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# What “Boss-less” Firms Can Teach Us



By Phanish Puranam , The Roland Berger Chaired Professor of Strategy & Organisation Design at INSEAD

## **A handful of “flat” firms are inspiring industry leaders to rethink the organisational hierarchy. But what’s so special about these firms, and why now?**

Today, “hierarchical” and “authoritarian” are terms describing companies no one wants to work for anymore. Look beyond the rhetoric, however, and you’ll find that most firms basically look the same at the structural level, relying primarily on authority hierarchies.

So it’s no surprise that in recent years a handful of startling exceptions to the hierarchical norm have garnered media coverage and incited conversation among business leaders worldwide. You may already be familiar with Valve Corporation, the Seattle-based software maker behind such popular games as Half-Life and Counter Strike, and its famous “desk voting” method of task allocation. Valve employees have effectively no boss to report to; instead, they collaborate as they see fit, with wheeled desks allowing unfettered flow of talent between projects. If not enough colleagues side up to a proposed project, it won’t move forward. Bonuses and raises are tied to peer-

conducted employee performance reviews. Software companies Menlo Innovations and GitHub similarly rely on employee initiative to form self-managed teams that work on projects of their own choice.

Examples can also be found outside the forward-thinking technology fields. W.L. Gore, maker of Gore-Tex fabrics and many other products, has for many decades eschewed formal hierarchy in managing its nearly 10,000 employees – or “associates”, as everyone but the CEO is called – spread over dozens of countries. Instead, the associates themselves negotiate roles within their teams, and team leaders emerge organically from the ranks as they gather loyal followers. Gore takes its anti-hierarchical principles so seriously that it splits up units that grow beyond 250 or so people, lest each individual’s stake in the team become too small, and agreement harder to reach.

California-based Morning Star, the world’s largest tomato processor, bases its organisation on a sort of mission statement that is negotiated peer-to-peer rather than imposed by a boss, laying out each employee’s tasks and organisational affiliations. These are called the “Colleague Letter of Understanding” or CLOU. CLOUs for all 400 personnel are made accessible (and can be updated) via the company intranet, enabling colleagues to review each other’s performance.

### **What can the establishment learn?**

These are diverse organisations within vastly different industries, but there are important commonalities. In its own way, each of these experiments in organising has replaced the conventional corporate hierarchy with *self-organised teams*, i.e. teams that are formed through individuals selecting what to work on, with whom, how and when. Because these team members have a greater hand in shaping their own work conditions and expectations, they require less hand-holding, training, inducement and discipline from managers compared to employees motivated purely by desire for a pay rise or the threat of termination. This is the mouth-watering promise held forth by these attempts at radical decentralisation - a dramatic reduction in the traditional costs of management.

Organising around the principle of self-selection is certainly a contender for inclusion in a list of “Organisation 2.0” practices. I use this term to describe a variety of innovations in organising, which are united by a shared difference from conventional organisation design thinking. The traditional or

“1.0” approach to design attempts to anticipate the interactions necessary for an organisation to thrive, and create the arrangements necessary to sustain those interactions. The Organisation 2.0 approach is to assume those interactions can’t be known in advance, and the role of the organisation’s designer is therefore to create the framework for employees to develop them spontaneously. This is what the organisational architects of Valve and Gore and indeed of Wikipedia and open source software development projects like Linux appear to have created.

An organisation doesn’t have to be strictly either 1.0 or 2.0. Virtually every company accommodates non-hierarchical interactions (for example, email exchanges and instant messaging among employees) to some extent, and technological advances have made such interactions easier than ever before. But the question that today’s established firms are wrestling with is: Can self-selection and self-governance really work on a large scale as organisational principles? That will be the topic of my next post.

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