management team and exited Ternary Software, he created HolacracyOne, a consulting and training firm dedicated to refining and spreading the practice of Holacracy in organizations. He often uses a computer analogy to explain what Holacracy is about:

> *Think about it as an operating system for an organization. Not a technology, not a piece of software, but a social technology. Your computer has an operating system … [that] controls how communication happens, how power works, how applications share resources and information, the flow of work through that computer. Everything else is built on top of that operating system.*
>
> *And likewise in our organizations today, we have an operating system that often goes unquestioned. Right now there is a bit of a monopoly on the organizational operating system market, so to speak. We pretty much have one way we use to structure and run a business, ultimately. There are some variations of course, but it really comes back to the same basic underlying structure for how power works and how work gets done in the company.*[12]

Robertson and his colleagues at HolacracyOne have distilled a generic *minimum* set of practices they believe are needed to "upgrade the operating system."[13] All other practices are considered *apps* (that is, applications that run on top of that operating system, to keep with the analogy), which can be handled in many ways and need to be adapted to each company.

One of the core elements of Holacracy, which can be found in all self-managing organizations in this research, is to *separate role from soul*, to break the fusion of identity between people and their job titles. In holacratic language, people don't have a *job*, but *fill* a number of granular *roles*. Where Holacracy goes further than other organizations is in the elegant process through which roles are defined.

When someone senses that a new role must be created, or an existing role amended or discarded, he brings it up within his team[14] in a governance meeting. Governance meetings are specific meetings where only questions related to roles and collaboration are to be discussed, separate from the rumble and tumble of getting work done. (Everything that has to do with getting business done is discussed in what are called "tactical meetings" with specific meeting practices.) Governance meetings are held regularly—generally every month—and any member of a team can request an extra meeting at any point in time. They follow a strict process to ensure that everybody's voice is heard and that no one can dominate decision-making. A facilitator guides the proceeding. Anybody who feels a role needs to be created, amended, or discarded (called the *proposer*) can add it to the agenda. Each such governance item is discussed in turn and brought to resolution with to the following process:

1. *Present proposal*: The proposer states his proposal and the issue this proposal is attempting to resolve.
2. *Clarifying questions*: Anybody can ask clarifying questions to seek information or understanding. This point is not yet the moment for reactions, and the facilitator will interrupt any question that is cloaking a reaction to the proposal.
3. *Reaction round*: Each person is given space to react to the proposal. Discussions and responses are not allowed at this stage.
4. *Amend and clarify*: The proposer can clarify the intent of his proposal further or amend it based on the prior discussion.
5. *Objection round*: The facilitator asks, "Do you see any reasons why adopting this proposal would cause harm or move us

backwards?" Objections are stated and captured without discussion; the proposal is adopted if none surface.

6. *Integration*: If an objection is raised, the facilitator leads an open discussion to craft an amended proposal that would avoid the objection while still addressing the proposer's concern. If several objections are raised, they get addressed in this way one at a time, until all are removed.

With this process, every month a team will typically adapt, clarify, create, or discard one or several roles. The organization constantly adapts and corrects, based on problems and opportunities people sense. The process might sound formal, but people who use it report they find it deeply liberating. There is no need for corridor talk, for politics, for coalition building to get a change in roles. Anybody who senses the need for something in the organization to change knows that there is a place to take an idea and have it addressed. People who experience such a meeting for the first time are surprised at how dramatically efficient it is. It cuts through the sometimes endless, uncomfortable discussions we have when we deal with the sensitive topic of roles and responsibilities. In a single meeting, a number of changes of roles can be worked through, one after the other.

In essence, Holacracy's governance process is a variation of the advice process. In this case, it's not one person that integrates people's advice into a decision, but the team that does it as a whole. It ensures that no valid objection is overlooked, and it truly builds on the collective intelligence of a team. You might have noticed how similar Holacracy's governance process is to the one nurses use at Buurtzorg when they discuss important topics (see page 9). In both cases, the goal is to not to aim for a perfect and definite answer, but to find a workable solution and iterate quickly if needed. People don't wait for perfect answers to try out new arrangements and see how they fare. Roles evolve organically, all the time, to adapt to changes in the environment. Employees who are not used to such frequent change can find it taxing at first. Over time, most end up loving it. When there is only one promotion coming around every few years, people are ready to put up a fight for it. When every month there might be some changes to roles within the team, everybody is more relaxed. It's okay to sometimes forgo a nice role for a while. Nothing is written in stone; new interesting roles will come around.

Total responsibility

In hierarchical organizations, managers are responsible for delivering the numbers. Their area of responsibility is their turf. Just as they won't mess with somebody else's business, other managers had better stay out of theirs. In self-managing organizations, people have roles, which come with clear areas of responsibility, but no turfs. No part of the organization belongs to anybody. Many of the organizations

researched for this book stress the opposite; they emphasize what Morning Star calls "total responsibility": all colleagues have the *obligation* to do something about an issue they sense, even when it falls outside of the scope of their roles. It's considered unacceptable to say, "Somebody should do something about this problem," and leave it at that; if you see a problem or an opportunity, you have an obligation to do something about it, and most often that "something" is to go and talk about it with the colleague whose role relates to the topic.

Holacracy has pushed this principle so far as to define explicit channels to make sure any "tension" (Holacracy's word for issues and opportunities[15]) that anybody senses at any time can get processed quickly and reliably. Depending on the type of issue, it can be brought to either a "governance meeting" or a "tactical meeting," each of which has its specific decision-making processes.[16] Everyone is invited to process any tension; "it's not my problem" is not an acceptable attitude.

Total responsibility can sound daunting, but the experience of Holacracy and Morning Star is that people grow to love it. People's concerns are no longer limited to their scope of responsibility; they can take the well-being of the whole organization to heart. Of course, not all team members cheer when a colleague comes and tells them they should consider doing something about an issue. But in a self-managing organization, people have roles, not turfs, and no one can formally shut out a colleague by saying, "This is none of your business."

Appointment process

In many cases, people's work evolves organically over time—they discard a few roles and take on another few. But sometimes there is a whole new "job" that opens up. Given Buurtzorg's explosive growth, every few months a new regional coach is needed. Or at Sun Hydraulics, a new role might open up in project engineering. Often, the appointment process is very organic; in time, a person emerges that team members entrust with the role. When Zobrist retired from his position as CEO of FAVI in 2009, one of the team leaders had emerged as a natural successor. No other team leader seems to have eyed the job; certainly, no one left in bitterness or disappointment. Leading up to the succession, there was no political jockeying and no infighting, and there was no settling of scores from the new leader after his appointment. The same is true of the other CEO transitions that took place in the organizations researched for this book. Perhaps it boils down to this: when employees are empowered to make all the decisions they want, the urge to climb the ladder recedes.

> *When everybody has the power to make decisions, the urge to climb the ladder recedes.*

When needed, a more formal discussion process can be put in place. At Sun Hydraulics, for instance, when a new job is created or an existing job becomes available, an internal recruitment process takes place: candidates are interviewed by the colleagues who will work most closely with them. At FAVI, Zobrist instituted another nifty practice—a confirmation process. Every five years, he asked the team leaders to organize a vote in their teams to decide if he should stay on as the CEO of the organization. As we will discuss in chapter 3.1, it is critical that CEOs play by the same rules as everyone else, or self-management can unravel quite quickly. Zobrist of course expected his colleagues to speak up on the spot were he ever to behave autocratically. The formal vote was meant to remind workers that they have the power to make any decision, including removal of the CEO.

Trading roles

Because roles in self-managing organizations are defined granularly, it can be quite easy to trade roles within a team. A person that is very busy can ask colleagues to pick up one of her roles, temporarily or permanently. A team member that wants to learn a new skill can ask a colleague to trade a corresponding role toward that end.

To make it easy to trade roles across teams as well as within them, HolacracyOne has set up a company-wide *Role Market Place* (in holacratic language, this is an "app;" it's not part of the basic operating system). On the company's intranet is a file where colleagues can "rate" every role they currently fill, using a scale of -3 to +3:

- If they find the role energizing (+) or draining (-)
- If they find their talents aligned (+) or not (-) with this role
- If they find their current skills and knowledge conducive to (+) or limiting in (-) this role

Using the same scale of -3 to +3, people can also signal their interest in roles currently filled by other people. The market place helps people wanting to offload and people wanting to pick up roles to find each other more easily.

Talent management

In the last 20 years, it's become a general practice in large corporations to set up *talent management* programs. Managers throughout the company are asked to identify *high potentials*, which HR puts on special training tracks and provides with *stretch assignments* to prepare them for higher offices. *Succession planning* is another best practice in human resources—for every management position throughout the company, possible successors must be identified and groomed to be ready to take over. And then there is *career planning*. For every type of profile, HR should think through the best career paths that expose people to the right set of skills as they make their journey up the management ranks.

In self-managing organizations, leadership is distributed, and there are no leadership roles to prepare people for. None of the organizations in this research spends time on talent management, succession planning, or career planning. They have found that in a self-managing context, people naturally come across so many opportunities to learn

and grown that senior leaders don't need to worry about people getting the right exposure. People who have freedom in their work are eager learners; they can be trusted to shape their own journeys. Careers in self-managing organizations emerge organically from people's interests, callings, and the opportunities that keep coming around in a liberated workplace.

Performance management at the team level

How does performance management work in a self-managed context? In today's organizations, it's the role of bosses to keep the pressure on employees and to prevent them from slacking off. Top management sets ambitious targets in the company's yearly budgets and mid-term plans, and these targets then cascade down the organization. It's part of a leader's role to always challenge subordinates to do more, to do it faster, to do it cheaper.

In self-managing organizations that have no managers to keep up the pressure, what prevents teams from getting complacent? The short answer: intrinsic motivation, calibrated by peer emulation and market demands.

The better question, though, might be: what makes us think that people need to be put under pressure to perform? Research shows that when people pursue a meaningful purpose, and when they have the decision-making power and the resources to work toward that purpose, they don't need pep talks or stretch targets.[17] Unfortunately, in many traditional organizations, people work under the opposite circumstances; they don't see much purpose in their work, and they feel restricted in their potential for self-expression by rules and bosses. No wonder they lose interest and must be pressured to give 100 percent. Imagine working as a nurse in a traditional Dutch neighborhood nursing organization: every morning, you receive a plan with 30 appointments with patients you don't know, put together by a planner you don't know. You are given exact time slots (10 minutes for an injection with the first patient, five minutes to change the compression stockings for the second patient, and so on). Patients are unhappy with you because you hurry them, and meanwhile you know that if you were to take more time, you'd have to explain yourself, because the time registration system keeps track of everything you do. The work is so mindless that you would be forgiven for wanting to slack off.

> *When people have the decision-making power and the resources to work toward a meaningful purpose, they don't need pep talks or stretch targets.*

Now imagine what a day might be like working at Buurtzorg: you are part of a team that is known and respected in the neighborhood. You have made your own plan for the day. You will see 10 patients with whom you've developed a relationship. You know their life stories and medical histories. You might have met their children and neighbors and helped arrange a network to encourage your patients to regain more autonomy. You cheer when you see them making progress, and you stand by their side when they reach the end of their days.

People working in these conditions, Buurtzorg has found, don't need a boss to motivate them. More often than not, it's the other way around—nurses are so deeply engaged in their work that they must remind each other to set boundaries and not to let work overrun their private lives. More generally, experience shows that self-governing teams in pursuit of a meaningful purpose don't need prodding from above. If people stop working with enthusiasm and productivity drops, it is generally the symptom of a problem that needs addressing—for example, relational problems in the team or roles that need to be reallocated. Resolve the problem and spirits are restored.

People don't need pressure from above, but they still need to get a sense of whether they are doing well. Self-managing organizations measure indicators like team results, productivity, and profit, just like other organizations—except that they mostly tend to do so at the level of teams or process steps, and they don't bother to measure individual performance (contrary to most of today's organizations that believe in individual incentives and therefore need individual metrics). The data is made public for all to see, creating emulation, a healthy form of peer pressure. When teams perform similar tasks—like the nursing teams at Buurtzorg or the automotive teams at FAVI—results are easy to compare. In a glance, a team in Buurtzorg can know if it is at the bottom or the top of the league in terms of, say, productivity. Teams at the bottom are motivated to improve out of pride; they don't need a boss to discuss how they could improve.

In traditional organizations, many people would consider such total transparency about results to be brutal. All depends on how information is handled. In today's organizations, bad results prompt fears (and good results provoke envy or suspicion). Who gets to see what data is a very touchy subject. In self-managing organizations, people know that information will not be used against them. No one needs to be protected from the facts, good or bad.

What about organizations where teams don't do comparable work? At Morning Star, teams engaged in "tomato sorting," "steam generation," or "packaging" don't share metrics that would help them compare themselves. To help teams nonetheless get feedback on their performance, the company has come up with an interesting practice: every year in January, teams present a self-evaluation to a group of colleagues, which comprises Chris Rufer (the founder and president) and anyone else who cares to join. They are expected to talk candidly about what went well and what didn't, how effectively they used company resources, and what they plan to do in the next year. It's not a superficial effort; each presentation lasts for a few hours, and teams can

expect challenging, sometimes grilling questions from their colleagues. In the course of a month, all teams make presentations; teams that haven't performed well have received much input from their peers and know they have homework to do.[18] Morning Star's budget and investment cycle also offers another opportunity for peer review. Every year, each team presents its investment plans to a panel of peers for advice. Teams that are not performing well are likely to be challenged as to whether spending money is really the best way to fix their problems.

Individual performance management

In self-managing organizations, performance and outcomes are discussed foremost at the team level: *Are we collectively doing a good job contributing to the organization's purpose*? Most people nevertheless still look for feedback about their individual performance. Psychologists have come across an interesting phenomenon: a person put in a sensory-deprivation room (a so-called anechoic chamber, a room designed to dampen all sound and block out light) after only a short amount of time reports experiencing visual hallucinations, paranoia, and a depressed mood.[19] Put simply, without outside stimulus, we go mad. I believe something very similar happens when we are deprived of feedback related to our work. Our egos may be wary of feedback, but we are relational beings that thrive on honest feedback. I've seen organizations where no feed-back is ever exchanged "go mad" because of it. People judge others behind their backs, only to wonder nervously what others might be saying when they have their backs turned. In places like these, every word, every silence, every raised eyebrow, is scrutinized for unspoken judgments.

Self-managing organizations are high on trust and low on fears. Feedback in such environments feels less threatening, and most organizations in this research are places where colleagues exchange feedback frequently. In some of them, new recruits are trained in Marshall Rosenberg's Nonviolent Communication and in effective ways to give feedback. Of course, the advice process is a formidable feedback mechanism built right into the fabric of daily life in these organizations.

Because feedback is exchanged so freely, some organizations—FAVI, for instance—don't hold any formal appraisal discussions. But colleagues in most organizations in this research still see value in taking the time, once a year, to reflect on their performance at work. Of course, instead of a boss doing the appraisal, they put in place peer-based systems:

- At Morning Star, people receive feedback at the end of every year from each of the persons they have committed to in their CLOU.
- At AES, Dennis Bakke installed a beautiful practice of team appraisal with his closest peers. They got together once a year,

often over dinner in one of their homes to make for a relaxed, informal setting. Every person in turn shared his or her self-evaluation. Other team members commented, questioned, or encouraged each other to reach a deeper understanding of their potential and performance.

- At Buurtzorg, the rules of the game (see page 12) simply stipulate that every year, each team is to hold individual appraisals within the team, based on a competency model that the team has designed. Each team decides what format it will use for their discussions. A team I spent time with decided to exchange feedback in subgroups of three colleagues. Everyone prepares a self-evaluation as well as feedback for the other two colleagues in the trio, so people can measure their self-perception against their colleague's perceptions.

Traditional performance evaluations can be dispiriting affairs. Often we don't recognize ourselves in the feedback because our boss only has a narrow view of our work (or sometimes because he tells us everything is all right, just to get the uncomfortable moment over with). With more input from more peers, we get a more meaningful reflection of our contribution. There is another reason why so many appraisal conversations feel lifeless: they tend to be very narrow discussions, sticking to some preformatted evaluation grid, neglecting to inquire into broader questions of the person's selfhood—their hopes, dreams, fears, yearnings, and sense of purpose in life. We will discuss in chapter 2.5 how a few simple questions can turn appraisal conversations into moments of joyful and soulful introspection (see page **Error! Bookmark not defined.**).

Dismissals

"What happens when someone does a lousy job, when someone needs to be fired?" is a question people often ask when they hear about self-management. If there is no boss, can low performers just hang on forever? What if someone is a pain and makes the workplace hell for others? Will he just be allowed to stay on? Self-managing organizations of course face such situations occasionally and have put processes in place to deal with them, processes that don't rely on a hierarchy but on peer-based mechanisms.

Before we go into these processes, though, let's start by saying that in practice, these cases prove to be surprisingly rare. In traditional workplaces where a job is a box in an organization chart, there is little flexibility: you are either a good fit for the job or you are not (in reality of course, you are probably a bit of both), and so you should either be allowed to stay in the job or asked to move on. In self-managing organizations, people can more easily customize a job for themselves at

which they excel. A person with "performance issues" might shed one or several roles in which she fails to deliver and take up other roles that better match her skills, interests, and talents.

But some people just don't fit in, or they perform below what their colleagues expect of them. In a traditional organization, a boss or the HR department can decide to give them a bad review and to dismiss them for low performance, rather like a teacher has power to decide a child's future in the school. And so it's perhaps not surprising that people being dismissed react like children being told they failed to make it to the next grade—they feel like a failure, treated unfairly; they blame circumstances and nurture resentment. In this research, I encountered an interesting phenomenon: in self-managing organizations, it seems that almost universally, people choose to leave before they are dismissed. Only in the rarest cases is the company saying, "That's enough." How come? The dynamics of self-management give people natural clues that they might not be in the right place. At Sun Hydraulics, an engineer might notice that somehow little work comes his way—few colleagues spontaneously ask him to join their projects or solicit him for advice. At Buurtzorg, a nurse will feel in her interactions with colleagues that she doesn't fit the team, or that self-management doesn't suit her after all. There are currently 250 nurses joining Buurtzorg every month and 25 that leave each month, once they have been there for a while and realize it wasn't meant to be. Almost always, the departure happens by mutual consent, on a friendly basis.

> *Despite the American myth, I cannot be or do whatever I desire. … Our created natures make us like organisms in an ecosystem: there are some roles and relationships in which we thrive and others in which we wither and die.*
>
> Parker Palmer

This does not change the fact that on a personal level, the process can be painful. The self-managing context nevertheless helps people realize that no one is to blame; they are perhaps simply not meant for this particular work. How we react to an event such as a dismissal depends on our perspective on life. Today, it is often experienced as a traumatic blow to the sense of self-worth. Self-managing organizations invite people we can hold the event more consciously: a door closes, perhaps painfully at first, in order for another door to open down the line that might bring us closer to our path in life. We can see it as an invitation to reflect on the real nature of our strengths and talents and discover what other work might better suit us. We learn, grow, and move on.

What about forced dismissals? Though rare, they do happen—for instance, when someone breaches the company values. In the absence of dominator hierarchy, the process is peer-based. At Buurtzorg, when one person has lost the trust of the team, the team tries to find a mutually agreeable solution. If that doesn't work out, the group calls in its regional coach or an external facilitator to mediate. In almost all cases, the presence of a mediator brings resolution. In some cases, the person and the team decide on some mutual commitments and give it another go. In others, after some deliberation, the person comes to see that trust is irrevocably broken and understands it is time to leave. If no agreement can be found, as a last chance to try to settle the matter, the team members can ask Jos de Blok, the founder, to mediate; in the rare cases where even that fails, they can ask him to put an end to the person's contract (legally, he is the only one who can do so).

> *In retrospect, I can see in my own life how the job I lost helped me find work I needed to do … how losses that felt irredeemable forced me to discern meanings I needed to know.*
>
> Parker Palmer

At Morning Star, the process is almost identical, except that it is initiated by an individual rather than a team (at Morning Star, people aren't embedded as deeply in teams). Morning Star views a dismissal as the final step in a conflict and therefore uses its conflict resolution mechanism to deal with the situation. The process starts when one person asks another to leave the organization. Suppose that someone finds that a colleague has fundamentally breached a company value (perhaps the person made an important decision without requesting advice from colleagues) or that a colleague is failing time after time to live up to his commitments, despite a number of previous attempts to improve the situation. She can initiate a conflict resolution process, asking her colleague to resign. The four-stage process kicks in:

- In a first phase, they have to sit together and try to sort it out. In the discussion, the person asked to leave can suggest ways to restore trust. Or perhaps he will come to see that he has irrevocably lost the trust of his colleagues and that he is better off looking for work elsewhere.
- If they can't agree on an outcome, another colleague is called in as mediator.
- If necessary, in a third step, a panel of colleagues is asked to mediate.
- As a last resort, Chris Rufer, the founder and president, is asked to join the panel.

People asked to mediate or sit on a panel take their role very seriously. Morning Star's principle of not using force against anyone is at stake. They are not a jury, passing a verdict on a colleague. Their role is to explore every possible way to restore trust in the relationship. The process can take a long time if needed. Only when the person who has been asked to leave sees that colleagues genuinely tried to find a solution, and that none could be found, will he come to accept that resignation is the reasonable outcome. Therein lies the power and legitimacy of the process.

How often do people leave Morning Star after such a process? No one knows. Because Morning Star views this as a private conflict between two persons, everyone is under the understanding of full confidentiality (as is always the case with the conflict resolution mechanism), and no one keeps statistics. But the process clearly does get used in practice: some of the more senior colleagues I've spoken to told me that they have been part of a handful of panels over the years. Having been part of such panels, they are keen advocates of the method. The discussions in the panel are never easy, they report, but they do help people reach fair and reasonable outcomes.

Compensation and incentives

What about compensation and incentives in self-managing organizations? Here again, they deeply question standard management practices and come up with different methods; these include the process to decide who deserves how much pay (people set their own salaries, with guidance from their peers), how people are incentivized (incentives distract people from their inner motivation, so we are better off without them), and what type of salary differences are deemed acceptable (people at the lower end of the scale should make enough to have their basic needs met).

Peer-based processes and self-set salaries

In the absence of bosses, the process to determine who gets to take home how much money must be peer-based. W. L. Gore, the company best known for developing Gore-Tex fabrics, pioneered self-management practices in the late 1950s. To decide on people's salaries, it asks each employee to rank, once a year, the colleagues they have worked with. HolacracyOne uses a similar ranking method. Once a year, coworkers fill out a survey for all their colleagues, consisting of only two questions:

- "This person contributes (much) more or (much) less than me." (On a scale of -3 to +3)
- "This person has a good basis to evaluate me." (On a scale of 1 to 5)

A simple algorithm crunches through the answers and groups colleagues into a few salary buckets. The more experienced, knowledgeable, and hard-working people land in the higher buckets that earn bigger salaries; the more junior, less experienced colleagues naturally gravitate toward buckets with lower salaries. The process is simple and easy to understand. It has the benefit of fairness. When it's not just one person (the boss), but all the colleagues we interact with informing the process, the resulting salary is likely to be a fairer reflection of our contribution.

Some organizations go a step further: they allow people to set their own salary. AES, under Dennis Bakke, experimented in certain areas with a radical version of a peer-based process. People set their own salary, using the advice process—they had to seek advice and recommendation from their peers around them. In that way, people were made fully responsible for assessing their own contribution and validating it in the eyes of the colleagues. Semco, a Brazilian group of companies operating in various manufacturing and service industries, has fared well for a great number of years with self-set pay.[20]

Morning Star has developed, to my knowledge, the most refined process: self-set pay with feedback from elected salary committees. If you work at Morning Star, then once a year, along with all your colleagues, you write a letter stating the raise in salary you believe to be fair for yourself and why. In an uneventful year, you are likely to stick with a cost-of-living adjustment. But if you feel you have taken on more challenging roles or made special contributions, you can choose a higher percentage. You back up the letter with the peer-based feedback you received from your CLOU colleagues (the people with whom you concluded one-on-one contracts a year earlier) and any relevant data on performance indicators you are responsible for. You then share your letter with a handful of colleagues that were elected into a compensation committee (there is one such committee in each of the company's four locations). The committee's job is to review all the letters it receives, calibrate them, and provide feedback. It might tell you that you've been too humble about your accomplishments and that you should consider going for a bigger raise. Or it might tell you that, in comparison to your peers, the salary increase you granted yourself seems on the high side. The committee has only advisory power. You can choose to take the committee's feedback into account or to keep the raise you had set originally (in which case the committee might choose to enter into a "Gaining Agreement" process with you[21]). Morning Star's experience is that people prove to be remarkable skillful at assessing a fair compensation for themselves. In any given year, roughly a quarter of people choose salary increases above the cost-of-living adjustment. Only a handful of people throughout the company receive feedback that they might have aimed too high.

In small organizations, the process can be simplified. All colleagues can come together for a meeting to discuss and honor their contribution and decide on the appropriate salary levels for every person in turn. Realize!, a four-person partnership in the field of organizational development consulting based in Amsterdam, the Netherlands, sets salaries in this way. (The company, which works with Holacracy's principles and practices, attracted some attention when two of its partners participated in the launch of a thought-provoking podcast series called "Waking up the Workplace.") Each quarter, the four partners come together for a much-anticipated discussion. The meeting starts with a traditional business update—discussing client activity, prominent events, and key figures for the last quarter. Then comes the beautiful (and sensitive) part: each partner in turn shares his perspective on his contribution during the last quarter, including work he has done, projects he has led, and support he has given to others. While one

partner speaks, the others can chime in to add any unreported contributions, offer praise, or ask a critical question. When the group is done and feels that everyone's contribution has been heard and honored, each person pauses to reflect in silence about compensation. How could the earnings from the last quarter be shared among the partners in a way that reflects everyone's contribution? At some point, one partner breaks the silence with a proposal. Sometimes, the proposal feels just right and gets accepted on the spot. More often, it is a basis for a discussion: *I feel my contribution here or your contribution there deserves a higher recognition*. How exactly the cash will be split, the partners acknowledge, is ultimately not what this conversation is about. The discussion serves a higher purpose: making sure everybody feels his or her contribution is fully valued, that the inner and outer perspectives (what I know and what others perceive) are in sync. It is an exercise in openness, trust, and vulnerability. The four partners report that invariably they go into the discussion with some nervousness and leave the meeting with a deep sense of gratitude (and spontaneous collegial hugs) for being part of a partnership that operates from such deep levels of listening and trust.

No incentives, but company-wide bonuses

How people think about incentives is often directly linked to their worldview. Unions hold that people should be paid according to their rank, with no performance incentives ("same work, same pay"). Most of today's management thinking believes that people can be lured to work hard and smart if given the right individual incentives. Proponents of values-based organizations are uncomfortable with the competitive nature of individual incentives and high wage differentials. The prefer team bonuses to reward collaboration.

What about organizations in this research? They seem to value intrinsic over extrinsic motivators. Once people make enough money to cover their basic needs, what matters more than incentives and bonuses is that work is meaningful and that they can express their talents and callings at work. For that reason, most of the organizations in this research have done away with incentives altogether. Almost all organizations studied here have abandoned the practice of individual incentives. They feel it's a rather sad image we have of people if we believe that their primary motivation is the size of the carrot we dangle in front of them. In his book *Drive*, Daniel Pink concludes from a great amount of research on the matter that in today's complex work settings, incentives are mostly counterproductive, reducing rather than enhancing people's performance. Yet, in the world of business, doing away with individual incentives is still rather revolutionary—sales people without sales targets and sales incentives? This process is what all the companies in this research have opted for. CEOs without bonuses and stock options? All but one of the organizations have done away with them.

Values-based organizations that insist on the importance of empowerment often work with team incentives: teams that achieve outstanding results receive a bonus to be shared equally among all team members. Most organizations in this research have abandoned even that kind of incentive scheme. Instead, at the end of very profitable years, they choose to share some part of the profit with all employees (in some cases everyone receives the same fixed percent of base salary, in others everyone receives the same fixed amount).[22] At FAVI, for instance, all employees, regardless of their base salary, receive the same bonus when the profits are high. In 2011, everyone came home with an extra €3,000 ($4,000) at the end of the year.

Reduced compensation inequality

The dominant thinking in business today is that to achieve results, people must be motivated by individual incentives. This thinking has created rather extraordinary wage inequalities in recent years. And, unsurprisingly, it has turned out to be a good deal for the leaders who advocate this practice: CNNMoney calculates that in 2011, the CEOs of Fortune 50 companies took home on average a staggering 379 times the median pay of employees in their company[23] (the multiple would be even higher when compared to the lowest paid employee).

Most of the organizations researched for this book strive to reduce the salary differentials that are practiced in their industry—boosting lower salaries, while keeping higher salaries in check. A particular point of attention seems to be to ensure that the lowest paid employees make enough money to cover their basic needs (in keeping with Maslow's insight that people can only reach for self-actualization if their basic needs are met).

AES, like FAVI, eliminated hourly wages for operators and offered them fixed salaries. It erased the distinction between blue- and white-collar workers; all AES colleagues, including operators, were compensated based on the same principles. Dennis Bakke explains some of the consequences:

> *When we started this change in AES compensation policy, only 10 percent of our people worldwide were paid a salary. The other 90 percent received hourly wages and overtime. By the time I left in 2002, over 90 percent of 40,000 people in 31 countries were paid a salary, just like the company's leaders. It was a giant step in breaking down barriers between management and labor and in bringing us together as AES business people. On average, people were paid about the same amount of money as before but spent less time at their plants and offices. There was no reason to take four hours on a Saturday morning to make a repair instead of staying an extra hour on Friday evening to get it done. In most cases, employees took more responsibility, initiative, and pride in their work. The most important result was the self-respect that it engendered among AES people.*[24]

RHD, a nonprofit we will meet in the next chapter, holds the principle that when there is room for salary increases, they should be disproportionately geared toward the lowest salaries first. The CEO's salary is capped to a maximum of 14 times the *lowest* salary in the organization. You can argue about the multiple—is it too high or too low?—but notice the clever twist RHD introduced by capping the highest salary not based on the *average* or *median* salary, as some organizations have started doing, but on the *lowest*. It's now very much in the CEO's and the leadership's own interest to ensure that even the colleagues with the lowest qualification earn enough for a decent living. Next to this direct focus on entry-level salaries, RHD has set up a scholarship fund to offer staff members opportunities to pursue formal education and increase their earning potential. And it has instituted a companion currency, the *RHD Equal Dollar*, that allows lower-paid colleagues to increase their access to goods and services by trading with each other and with their local community.

Paying blue-collar employees salaries instead of hourly wages and capping CEO pay might sound revolutionary to some, but I wonder if the future will not bring even more profound changes. Today, salaries are determined in large part by the law of supply and demand. The organizations in this research have often done away with the pyramid, but a phantom pyramid still exists in terms of pay—people whose roles involve larger issues get paid more than people whose roles are more narrow. Some people argue that this is fair and desirable; those who contribute more to an organization's purpose should be paid more. Another perspective is that all colleagues are fundamentally of equal worth and that all work done with love and dedication is to be honored equally, be it strategic thinking or scrubbing the floors.[25] Perhaps people scrubbing the floors should be paid more, not less, if people find it a less desirable task. How we think about compensation is ultimately about much more than cash—it reveals much about our relationship to money, to scarcity and abundance, and to what we value in people and in ourselves. To what extent we will keep basing salaries on the law of supply and demand, as society as a whole transitions to another stage of consciousness, is anyone's guess.

Strategy as an organic process

The way self-managing organizations go about strategy turns the typical strategy process on its head. In traditional corporations, strategy is decided at the top. It's the domain of the CEO and the management team (supported in large corporations by a strategy department, a Chief Strategy Officer, or outside consultants). At regular intervals, a strategy process produces a thick document that sets out a new direction. The plan, and the change projects to put them in place, are then communicated top-down to the organization, often with some "burning-platform" message: we need to change, or else …

None of the organizations I have researched had a strategy in the form of a document that charts out a course. Instead, people in these companies have a very clear, keen sense of the organization's purpose and a broad sense of the direction the organization might be called to go. A more detailed map is not needed. It would limit possibilities to a narrow, pre-charted course.

With the purpose as a guiding light, everyone, individually and collectively, is empowered to sense what might be called for. Strategy happens organically, all the time, everywhere, as people toy with ideas and test them out in the field. The organization evolves, morphs, expands, or contracts, in response to a process of collective intelligence. Reality is the great referee, not the CEO, the board or a committee. What works gathers momentum and energy within the organization; other ideas fail to catch on and wither.

Innovation

In traditional companies, innovation tends to happen in a top-down fashion. There are budgets, stage gate processes, and people at the top decide which opportunities seem promising and worth pursuing.

Self-managing organizations can tap into a much broader source of innovation: the entire workforce. Anyone can sense an opportunity and act on it, using the advice process.

There is a word that often comes up with self-managing organizations: *sensing*. We are all natural sensors; we are gifted to notice when something isn't working as well as it could or when a new opportunity opens up. With self-management, everybody can be a sensor and initiate changes—just as in a living organism every cell senses its environment and can alert the organism to needed change. We cannot stop sensing. Sensing happens everywhere, all the time, but in traditional organizations, the information often gets filtered out. Only the signals sensed at the top are acted upon, but unfortunately these signals are often distorted and far removed from reality on the ground. Holacracy's Brian Robertson uses a powerful analogy to talk about organizations filtering people's ability to sense their environment:

> *A transformative experience [happened] for me when I nearly crashed an airplane. I was a student pilot, and shortly into a solo flight my "Low Voltage" light came on. Every other instrument was telling me "all is well," so I ignored it, just like we do in organizational life all the time, when one lone "instrument" (a human) senses something that no one else does. Ignoring a key instrument proved to be a very bad decision when flying an airplane and helped catalyze my search for organizational approaches that didn't suffer from the same blindness—how can an organization fully harness each of us [as] human instruments, without "outvoting the low-voltage light"?*[26]

A story can help illustrate how this works in practice. Two nurses on a Buurtzorg team found themselves pondering the fact that elderly people, when they fall, often break their hips. Hip replacements are routine surgery, but patients don't always recover the same autonomy. Could Buurtzorg play a role in preventing its older patients from falling down? The two nurses experimented and created a partnership with a physiotherapist and an occupational therapist from their neighborhood. They advised patients on small changes they could bring to their home interiors, and changes of habits that would minimize risks of falling down. Other teams showed interest, and the approach, now called Buurtzorg+, has spread throughout the country.

The two nurses sensed a need, and with the power of self-management acted upon it. Self-management helped the idea to spread. Any team interested in Buurtzorg+ can sign up for a training event that teaches them the basics of how the concept works and how to create such a partnership in their neighborhood. In a traditional organization, the low-voltage light might well have been ignored. Who knows whether their idea would have made it through the layers of management to reach the committees that have the authority to sign off on and fund such an initiative? And even if top management had endorsed the idea, a top-down decision to implement Buurtzorg+ countrywide might have felt like an imposition to the teams, who might have resisted the initiative or dragged their feet.

In a self-managing organization, change can come from any person who senses that change is needed. This is how nature has worked for millions of years. Innovation doesn't happen centrally, according to plan, but at the edges, all the time, when some organism senses a change in the environment and experiments to find an appropriate response. Some attempts fail to catch on; others rapidly spread to all corners of the ecosystem.

Planning, budgeting, and controlling

Self-managing organizations' approach to planning and budgeting departs quite radically from what is considered best practice in traditional management thinking. Instead of trying to *predict and control* (the goal behind all planning and budgeting practices), self-managing organizations can try to *sense and respond*. Brian Robertson from Holacracy uses a powerful metaphor to contrast the two approaches:

Imagine if we rode a bicycle like we try to manage our companies today. It would look something like this: we'd have our big committee meeting, where we all plan how to best steer the bicycle. We'd fearfully look at the road up ahead, trying to predict exactly where the bicycle is going to be when. … We'd make our plans, we'd have our project managers, we'd have our Gantt charts, we'd put in place our controls to make sure this all goes according to plan.

Then we get on the bicycle, we close our eyes, we hold the handle bar rigidly at the angle we calculated up front and we try to steer according to plan. And if the bicycle falls over somewhere along the way ... well, first: who is to blame? Let's find them, fire them, get them out of here. And then: we know what to do differently next time. We obviously missed something. We need more upfront prediction. We need more controls to make sure things go according to plan. …

Our underlying management paradigm today is based on trying to predict and control. And the challenge with that: it often gives us more illusion of control than real control. And we do want *real control. Holacracy tries to bake into the core of the organization a paradigm shift to a steering modality we call dynamic steering, which is based not on predict and control, but on sense and respond.*

When you are actually riding a bicycle, steering is not something you do once upfront; it's something you do in continuous flow, with micro increments all the time, and you do it consciously, you do it based on opening your eyes, taking in data in multiple ways. You've got your balance, your heading, you've got your senses fully at play by staying present in the moment, sensing your reality and consciously choosing your response at every moment. It's not directionless, you still have a purpose pulling you forward, and in fact you are more likely to maintain control towards expressing your purpose by being conscious and present in every moment.

The deep challenge here: it requires letting go of our beautiful illusion of control, our comforting illusion of control. The illusion that we've done our job as leaders: we've done all the analysis, we've got the plan, things are going to go according to plan, we are in control. It's a much higher bar, and a much scarier standard to let go of those illusions, to get clear on purpose and to stay conscious and present in every moment.[27]

FAVI uses another metaphor that hints at the same underlying paradigm shift. The traditional practice in organizations, says FAVI, is to look five years ahead and make plans for the next year. FAVI believes we should think like farmers: look 20 years ahead, and plan only for the next day. One must look far out to decide which fruit trees to plant or which crops to grow. But it makes no sense to plan at the beginning of the year the precise date for harvest. As hard as we try, we cannot control the weather, the crops, the soil; they all have a life of their own

beyond our control. A farmer who would stick rigidly to plan, instead of sensing and adjusting to reality, would quickly grow hungry.

What does this mean in practice for organizations? How can they learn to *sense and respond*?

Workable solutions, fast iterations

The paradigm of *predict and control* naturally prompts us to look for perfect answers. If the future can be predicted, then our job is to find the solutions that will reap the best results in the future we foresee. Predictions are valuable in a *complicated* world, but they lose all relevance in a *complex* world. Jean-François Zobrist at FAVI found insightful metaphors to explain the difference. An airplane like a Boeing 747 is a *complicated* system. There are millions of parts that need to work together seamlessly. But everything can be mapped out; if you change one part, you should be able to predict all the consequences. A bowl of spaghetti is a *complex* system. Even though it has just a few dozen "parts," it is virtually impossible to predict what will happen when you pull at the end of a strand of spaghetti that sticks out of the bowl.

Making predictions gives us a comforting sense of control. But the reality is that organizations and the world we live in have become *complex* systems. In such systems, it becomes meaningless to predict the future, and then analyze our way into *the best* decision. When we do, out of habit, we only waste energy and time producing an illusion of control and perfection. Self-managing organizations can make peace with a complex world in which perfection eludes us. They shoot explicitly not for the *best possible decision*, but for a *workable solution* that can be implemented quickly. Based on new information, the decision can be revisited and improved at any point.

> *In complicated systems, we can try to figure out* the best *solution. In complex systems, we need* workable *solutions and fast iterations.*

These principles are at the heart of lean manufacturing and agile software development, two approaches that have revolutionized their respective fields. Holacracy's governance process and Buurtzorg's decision-making process show that they can be embedded in all departments of an organization. In both cases, if there is a workable solution on the table—"workable" meaning a solution that nobody believes will make things worse—it will be adopted. Decisions are not postponed because someone thinks more data or more analysis could result in a better decision. The decision can be reviewed at any time if new data comes up or someone stumbles on a better idea.[28] Coming back to the analogy of the bicycle: instead of trying to calculate the perfect angle, the rider gets on the bike straight away, starts with an angle that seems about right, and then keeps adjusting to get to the destination.

Companies that work this way, that make many fast iterations instead of a few mighty leaps, progress much faster and much more smoothly toward their purpose. No energy is wasted figuring out the supposedly best decision; no time is wasted waiting for more data and more certainty before making decisions. Just as important, when decisions are small and we are used to revising them often, it also becomes much easier to correct a decision that proves mistaken. (Whereas when we have invested much effort in defining *the best* solutions, we become attached to them and stick with them much longer than needed when things don't turn out as planned). In the end, paradoxically, we feel safer in a world where we give up the illusion of control gained from predicting the future and learn to work with reality as it unfolds.

No targets

Self-managing organizations, by definition, don't set any top-down targets. You might remember that sales people at FAVI have no targets to reach. Targets are problematic for at least three reasons: they rest on the assumption that we can predict the future, they skew our behavior away from inner motivation, and they tend to narrow our capacity to sense new possibilities.

Life is so complex, and events and circumstances change so fast, that setting a target is mostly guesswork; a year after it has been set, a target is in most cases just an arbitrary number—either so easy to reach as to be meaningless or so challenging that people must take shortcuts to meet the number, actions that will hurt the company in the long run.

Targets also skew our behavior. In many companies, there is an open secret: managers make sure to spend any budget left at the end of the year, sometimes on pretty meaningless expenditures. They fear their funding might be cut the next year if it appears they didn't need all their budget this year. Sales people who reach their yearly target early (say, in September) stop selling until January. They fear that next year's target will be increased if they overshoot this year's target. Without targets, these games disappear. People are free to tap into their inner motivation to simply do the best job they can.

In self-managing organizations, people can choose to set themselves targets when they find it useful—rather like a hobby runner who spurs herself on by extending her goals. At FAVI, operators set themselves target times to machine their pieces, and they monitor their performance against that target. Colleagues at Morning Star set themselves targets for their part of the process, to stimulate continuous improvement. They measure indicators, compare them to the self-set targets, analyze root causes, and experiment with new ideas. These targets are mostly set at a local level, for one machine or one process step, where the outcomes can be predicted with some certainty.

> *Life is intent on finding what works. … The capacity to keep changing, to find what works now, is what keeps any organism alive.*
> M. Wheatley & M. Kellner-Rogers

But even with self-set targets, we need to be careful not to focus too narrowly on the target only. We need to stay open to the unexpected, the new, the signs that a different future might want to unfold that we hadn't imagined when we set the target. Targets, well understood, are like maps that guide toward one possible future. They become problematic when we cling to the road we had set out on even after circumstances have changed and a new road seems more promising. Margaret J. Wheatley and Myron Kellner-Rogers put it well:

> *[In] an emergent world … we can no longer stand at the end of something we visualize in detail and plan backwards from that future. Instead we must stand at the beginning, clear in our intent, with a willingness to be involved in discovery. The world asks that we focus less on how we can coerce something to make it conform to our designs and focus more on how we can engage with one another, how we can enter into the experience and then notice what comes forth. It asks that we participate more than plan.*[29]

Simplified budgets, no tracking of variance

Many traditional organizations go through a painful budgeting cycle every year. In a bottom-up fashion, functional teams and business are asked to provide data and predictions for the next year. Top management then pores over the aggregated results, and more often than not, finds them lacking in ambition. In a top-down manner, bosses tell business units to up their predictions. Sometimes a few more rounds are needed, until numbers are reached that top management is satisfied with. By that time, people at the frontline have lost all faith in the numbers they had to submit (unless they were cunning enough to hide some sources of revenue and savings from the higher-ups). From that moment on, the budget is owned by the CFO, who will track the difference between plan and reality month after month. Managers that fall short are called in to justify why they didn't make the numbers. This process triggers painful discussions that suck much energy into explaining the problem away, blaming bad market conditions or a neighboring unit.

> *If you want to make God laugh, tell him your plans.*
> Woody Allen

The pioneers researched for this book take a simpler approach:

- Budgets are established only if some forecast is needed to inform an important decision. At FAVI, for instance, teams make rough monthly predictions for the year to come, to secure contracts for raw materials. Otherwise, many of these companies don't create any budget at all. Sun Hydraulics makes no budget (unless the board demands one, in which case a rough one-page budget is put together). Teams in Buurtzorg don't do any significant purchasing or investments, so they don't bother with budgets either. At the aggregate level, Buurtzorg makes a simple projection of its expected cash flow to get a sense of how many new teams it can allow to start up; new teams can take up to a year to break even, and Buurtzorg wants to make sure it doesn't go bust if too many new teams get started at the same time.

- If a budget is established, there is no tweaking from above. Whatever numbers the teams forecast become the budget. In some companies, peers challenge each other's budgets, but no one can force a team to change their numbers. For example at Morning Star, units present their budget and investment plans to a budget task force, composed of volunteers from all parts of the business, that can challenge the numbers, and offer opinions and suggestions. AES used to have a similar process.
- Budgets are used to make decisions, not to control performance. Companies like FAVI or Morning Star that put together budgets have found that there is no value in tracking differences between forecast and reality; they don't waste energy doing it.

In its management manifesto, FAVI captures the thinking about budgets in a provocative statement: "In the new way of thinking, we aim to *make money without knowing how we do it*, as opposed to the old way of *losing money knowing exactly how we lose it*." FAVI is privately owned and doesn't need to report to outside shareholders. The case of Sun Hydraulics shows that this budget-free approach is possible even for a publicly listed company, as Allen Carlson, the CEO, explains:

I never worry about the future. It comes soon enough.
Albert Einstein

> *After our IPO in January 1997, we had to get better at predicting our numbers. … The market penalized us when we missed one quarter in '99 after we adopted a new manufacturing system. We said, "Look, we can't predict what's going on in the economy, and we have no idea what our orders will look like a year from now. … We don't run this business by the numbers. The numbers will be doing what the numbers will be doing; we can just give you a good picture of what the next quarter will bring. So, we got away from making annual projections and started just doing quarterly forecasts. … We know our performance in the long run will be a result of just doing the right things every day.*[30]

Most business leaders would feel naked without budgets and forecasts. I put this question to Carlson: *How do you deal with having no forecasts to compare people's performance to? For instance, how do you know if the guys in Germany (where Sun has a plant) were doing a good job last year, if you have no target to compare against?* His answer came shooting out of the barrel:

> *Who knows? Who cares? They are all working hard, doing the best they can. We have good people in all the places around the world and if I need that sort of scorecard I probably got the wrong person. That's just the way we operate. … If I'm the head of sales of Sun in the US and you ask me what is the forecast, I have no clue! How could I generate one anyway? … At the end of the day, there is so much outside of your control. … It's impossible to predict the unpredictable.*[31]

Change management

In my research, as I listened to leaders of self-managing organizations and as I read these organizations' annual reports and internal documents, something struck me: I never encountered the terms of *change* and *change management*. This is rather extraordinary, when we come to think of it! Every manager knows that making change happen in an organization is hard. Change is one of the most frustrating, and therefore most widely discussed, problems of management today. A whole industry of experts and consultants in change management has sprung forth to support managers in the trying journey of change. In the pioneer self-managing organizations in this book, however, change seems to happen naturally and continuously. It doesn't seem to require any attention, effort, or management. What is going on here?

In today's management paradigm, organizations are viewed as inanimate, static systems—a collection of boxes that stack up in a pyramid structure. Static systems don't have an inner capacity for change. Force must be applied to the system from the outside. Change in that worldview is not a fluid, emerging phenomenon, but a one-time movement from point A to point B, from one static state to another.

Change in this worldview is an unfortunate necessity. We try to minimize the need for change by predicting and controlling the future. We seek to plan the surprises out of life. We pray that reality stays within the boundaries of the budget and the strategic plan. When it doesn't, we often bury our head in the sand; we can't imagine that reality will be so cruel as to make our plans irrelevant. When we put our head up again, and we notice that the world around us has changed while we stuck to plan, we are frightened by what we see. We now have to make up for lost time and force change to happen.

People don't resist change. They resist being changed.
Peter Senge

The change will be painful, we tell ourselves, but once we reach point B, everything will be fine again. In the meantime, we need to redesign the organization like we redesign a machine, moving people around to fit the new blueprint. Not surprisingly, people resist being moved around. To overcome resistance, organizations often feel compelled to play on fears, telling frightening stories of how a hostile, competitive world threatens their survival if nothing changes.

In a world where organizations are self-managing, living systems, we don't need to impose change from the outside. Living systems have the innate capacity to sense changes in their environment and to adapt from within. In a forest, there is no master tree that plans and dictates change when rain fails to fall or when the spring comes early. The whole ecosystem reacts creatively, in the moment. Self-managing organizations deal with change in a similar way. People are free to act on what they sense is needed; they are not boxed in by static job descriptions, reporting lines, and functional units. They can react creatively to life's emerging, surprising, non-linear unfolding. Change is a given, it happens naturally, everywhere, all the time, mostly without pain and effort.

If your organization has started to adopt self-managing practices, the way it deals with change can reveal how far it has come. If change is still a concern, a topic of discussion, take it as an invitation to inquire among your colleagues: *Where are we still stuck in the old paradigm that thinks about organizations as machines? How can we help the organization express itself fully as a living system?*

In summary—the structures, processes, and practices of self-management

Leading scientists believe that the principal science of the next century will be the study of complex, autocatalytic, self-organizing, non-linear, and adaptive systems. This is usually referred to as "complexity" or "chaos theory". But even though we are only now starting to get our heads around it, self-management is not a startling new invention by any means. It is the way life has operated in the world for billions of years, bringing forth creatures and ecosystems so magnificent and complex we can hardly comprehend them. Self-organization is the life force of the world, thriving on the edge of chaos with just enough order to funnel its energy, but not so much as to slow down adaptation and learning. For a long time, we didn't know better and thought we needed to interfere with the life's self-organizing urge and try to control one another. It seems we are ready now to move beyond rigid structures and let organizations truly come to life. And yet self-management is still such a new concept that many people frequently misunderstand what it is about and what it takes to make it work.

Misperception 1: There is no structure, no management, no leadership

People who are new to the idea of self-management sometimes mistakenly assume that it simply means taking the hierarchy out of an organization and running everything democratically based on consensus. I hope it is clear by now that there is, of course, much more to it. Self-management, just like the traditional pyramidal model it replaces, works with an interlocking set of structures, processes, and practices;

these inform how teams are set up, how decisions get made, how roles are defined and distributed, how salaries are set, how people are recruited or dismissed, and so on. (The chapter in appendix engages in a more detailed discussion of three types of self-managing structures encountered during the research and examines how certain industries or contexts can call for one type of structure rather than another).

What often puzzles us at first about self-managing organizations is that they are not structured along the control-minded hierarchical templates of Newtonian science. They are complex, participatory, interconnected, interdependent, and continually evolving systems, like ecosystems in nature. Form follows need. Roles are picked up, discarded, and exchanged fluidly. Power is distributed. Decisions are made at the point of origin. Innovations can spring up from all quarters. Meetings are held when they are needed. Temporary task forces are created spontaneously and quickly disbanded again. Here is how Chris Rufer, the founder and president of Morning Star, talks about the structure of self-managing organizations:

> *Clouds form and then go away because atmospheric conditions, temperatures, and humidity cause molecules of water to either condense or vaporize. Organizations should be the same; structures need to appear and disappear based on the forces that are acting in the organization. When people are free to act, they're able to sense those forces and act in ways that fit best with reality.*[32]

The tasks of management—setting direction and objectives, planning, directing, controlling, and evaluating—haven't disappeared. They are simply no longer concentrated in dedicated management roles. Because they are spread widely, not narrowly, it can be argued that there is *more* management and leadership happening at any time in self-managing organizations despite, or rather precisely because of, the absence of fulltime managers.

Misperception 2: Everyone is equal

For as long as human memory goes back, the problem of power inequality has plagued life in organizations. Much of the pervasive fear that runs silently through organizations—and much of the politics, the silos, the greed, blaming, and resentment that feed on fear—stem from the unequal distribution of power.

Interestingly, the interlocking structures and processes allowing for self-organization do not *resolve* the question of power inequality; they *transcend* it. Attempting to *resolve* the problem of power inequality would call for everyone to be given the same power. Cooperatives, for instance, have sought in equal ownership a method to divide power equally. Interestingly, none of the organizations I have researched are employee-owned; the question of employee ownership doesn't seem to matter very much when power is truly distributed.

Of course, the right question is not: *how can everyone have equal power?* It is rather: *how can everyone be powerful?* Power is not viewed as a zero-sum game, where the power I have is necessarily power taken away from you. Instead, if we acknowledge that we are all interconnected, the more powerful you are, the more powerful I can become. The more powerfully you advance the organization's purpose, the more opportunities will open up for me to make contributions of my own.

Here we stumble upon a beautiful paradox: people can hold different levels of power, and yet everyone can be powerful. If I'm a machine operator—if my background, education, interests, and talents predispose me for such work—my scope of concern will be more limited than yours, if your roles involve coordinating the design of a whole new factory. And yet, if within what matters to me, I can take all necessary actions using the advice process, I have all the power I need.

This paradox cannot be understood with the unspoken metaphor we hold today of *organizations as machines*. In a machine, a small turn of the big cog at the top can send lots of little cogs spinning. The reverse isn't true—the little cog at the bottom can try as hard as it pleases, but it has little power to move the bigger cog. The metaphor of nature as a complex, self-organizing system can much better accommodate this paradox. In an ecosystem, interconnected organisms thrive without one holding power over another. A fern or a mushroom can express its full selfhood without ever reaching out as far into the sky as the tree next to which it grows. Through a complex collaboration involving exchanges of nutrients, moisture, and shade, the mushroom, fern, and tree don't compete but cooperate to grow into the biggest and healthiest version of themselves.

> *The problem of power inequality has plagued organizations since the dawn of time. Self-managing organizations don't* resolve *the problem, they* transcend *it.*

It's the same in self-managing organizations: the point is not to make everyone equal; it is to allow all employees to grow into the strongest, healthiest version of themselves. Gone is the dominator hierarchy (the structure where bosses hold power over their subordinates). And precisely for that reason, lots of natural, evolving, overlapping hierarchies can emerge—hierarchies of development, skill, talent, expertise, and recognition, for example. This is a point that management author Gary Hamel noted about Morning Star:

> *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.*[33]

So really, these organizations are anything but "flat," a word often used for organizations with little or no hierarchy. On the contrary, they are alive and moving in all directions, allowing anyone to reach out for opportunities. How high you reach depends on your talents, your interests, your character, and the support you inspire from colleagues; it is no longer artificially constrained by the organization chart.

Misperception 3: It's about empowerment

Many organizations today claim to be empowering. But note the painful irony in that statement. If employees need to be empowered, it is because the system's very design concentrates power at the top and makes people at the lower rungs essentially powerless, unless leaders are generous enough to share some of their power. In self-managing organizations, people are not empowered by the good graces of other people. Empowerment is baked into the very fabric of the organization, into its structure, processes, and practices. Individuals need not fight for power. They simply *have* it. For people experiencing self-management for the first time, the ride can be bittersweet at first. With freedom comes responsibility: you can no longer throw problems, harsh decisions, or difficult calls up the hierarchy and let your bosses take care of it. You can't take refuge in blame, apathy, or resentfulness. Everybody needs to grow up and take full responsibility for their thoughts and actions—a steep learning curve for some people. Former leaders and managers sometimes find it is a huge relief not having to deal with everybody else's problems. But many also feel the phantom pain of not being able to wield their former positional power.

> *At the moment power is shared … people feel needed and valued, because they are needed and valued.*
> Dennis Bakke

Many leading thinkers and practitioners in the field of organizational design focus their energy today on the question of how leaders can become more conscious. The thinking goes as follows: if only leaders could be more caring, more humble, more empowering, better listeners, more aware of the shadow they cast, they would wield their power more carefully and would create healthier and more productive organizations. Brian Robertson, the founder of Holacracy, put it well in a blog post:

> *We see attempts for leaders to develop to be more conscious, aware, awake, servant leaders that are empowering. … And yet, the irony: … If you need someone else to carefully wield their power and hold their space for you, then you are a victim. This is the irony of empowerment, and yet there is very little else we can do within our conventional operating system other than try our best to be conscious, empowering leaders.*[34]

If we can't think outside the pyramid, then indeed, as Robertson notes, the best we can do is try to patch up the unhealthy consequences of power inequality with more enlightened leadership. Pioneer self-managing organizations show that it's possible to transcend the problem of power inequality and not just patch it up. We can reinvent the basic structures and practices of organizations to make everyone powerful and no one powerless.

Misperception 4: It's still experimental

Another common misconception is that self-management might still be an experimental form of management. That is no longer true: self-management has proven its worth time and again, on both small and large scales and in various types of industry. W. L. Gore, a chemical manufacturing company best known for its Gore-Tex fabrics, has been operating on self-organizing principles since its founding in the late 1950s. Whole Foods, with its 60,000 employees and $9 billion in revenue, operates its more than 300 stores with self-governing units (the rest of the organization has more traditional hierarchical structures). Each store consists of roughly eight self-managing units, such as produce, seafood, and check-out (central services are run with a more traditional, albeit empowered hierarchy).

The Orpheus Chamber Orchestra has operated since its founding in 1972 on entirely self-managing principles. The orchestra, with residence in New York's Carnegie Hall, has earned rave reviews and is widely regarded as one of the world's great orchestras. It operates without a conductor. Musicians from the orchestra make all artistic decisions, from choosing the repertoire to deciding how a piece ought to be played. They decide who to recruit, where to play, and with whom to collaborate.

Virtual and volunteer-driven organizations practice self-management on staggering scales. In 2012, Wikipedia had 100,000 active contributors. It is estimated that around the same number—100,000 people—have contributed to Linux. If these numbers sound large, they are dwarfed by other volunteer organizations. Alcoholics Anonymous currently has 1.8 million members participating in over 100,000 groups worldwide—each of them operating entirely on self-managing principles, structures, and practices.

I believe it is because we have grown up with traditional hierarchical organizations that we find it so hard to get our heads around self-management. Young people, on the other hand, who have grown up with the Web (variously referred to as Millennials, Generation Y, or Generation "F" for Facebook) "get" self-management instinctively. On the web, management writer Gary Hamel notes:

- *No one can kill a good idea*
- *Everyone can pitch in*
- *Anyone can lead*

- *No one can dictate*
- *You get to choose your cause*
- *You can easily build on top of what others have done*
- *You don't have to put up with bullies and tyrants*
- *Agitators don't get marginalized*
- *Excellence usually wins (and mediocrity doesn't)*
- *Passion-killing policies get reversed*
- *Great contributions get recognized and celebrated*[35]

Many organizational leaders and human resource managers complain that Millennials are hard to manage. Indeed, this generation has grown up in the disruptive world of the Internet, where people's influence is based on contribution and reputation, not position. Why would they want to put up with anything other than self-management in the workplace? Why would anyone else, for that matter?

Organization structure	• Hierarchical pyramid	➡	• Self-organizing teams • When needed, coaches (no P&L responsibility, no management authority) cover several teams
Staff functions	• Plethora of central staff functions for HR, IT, purchasing, finance, controlling, quality, safety, risk management, etc.	➡	• Most such functions performed by teams themselves, or by voluntary task forces • Few staff remaining have only advisory role
Coordination	• Coordination through fixed meetings at every level (from executive team downwards), often leading to meeting overload	➡	• No executive team meetings • Coordination and meetings mostly ad hoc when needs arise
Projects	• Heavy machinery (program & project managers, Gantt charts, plans, budgets, etc.) to try and control complexity and prioritize resources	➡	• Radically simplified project management • No project managers, people self-staff projects • Minimum (or no) plans and budgets, organic prioritization
Job titles & job descriptions	• Every job has job title and job description	➡	• Fluid and granular roles instead of fixed job descriptions • No job titles
Decision-making	• High up in the pyramid • Any decision can be invalidated by hierarchical superior	➡	• Fully decentralized based on advice process (or on holacratic decision-making mechanisms)
Crisis management	• Small group of advisors meet confidentially to support CEO in top-down decision making • Communication only when decision is made	➡	• Transparent information sharing • Everyone involved to let the best response emerge from collective intelligence • If advice process needs to be suspended, scope and time of suspension is defined

Purchasing & investments	• Authorization limits linked to level in hierarchy • Investment budgets steered by top management	➡	• Anybody can spend any amount provided advice process is respected • Peer-based challenging of team's investment budget
Information flow	• Information is power and is released on a need-to-know basis	➡	• All information available in real-time to all, including about company financials and compensation
Conflict resolution	• (Conflict often glossed over, no conflict resolution practices)	➡	• Formal multi-step conflict resolution practice • Culture restricts conflict to the conflicting parties and mediators; outsiders are not dragged in
Role allocation	• Intense jockeying for scarce promotions leads to politics and dysfunctional behavior • Silos: every manager is king of his castle	➡	• No promotions, but fluid rearrangement of roles based on peer agreement • Responsibility to speak up about issues outside of one's scope of authority
Performance management	• Focus on individual performance • Appraisals established by hierarchical superior	➡	• Focus on team performance • Peer-based processes for individual appraisals
Compensation	• Decision made by hierarchical superior • Individual incentives • Meritocratic principles can lead to large salary differences	➡	• Self-set salaries with peer calibration for base pay • No bonuses, but equal profit sharing • Narrower salary differences
Dismissal	• Boss has authority (with HR approval) to dismiss a subordinate	➡	• Dismissal last step in mediated conflict resolution mechanism • In practice very rare

APPENDIX

THREE TYPES OF STRUCTURES OF SELF-MANAGING ORGANIZATIONS

All organizations up to this point in history take a pyramidal shape, for a simple reason: the hierarchical boss-subordinate relationship cannot stack into anything other than a pyramid. In self-managed organizations, peer commitments replace hierarchical relationships, and the pyramid can finally collapse and rest with history. But it would be a mistake to think that because there is no hierarchy, self-managing organizations are simply flat and structureless. How then are self-managing organizations structured? Unlike the single template of the pyramid, self-managing organizations can adopt different forms to fit the context they operate in. From the pioneer organizations researched for this book we can derive three broad types of structure (and perhaps others are yet to emerge). This appendix describes these three structures and discusses how certain contexts might call for a certain structure above another.

1. Parallel teams

This is the structure I've encountered most often in my research. FAVI has structured its 500 factory workers in 21 self-managing "mini-factories;" RHD operates its programs with self-managing "units;" Buurtzorg's 7,000 nurses are clustered in hundreds of teams of 10 to 12 colleagues working in a specific neighborhood. This model is highly suitable when work can be broken down in ways that teams have a high degree of autonomy, without too much need for coordination across teams. They can then work in parallel, side by side. In this model, it is within the team setting that colleagues define their roles and the mutual commitments they make to each other. Teams also handle their own planning, establish their investment needs, devise a budget (if a budget is needed), track their financial and non-financial results, do their recruitment, determine their training needs, and so on.

In an ideal situation, every team is fully autonomous in bringing the purpose to life and performing all tasks from start to finish; when that is the case, every single person in the organization has the satisfaction of seeing the entire purpose come to life, and not just a small slice of it, which is often the case in large organizations or when work becomes very specialized. In practice, there will often be a need for some people or teams who take on coordinating or supporting roles with a more narrow focus:

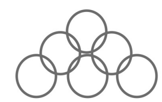
- *Team coaches*: In self-managing organizations, there are no middle managers. But teams often feel a need to be supported by someone external that can help them work through problems. At Buurtzorg, they are called regional coaches; at RHD, hub leaders.
- *Supporting teams*: For some tasks, duplication in every team doesn't make sense. At FAVI, for example, the great majority of mini-factories are client facing—the Audi team, the Volkswagen team, the Volvo team, the water meter team—but a few teams are supporting other teams, such as the foundry team, which, at the beginning of the value chain, casts metal for all client-facing teams. It would not be practical for the teams to operate the foundry in turns, nor would it make sense to duplicate the equipment and have a foundry within each team. RHD has units responsible for topics such as training (its "miniversity"), real estate, and payroll, that support all the units in the field.
- *Supporting roles*: The self-management model pushes expertise down to the teams, rather than up into staff functions. But for certain specific expertise or for coordination purposes, creating a supporting role can make sense. At FAVI, for instance, there is an engineer who helps teams exchange innovations and best practices. One of the roles of founders and CEOs belongs in this category too: they offer support across teams by holding the space for self-managing practices.

2. Web of individual contracting

This is the model pioneered by Morning Star in California. In this model, as in the previous one ("parallel teams"), investment budgets and financial results are set up and discussed in teams. Morning Star calls them "Business Units," and each Business Unit is linked to a particular step in the food processing (say, tomato preparation, dicing, canning, or packaging) or to a support service (for instance, steam generation or IT).

Roles and commitments, though, are not discussed in teams, but in a series of one-on-one discussions between colleagues who work closely together. These commitments can then be formalized in a written document. For instance, at Morning Star, each colleague establishes a document called a "Colleague Letter of Understanding" (CLOU) that records the different roles and commitments that the person has agreed to.

3. Nested teams



Holacracy is a self-management approach first pioneered at Ternary Software, a Philadelphia-based company, which has now turned into a fully documented operating model. It relies on a structure of nested teams. Like in the first model, teams (called *circles* in Holacracy[1]) are fully autonomous to discuss and decide on how roles will be allocated within the team, what commitment team members make to each other, and so on. But there is an important difference in the relationship between teams and the supporting structure. In the first model, all teams work side by side, with a minimum supporting structure. In Holacracy, circles are part of a nested structure.

Let's imagine a 7,000-person pharmaceutical company structured in a holacratic manner. The overall purpose of the organization might be "to help individuals and communities to live healthy lives." What works in the case of Buurtzorg does not work for a pharmaceutical company: you cannot simply break down the 7,000 people into 700 teams of 10 people working in parallel doing the same thing. A team of 10 people cannot go and develop a series of drugs, get them approved by the FDA, and sell them across the world. For a pharmaceutical company, you need specialization on a bigger scale. A holacratic, nested structure allows for such specialization. How would this work? The overall purpose of the company ("to help individuals and communities to live healthy lives") would be pursued by the circle at the top, while a number of sub-circles would pursue a specific part of the overall purpose. One of the sub-circles could be responsible for research and development, and its specific purpose might be "to discover new medication that helps individuals and communities to live healthy lives." This sub-circle could in turn break down its purpose into more manageable parts and create its own sub-circles. For instance, one sub-circle could delve into the specific purpose of "developing groundbreaking medication for epilepsy." If this purpose is still too complex to manage for a reasonably-sized team, it might be broken down again.

If this seems to you like a traditional pyramid, you would be both right and wrong. Indeed, there is a stacking up of levels that gradually reach into ever-bigger questions, so there is a hierarchy of *purpose, complexity*, and *scope*. The research circle at the "bottom" senses what is needed to develop a drug for epilepsy, a more narrow purpose than the one of the top circle that senses what is needed to make individuals and communities more healthy. Yet it is no hierarchy of *people* or *power*. In the holacratic system of practices, the epilepsy research team has full authority to make any decision within the scope of its specific purpose. Decisions are not sent upwards, and cannot be overturned by members of overarching circles. A given person may show up filling roles in more than one circle throughout the organization; there is not a one-to-one relationship between people and their "place in the structure."

Circle and sub-circle are bound together by a double link, not by a boss-subordinate relationship. The sub-circle elects a representative to the overarching circle that sits on all that circle's meetings, and the overarching circle sends a representative of its own to be part of the discussion in the sub-circle. There are elegant meeting processes that ensure that everybody's concerns are heard and acted upon, and that no voice trumps the others. The result is a structure that allows complex purposes to be broken down into smaller parts through a hierarchy of purpose, complexity, and scope, without a hierarchy of people or power.

What structure is most appropriate?

Of the three structures, or possible variations or hybrids, which would be most appropriate for your specific organization? In many cases the answer is straightforward: the size and type of activity the organization engages in will naturally call for one type of structure, just like surrounding terrain determines the shape of a lake.

Small organizations

The first matter is one of size. If your organization is relatively small, say less than a dozen employees, then the three types of structures essentially boil down to the same thing: an organization run as a single self-governing team (with the minor distinction that in the second model, roles and commitments are not discussed as a team, but in a series of one-on-one meetings; given the small size, it probably makes sense to have these discussions together with the whole group). This structure can work for any type of company in any type of industry—construction companies, coffee shops, design firms, local museums, daycare centers, private health clinics, boutique consulting firms, homeless shelters, startups, or any number of others. Depending on the nature of the work and how fluid or how stable it is, there might be more or less frequent reshuffling of roles and change of direction. This will determine how often or not team meetings will be needed to discuss roles, commitments, and purpose.

When organizations grow larger, say beyond 20 employees, running the show as a single team becomes unpractical. For large organizations, the length of what is called in business jargon the "value chain" is a defining factor for the most appropriate structure. Neighborhood nursing has a very short value chain. A single nurse can perform all tasks—getting to know the client, reading the prescription, performing the medical intervention, and so forth—and can do it all in an hour or less. A pharmaceutical company has a very long value chain that can involve thousands of people and take several years: there is a lengthy drug research process (computer simulations, lab tests, clinical trials); molecules must receive regulatory approval; pricing strategies must be established; product launches prepared in every country; and global sales forces trained to inform doctors about the product.

Short value chains

If the value chain is relatively short, then the first model—parallel self-managing teams supported by minimal central functions—is a natural candidate. Parallel teams can work side by side performing similar tasks: mini-factories producing gearbox forks for different car manufacturers at FAVI or units running separate shelter and care programs at RHD, for example. The beauty of the short value chain is that the overall purpose doesn't need to be broken down into sub-purposes (except for a few supporting teams). Almost everyone is part of a team that senses the whole purpose and helps it manifest. Everyone sees how their work makes clients happy.

Luck has it that most industries have a relatively short value chain. For some examples:

- *Retail:* Stores can easily be operated by self-governing teams. In the case of small store formats, the whole store works as a single self-governing team. Retailers with larger stores, like supermarkets, can break down each store into several teams, like Whole Foods does. The teams in the stores are assisted by a few central or regional supporting teams—logistics, purchasing, marketing, and so on.
- *Service sector:* Almost all companies operating in the service sector—maintenance services, catering, cleaning, and security services, for instance—can easily be operated as self-governing teams serving a particular geographical area. Professional services such as law firms, IT and management consultancies, and advertising agencies are often already broken down into geo-graphical sectors or topical units, which naturally lend themselves to becoming self-governing teams.
- *Manufacturing and assembly:* Many manufacturing operations such as automotive suppliers, toy manufacturers, and apparel makers have relatively short value chains and can use FAVI's model of parallel teams.

- *Farming:* Larger farms can work with parallel teams, split along geographical areas, type of crop, or type of livestock.
- *Schools:* Large schools can be broken down into smaller, self-governing units, ideally with dedicated classrooms and faculty rooms to create a sense of community within mini-schools, as is the case with ESBZ.
- *Hospitals:* Hospitals can structure themselves into self-governing teams. Most hospital units would make natural teams of nurses and doctors (such as the orthopedic team, the cardiology team, the emergency room team), with a few supporting services (labs, maintenance, and so on).
- *Foundations and nonprofits:* Large nonprofits, like RHD, also tend to have natural groupings, often by geography, activity, or type of client.
- *Public services:* Like nonprofits, almost all public services can be easily broken down into teams on the basis of geography, activity, or type of client.

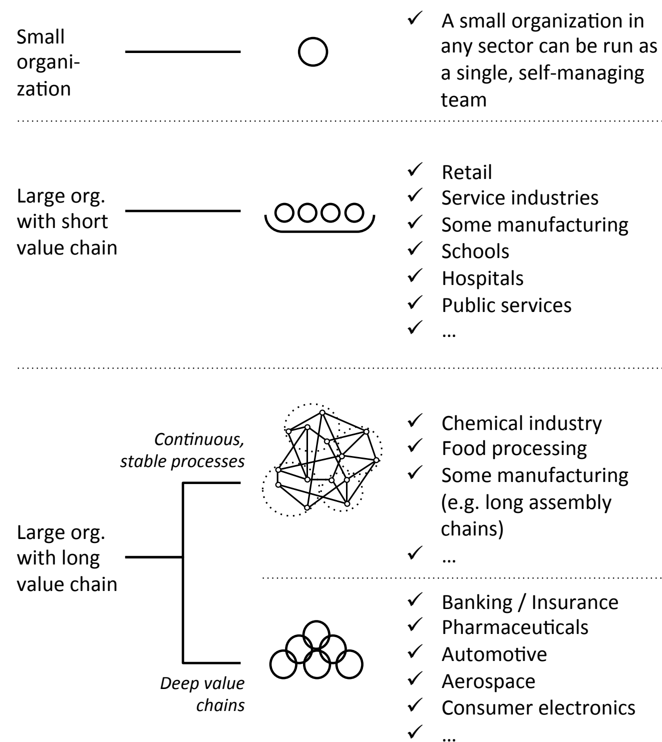
Long value chains

When supply chains are longer, the model of parallel teams isn't practical. You can't break down a bank or a pharmaceutical company into mini-banks and mini-pharmas. (It is possible, though, for certain steps of the value chain: a pharmaceutical sales force and the branches of a bank can operate as parallel self-managing teams.) In this case, a structure based on individual contracting or on nested teams makes more sense.

Morning Star's model of individual contracting is a natural fit for continuous and relatively stable processes, such as can be found in the chemical industry, in food processing, or in long assembly chains. Each major step in the process often involves only a few people, and so a nested structure is not needed. Through individual contracting, colleagues can make clear agreements with their upstream and downstream counterparts.

Some industries have not only *long*, but also *deep* value chains, when certain steps in the value chain involve both a large number of people and complex tasks (for instance, research in a pharmaceutical company or marketing in a large retail bank). Consumer electronics firms, large media companies, banks, insurance companies, car manufacturers, aerospace companies, and airline companies are likely to have *long and deep value chains*. For these types of companies, Holacracy's structure of nested teams might be particularly appropriate, as it allows an overall purpose to be broken down into successively less complex and more manageable pieces.

Which type of context most naturally lends itself to each of the three structure archetypes is summarized in the table on page 99. When trying to discover the most suitable self-managing structure for your organization, the key is to try to understand how colleagues without managers would most naturally cluster to coordinate their efforts. The issues raised in this table—the size of the company, the length and the depth of the value chain—can help you in your thinking, but other factors specific to your organization might play an important role, too. Take some time with colleagues from different parts of the organization to reflect on the question about the most appropriate structure. Let it simmer. The answer will emerge in time. And you don't have to start with a perfect solution. You can get going with a structure that seems about right and trust the self-organizing power of the organization to evolve into the structure that best suits its needs, and to keep evolving as the environment changes.



NOTES

Self-management (structures)

1 Jos de Blok and Aart Pool, *Buurtzorg: menselijkheid boven bureaucratie* (Den Haag: Boom Lemma Uitgevers, 2010), 20.

2 Ibid., 20.

3 Ibid., 21.

4 De Blok wrote a memo describing how the care organizations he worked for could adopt a structure where nurses worked in autonomous teams. He reckoned that the number of director functions would go down from 13 to three, his own function being among the casualties. Unsurprisingly perhaps, the memo wasn't well received by the executive team.

5 A method developed and taught by Ben Wenting and Astrid Vermeer of the Instituut voor Samenwerkingsvraagstukken in Groesbeek, the Netherlands.

6 Annemarie van Dalen, *Uit de schaduw van het zorgsysteem: Hoe Buurtzorg Nederland zorg organiseert (*Den Haag: Boom Lemma, 2010), 66.

7 Ibid., 73.

8 Productivity is defined as the billed hours (in other words, hours spent with patients based on a doctor's prescription) divided by the total contract hours of nurses on the team. Teams calculate their productivity themselves, typically once every month.

9 The story of Zobrist's appointment is worth telling. It seems straight from a movie. FAVI was owned by Max Rousseau, a colorful character who owned a number of industrial companies. In the late 1970s and early 1980s, Zobrist was working for Rousseau in a sister company. He occasionally interacted with FAVI's metallurgy department, so he knew the factory somewhat. One day, Rousseau called Zobrist to his office. He put a gold US dollar in Zobrist's hand and added, "I'm not superstitious, but you could use some luck." With no further explanation, he stood up and asked Zobrist to follow him out of the office, where a helicopter was waiting. Zobrist knew better than to ask Rousseau what this was all about. An hour later, they arrived at FAVI, where Rousseau asked that the machines be stopped and called all workers to join him next to the helicopter. When everybody was assembled, he pointed to FAVI's CEO and said, "Dominique has asked to retire." He then pointed to Zobrist and said, "Here is his successor," and then stepped into his helicopter and left behind a promoted and baffled Zobrist pondering his unexpected appointment as CEO.

10 Some other organizations take another route: they do talk in dollar terms but train all operators to be fluent in accounting terms. In both cases, the

intention is the same: make sure that everyone understands and can contribute to financial discussions and trade-offs.

11 Jean-François Zobrist, *La belle histoire de FAVI: L'entreprise qui croit que l'Homme est bon*, Tome 1, Nos belles histoires (Paris: Humanisme & Organisations, 2008), 93.

12 Linda Hill and Jennifer Suesse, Sun Hydraulics: Leading in Tough Times (A), case study (Cambridge: Harvard Business Publishing, 2003).

13 In normal times, Sun Hydraulics' gross margins range between 32 and 39 percent and net income margins between 13 and 18 percent.

14 Dennis Bakke, *Joy at Work: A Revolutionary Approach to Fun on the Job* (Seattle: PVG, 2005), 47-48.

15 Ibid., 19-20.

16 Alex Markels, "Blank Check," *The Wall Street Journal*, April 9, 1998.

Self-management (processes)

1 Bakke, *Joy at Work*, 82.

2 Ibid., 98-99.

3 Ibid., 44-45.

4 Ibid., 72.

5 Zobrist, *La belle histoire de FAVI*, 318.

6 Bakke, *Joy at Work*, 101-102.

7 Shari Caudron, "Meditation and Mindfulness at Sounds True," *Workforce*, June 2001.

8 Gary Hamel, "First, Let's Fire All the Managers," *Harvard Business Review*, December 2011, http://hbr.org/2011/12/first-lets-fire-all-the-managers, accessed April 11, 2012.

9 Ibid.

10 Brian Robertson, "Dialog: The History of Holacracy," Holacracy Community of Practice, October 2011, www.holacracy.org/resources, accessed Febuary 24, 2012.

11 Ibid.

12 Brian Robertson, interviewed by Jeff Klein, En*theos Radio, "It's Just Good Business," March 9, 2012, 2012, http://www.entheos.com/radio/shows/Its-Just-Good-Business, accessed April 12, 2012

13 This minimum set of practices is captured in a document called "Holacracy Constitution," which can be downloaded from Holacracy's web site at www.holacracy.org.

14 In Holacracy's language, I should use the term "circle" and not team. It comes back to the separation of people and roles: a team is a group of people; a circle is a group of roles.

15 Holacracy defines a tension more neutrally as a dissonance between what is and what could be.

16 Interested readers can dive deeper by reading Holacracy's constitution and other resources available on www.holacracy.org.

17 Daniel Pink's *Drive* provides a good overview of research on the matter.

18 A month later, in February, the whole company came together for two days off at a beach resort near Monterrey, California. Business Units made a 20-minute condensed presentation again, this time in front of the entire group of colleagues, with 10 minutes of Q&A. At the end, through a collective vote, teams were ranked in terms of the quality of their plans. People at Morning Star find this session of information sharing across Business Units essential to keep people knowledgeable about what happens in other units, to ensure everyone's plans benefit from everyone's insights, and to challenge teams to make the best plans.

19 O.J. Mason and F. Brady, "The Psychotomimetic Effects of Short-Term Sensory Deprivation," *Journal of Nervous and Mental Disease*, October 2009, http://www.ncbi.nlm.nih.gov/pubmed/19829208, accessed March 13, 2013.

20 Semco introduced self-set pay in the 1990s for white-collar workers. Fed up with managers haggling over their pay, Semco's owner and CEO, Ricardo Semler, decided to let everybody name his own salary (they didn't need to consult peers, as was the case in AES). What sounds like a recipe for disaster worked well in practice; very few people raised their salaries to levels others considered exaggerated. A number of reasons explain this, according to Semler: all compensation information is made public at Semco, so anybody with an inflated sense of self will have to face tough question from colleagues; the CEO and senior leaders make a point to set themselves low salaries by industry standards; and given the boom and bust nature of the Brazilian economy, people know that if a severe crisis were to call for removing redundancies, those who have granted themselves unjustified salaries might be first in line.

But something deeper seems to be at play: as long as someone holds power over us, as long as we are trapped in a child/parent relationship with our superiors, it's easy to feel treated unfairly and to ask for more. When our peers trust us to make the right decisions (and we in turn have to trust all our peers) we are likely to assess our contribution honestly. In the case of Semco, people have been willing on several occasions, when the country was hit by a deep recession, to scale back their salary temporarily to protect the organization's survival, something they might not have agreed to easily if the decision was handed down by their boss.

21 The "Gaining Agreement" (conflict resolution) process creates a space and time to explore in more depth where your and the committee's assessments diverge and to help you and the committee reach agreement.

22 Semco has devised an intriguing variation to protect the organization in times of crisis (to which Brazil has been prone over the last decades). Employees are offered the option to opt into a risk salary program. They take a pay cut of 25 percent and then receive a supplement raising their compensation to 125 percent if the company has a good year. If the company does poorly, they are stuck with 75 percent of their salary. As the good years outweigh the bad, the deal is favorable to employees willing to take a risk. The program lets some of the labor costs fluctuate with the order books, protecting the company and reducing the risk for redundancies in case of recession.

23 "Fortune 50 CEO pay vs. our salaries," CNNMoney, http://money.cnn.com/magazines/fortune/fortune500/2012/ceo-pay-ratios/, accessed March 25, 2012.

24 Bakke, *Joy at Work,* 123.

25 CPP, a 40-person German self-managing company (no hierarchy, no job descriptions, decisions based on the advice process, and so on) active in the field of high-end event organization and film production, has taken the radical step of equal pay for all colleagues (we could call this "different work, same pay"). This means that some people—for instance, a highly skilled computer animation specialist—makes far less money than he would receive anywhere else. And some other people—say, the stagehand carrying boxes of equipment to and from the event—take home dramatically more money than they would otherwise. The company has been extremely successful for years, but it acknowledges that its pay structure brings interesting challenges. The organization must be particularly vigilant to keep an exceptional company culture, or the best talent will vote with their feet and collect a higher salary somewhere else. And the company finds it virtually impossible to hire experts with a specific, highly valued skill (say 3D rendering) from the outside. CPP believes it has turned this problem into a strength—out of necessity, the staff has turned autodidacticism into an art form, continuously picking up the latest technical skills to remain state-of-the-art.

26 Brian Robertson "Outvoting the Low Voltage Light," blog post, July 9, 2012, http://holacracy.org/blog/outvoting-the-low-voltage-light, accessed November 4, 2012.

27 Robertson interview.

28 A phrase often heard in organizations is that people should argue as long as it takes before a decision is made, but once it's made, a decision is a decision and people should stick to it. Allowing people to reopen any decision at any time sounds like a recipe for chaos. And indeed it is, when ego is in play: when decisions are viewed in terms of what department wins or loses, or how the decision will impact one's standing or career prospects, then people will be tempted to reopen decisions not to further an organization's purpose, but for their own benefit. The decision processes at Holacracy and Buurtzorg are explicitly designed to prevent ego-hijack from happening. A number of rules about what makes a "workable" solution and what "objections" are valid make it hard to justify a decision that would serve a person or a department but not the organization.

29 Margaret J. Wheatley and Myron Kellner-Rogers, *A Simpler Way* (San Francisco: Berrett-Koehler Publishers, 1996), 73.

30 Hill and Suesse, Sun Hydraulics.

31 Conversation with the author, January 29, 2013.

32 Hamel, "First, Let's Fire All the Managers."

33 Ibid.

34 Brian Robertson, "The Irony of Empowerment," Holacracy Blogs, October 28, 2010, www.holacracy.org/blog, accessed November 2, 2011.

35 Gary Hamel, *What Matters Now* (San Francisco: Jossey-Bass, 2012), 176-177.

Appendix: Three types of structures of self-managing organizations

1 To be precise, in holacratic terms, circles and teams refer to two different realities. Holacracy is careful to always distinguish between people and the roles people happen to fill. In Holacracy a "team" refers to a group of people, while a "circle" refers to a group of roles.