FREEDOM, INC.

Free Your Employees and Let Them Lead Your Business to Higher Productivity, Profits, and Growth

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FREEDOM WORKS.

In every aspect of our lives—in politics, in economics, in entertainment, and in family life—we demand the freedom to decide matters for ourselves. And yet when it comes to our work lives, far too many people are stifled, constrained, hemmed in, and tied down by bureaucracy and rules that have nothing to do with allowing them to do the best they can in their jobs. These constraints leave people feeling out of control of their work lives, which, in turn, leads to stress, fatigue, and disengagement from work.

Amazingly, all of this is already well understood and has been for decades. As far back as 1924, William L. McKnight, the legendary CEO of 3M, put the matter succinctly: “If you put fences around people, you get sheep. Give people the room they need.” With that in mind, McKnight went on to build an environment at 3M that unleashed the creativity and initiative of 3M’s people. And yet, the culture McKnight built at 3M has been more admired than imitated. Sixty years later, Japanese industrialist Konosuke Matsushita looked across the ocean at his competitors and described a corporate America still in the grips of Frederick W. Taylor’s “scientific management,” which organizes work by means of detailed procedures that specify narrow, repetitive tasks for everyone, and demands full compliance with their execution:

> We are going to win and the industrial West is going to lose out … because … your firms are built on the Taylor model. Even worse so are your heads. With your bosses doing the thinking while the workers wield the screwdrivers… For you the essence of good management is getting the ideas out of the heads of the bosses and into the hands of labor. We are beyond the Taylor model. Business… is now so complex and difficult, the survival of firms so hazardous and fraught with danger, that continued existence

depends upon the day-to-day mobilization of every ounce of intelligence.[1]

Notice that Matsushita was not arguing that liberating your employees was a nice thing to do for them, or that it would make them happier or make managers better people. “Continued existence,” he said, “depends upon the day-to-day mobilization of every ounce of intelligence.” That means every ounce of intelligence in every brain that comes through the door of your company every day. If you are not doing everything you can to take advantage of that brainpower and the knowledge those brains possess about your business, you’re not only leaving money on the table, you are putting your company’s survival at risk.

As we write these words in early 2009, the United States and the world economy are in a dire state. The U.S. economy is shrinking rapidly, corporate profits are collapsing—or in many cases simply nonexistent—and a half a million Americans a month are losing their jobs. Everyone is afraid. Bosses are afraid that if they don’t maintain or restore profitability, their jobs will be on the line. Frontline employees are afraid that their jobs will be cut so that their bosses can keep their own.

We can guarantee you that important opportunities—for the elimination of senseless waste that shows up nowhere on your profit-and-loss statements, for keeping customers, and for acquiring new accounts—lie just down the hall, in the minds of the people you already employ.

But wait—don’t walk down that hall and ask them how to save your business just yet. Sit back down and keep reading. If taking advantage of those opportunities were as simple as asking people to raise their hand and speak, you’d have done it already. People respond to the environment in which they find themselves. That’s what McKnight meant when he said that if you put up fences, you get sheep. The fences turn the people into sheep in subtle ways that they themselves might not even realize.

Now, Matsushita was being a bit unfair—the problems with "Taylorism," with turning your employees into automatons, have been appreciated for a long time, as McKnight's observation shows. At times, trying to address this lack of autonomy has almost become an obsession among management gurus. But for all the ink spilled and all the energy expended in the name of empowering employees, Dilbert's comic-strip world remains depressingly familiar to people inside most companies.

You might conclude from this that bureaucracy, top-down control, and maybe just a touch of George Orwell is simply the cost of doing business in the modern world. We may not like it, but is it possible to live without it?

The liberated companies in this book don't just say that it is—they prove it. In industries that range from high-tech to manufacturing, from services to finance and to heavy industry, these firms have done away with the whole gamut of mechanisms of control that characterize too many businesses—and they've thrived as a result.

Freedom, Inc. is the product of more than four years of research. As we studied these companies, we became convinced of two things: First, they all have things in common that tie their success together with their culture of freedom. And second, if truly liberated companies remain relatively rare even today, it is not because their lessons can't be applied elsewhere. The problem with bureaucracy is, instead, a bit like obesity. It's no mystery how to lose weight or avoid gaining it. Study after study has affirmed the basic truth that if you consume more calories than you burn, you're going to pack on the pounds.

We all know this. The evidence is clear, and so, too, is the road to our ideal weight. But more and more people don't travel that road (your authors not necessarily excluded) because it's easier to fall back on habit, even when the habits are bad for you. You may admire the svelte figure of some athlete or

model and resolve to look like them someday—and then go back to your desk and sneak another bite of that candy bar.

Well, it turns out that a number of the liberated companies in this book are a bit like that supermodel. Executives come from all over the world to see FAVI in northern France or Harley-Davidson in Milwaukee. Harvard Business School has used Sun Hydraulics in Sarasota, Florida, as its main case study on freedom in the workplace. But while other executives—and even competitors—admire these companies from afar, they don't, or won't, change their own ways. This is not to say, however, that they can't. They can. The very diversity of the liberated companies we encountered and studied convinced us of that. If a brass foundry in France, an insurance company in Texas, and a software firm in Pennsylvania could all set their people free; if liberating leaders could change the culture inside companies with decades of dysfunction in their past or build a new Freedom, Inc. from scratch; then there were lessons here for any company to use to their advantage.

Those lessons are:

1. Stop telling and start listening. Then, remove all the symbols and practices that prevent your people from feeling intrinsically equal.

2. Start openly and actively sharing your vision of the company so people will "own" it. But don't do this before Step 1 because people who are not treated as equals will leave you alone with your vision.

3. Stop trying to motivate people. That's right. Instead, build an environment that allows people to grow and self-direct—and let them motivate themselves. If they understand the vision from Step 2, they'll take care of the rest if you let them.

4. Stay alert. To keep your company free, become the culture keeper. In this role, as liberating leader Bob Davids says, "One drop of urine in the soup is too much—and you can't get it

out."[2] The price of liberty is eternal vigilance.

These principles are universal, but each leader in this book had to apply them to his own unique set of circumstances—and you will, too. In other words, this book cannot give you a formula for applying the above principles to any particular situation. Freedom is, after all, the enemy of formulas—if we knew, or you knew, every situation that would arise and how to deal with it, you would not need freedom—or your employees, for that matter. You'd have all the answers already.

This paradox was captured by Robert Townsend, one of the best, most profound, early thinkers on the problem of freedom and organization. Townsend was also a liberating leader in his own right. One of his aphorisms was, "At best, a job description freezes the job…

At worst, they're prepared by personnel people who can't write and don't understand the jobs. Then they're not only expensive to prepare and regularly revise, but they're important morale-sappers."[3] Likewise, if your liberation campaign isn't flexible, it's probably a little short on the freedom thing.

Townsend got his start as a leader at American Express in the 1950s, which at the time was a traveler's check company. He introduced charge cards to the business, ingeniously describing them to reluctant top executives as a "cross between a passport and a traveler's check." He also drove AmEx's foray into banking. More important, though, from the moment he became a manager he practiced a kind of leadership based on radical freedom for his subordinates. As he would later say, "As a new manager, remove everything you didn't like when you were a subordinate and implement what you missed."[4] But as the head of only one division at American Express, Townsend could not transform the whole company. That opportunity came in 1962, when he was offered the chance to become chief executive

officer of Avis, which was at the time a moribund company that hadn't turned a profit in thirteen years. In just three years he liberated Avis and unleashed the initiative and action of its thousands of employees. By 1965 Avis had become one of the fastest-growing companies in the United States—its "We try harder" motto comes from those times.

That year ITT, one of the most acquisitive conglomerates of the 1960s, noticed the turnaround Townsend had accomplished and bought the company. Townsend resigned and, five years later, published Up the Organization: How to Stop the Corporation from Stifling People and Strangling Profits. The book's aphorisms and advice, arranged in alphabetical order, describe what might be called an early version of a liberation campaign. It opens with "A—Advertising: Fire the whole advertising department and your old agency," and it closes with "W—Wearing out your welcome: Nobody should be CEO of anything for more than five or six years." It would ultimately spend several weeks as a number one New York Times best seller and remains in print today. The Wharton Center for Leadership and Change Management at the University of Pennsylvania still ranks it the number one business book "every manager must read." For all that, Townsend's advice has remained somewhat less than universally applied since Up the Organization was published.

One person in particular who might have been surprised by this was Douglas McGregor, a professor at the Massachusetts Institute of Technology whose academic work echoed Townsend's practical experience. McGregor's 1960 book, The Human Side of Enterprise, is itself a classic on bureaucracy and human nature. McGregor identified two approaches to running a company: "Theory X" and "Theory Y"—clearly, branding was not his strong suit. Each theory, according to McGregor, is based on a different set of assumptions about human nature. The "Theory X" assumptions are:

1. The average human being has an inherent dislike of work and will avoid it if he can.

2. Because of this human characteristic of dislike of work, most people must be coerced, controlled, directed, or threatened with punishment to get them to put forth adequate effort toward the achievement of organizational objectives.

3. The average human being prefers to be directed, wishes to avoid responsibility, has relatively little ambition, and wants security above all.[5]

The “Theory Y” assumptions are different:

1. The expenditure of physical and mental effort in work is as natural as play or rest.

2. External control and the threat of punishment are not the only means for bringing about effort toward organizational objectives. Man will exercise self-direction and self-control in the service of objectives to which he is committed.

3. Commitment to objectives is a function of rewards associated with their achievement. The most significant such reward, that is, the satisfaction of ego and self-actualization needs, can be direct products of effort directed toward organizational objectives.

4. The average human being learns, under proper conditions, not only to accept but to seek responsibility.

5. The capacity to exercise a relatively high degree of imagination, ingenuity, and creativity in the solution of organizational problems is widely, not narrowly, distributed in the population.

6. Under the conditions of modern industrial life, the intellectual potentialities of the average human being are only partially utilized.[6]

McGregor was so convinced of the superiority of “Theory Y” to “Theory X” that in 1950—well before he wrote The Human Side of Enterprise—he predicted the death of “Theory X” organizations within a decade.[7] That didn’t happen. Maybe the good Mr. McGregor had never tried to go on a diet.

Dieting is hard because the pleasures of immediate consumption are obvious to our senses, but all the ways in which we are damaging ourselves may be hidden from us in the heat of the moment. It’s the same with bureaucracy. As you’ll see in this book, overbearing control of one’s people comes with all sorts of hidden costs—not just to your bottom line, but even to your health and the health of your employees.

Even so, there are moments when the truth confronts even the most weak-willed dieters. One of the liberating leaders in this book, Jean-François Zobrist, recounted the following story. It occurred during one of those regular visits to FAVI by a CEO who had heard about the company’s remarkable culture and performance and wanted to learn more about it.[8] While walking by the supply closet, the visiting CEO was surprised that it not only lacked a lock but that it was missing one of its four walls—there was literally no way to close it securely. Zobrist explained that FAVI, as a liberated company, trusts its people to take what they need for their jobs and that they are free to do so. Just then, a machine operator came over to the closet, so the visitor asked him a question: “What happens if the part you came for is missing?”

“It never happens,” the operator replied, “because the guy who takes the last piece in the box goes to the warehouse and brings back a full box.”

“Fine,” the CEO pressed. “But what if there are no more boxes in the warehouse?”

“Simple,” the operator answered. “If the guy sees that he’s taken the last box from the warehouse, he lets the operator taking care of purchasing know so that more can be ordered.”

“And what if he doesn’t do it?” the CEO persisted—this time, surely, the operator would have no more clever answers.

After a pause, the operator told him simply, “It’s a question of good manners, Monsieur,” took what he needed, and excused himself.

The visitor’s interlocutor was not simply an uncommonly polite machine operator in a brass foundry. He was the product of FAVI’s liberated culture. And what he called “good manners” were, in fact, the norms that serve in the place of top-down rules when a company is free. The visiting CEO might well have left thinking he couldn’t entrust his company to “good manners.” But then again, even the strictest rules are only as good as people’s willingness to follow them. The great intellectual error of bureaucrats everywhere is to assume that because something is called a rule, it’s preferable to a less formal arrangement. And yet most of those rules are not only great morale sappers, they’re preventing the vast majority of your employees from doing the right thing. The rules become so stifling that the only way for people to do a good job is to go around them—sometimes at great cost. At the same time, they are, as likely as not, failing to prevent the tiny minority of potential malefactors from doing your business harm. In these times, can you afford to continue stifling the vast majority of your people instead of giving them a chance to help your business?

1

"HOW" COMPANIES AND "WHY" COMPANIES

How Not to Run a Business

EVEN IF YOU don't know what Gore-Tex is, you know what it does: It keeps you dry—guaranteed. As a brand, Gore-Tex has been so successful that it sometimes seems in danger of disappearing, of becoming a generic term like "Band-Aid." Since it was invented in 1971, Gore-Tex has given rise to a number of competing products. Some of those boast properties said to be superior to the original. But if you walk into a store and want to know whether a ski jacket is waterproof, the question you'll probably ask is "Is it Gore-Tex?"

It's the kind of brand dominance—over both market share and "mind share"—that marketers dream of, or lose sleep over. The story of how it came to be, and came to symbolize an entire market category, is the story of two radical ideas.

Bill and Genevieve Gore's first idea was that there were market opportunities for a chemical called polytetrafluorethylene—PTFE for short—that DuPont wasn't pursuing.

Today, PTFE is best known as Teflon, that magical polymer that keeps our pans from sticking and our pipes from leaking, among a myriad of other far-flung uses. It is supposedly so slippery that it is the only known substance to which a gecko's feet will not stick. But in 1938, it was an experiment gone wrong for Roy Plunkett, who worked at DuPont. Plunkett was trying to develop a refrigerant for car air conditioners when one of his canisters of gas seized up solid. He cut it open and found that the tetrafluorethylene inside had "polymerized"—that is, turned to a kind of plastic, white and slippery. Three years later, DuPont received a patent on the stuff.

but then contented itself with selling it as a raw material to those who wanted to incorporate it into their products. It would be another thirteen years before a Frenchman, Marc Gregoire, stuck it to a pan so that nothing else would.

Bill Gore had other plans for PTFE. He thought it would make a great insulator for electrical cables. But DuPont was a chemical materials company, not an electrical products company, and wasn't interested. So, at the age of forty-six, this father of four quit DuPont, licensed PTFE, and set up shop in his basement with seed money from friends in the Gores' bridge club.[1]

As it turned out, Bill Gore was right about PTFE's potential. But it was his and Vieve's second idea that gave the world Gore-Tex, along with more than one thousand other innovative products, and made W. L. Gore & Associates into a multibillion-dollar leader in markets spanning from aerospace and electronics to energy and health care. Like PTFE, that second idea was borrowed, in a way, from DuPont. But like the remarkable polymer, Bill's insight had to do with what the company he had worked at for years wasn't doing.

Bill Gore believed that the way we talk about one another and about our jobs affects the way we think and the way we act. So he replaced his employees with "associates," their jobs with "commitments," and their managers with "leaders."

Of course, it's possible, as George Orwell knew, to change all the words without changing reality. And changing the reality of how people work was Bill Gore's real ambition.

THE END OF "FUNNY" BUSINESS

Les Lewis, today a manufacturing leader at Gore, was one of the company's first associates. He recalled what it was like at Gore in 1965. "It was early on, at a funny time for the company," Lewis explained. "We had [one plant], seventy people, and believe it or not, a dozen 'supervisors.' I was one of them, and I decided to write

the first supervisor's handbook—how to deal with back vacations, the sorts of things that a supervisor needs guidelines for."

What Lewis described as a "funny time" is a phase that almost every successful start-up goes through. The company has started to grow; maybe one day you walk in and realize that you no longer recognize everyone who works there and don't always know who does what and how anymore. Sooner or later, someone decides that order needs to be restored, or established. An enterprising manager like Lewis decides he'll share his insights by setting them down on paper, and the first manual is written to tell people how to do their jobs.

If you're one of those managers, this might seem to be an attractive opportunity—a chance to show your quality and pass on your experience. Some people might even think it fun, a bit like setting down the rules of a whole new society that, from now on, will run like a well-oiled machine.

But Lewis's "fun" did not last long. Today, a handbook such as the one Lewis wanted would be unthinkable at this company. But how did founder Bill react to the manual in those early days?

Lewis described Bill Gore's big idea as a product of his experience at DuPont.[2] As Gore explained it to Lewis at the time, "When [DuPont] wanted to work on a project, they would assemble a small team, and that small team would work very much as equals … where there was not a hierarchical thing. Everybody worked, everybody brought their skill and knowledge together." This was, for Gore, an ideal way of working. But at DuPont, "once that project got to a certain point, they would all go back to their organizations, in a much more hierarchical chain of command." Gore's notion was simple: If this collaborative, nonhierarchical, liberated structure worked for important projects that needed to get done quickly, why shouldn't a company work that way all the time? So once Gore left DuPont and started his own company, he decided to do just that. According to Lewis, Bill Gore "vowed that if he ever had a company of his own, he would want it that way

because he thought that it really invited a lot of people's creative skills to come forward." Even so, it took time and experimentation before Gore settled on an effective way to implement his idea.

The discovery of Lewis's supervisor handbook, as it happens, was a clarifying moment for Bill Gore. "He wasn't turned on by it," Lewis said drily, adding, "But when I wanted to introduce a requisition form for shop work, that was the end of it—Bill hated forms."

So Bill Gore decided to take his supervisors out to dinner. Soon the monthly dinners became an academy in the values and principles of leadership. "It was almost a Socratic approach to teaching people to lead," recalled Lewis. "At these dinners, he would talk about how to lead—we wouldn't call it 'leading' then; we were [still] 'supervisors'—and how to 'sponsor'—we didn't call it 'sponsoring' then. He would discuss problems that we had and would ask everyone, 'How would you do that?' We would hear different ideas about how to deal with situations," Lewis explained. "It was absolutely a dialogue. He would never drive his answers to us, [saying, 'This is] what you ought to do.' Instead, he would ask, 'How have you solved this problem? Has anyone else experienced one of these?' Meanwhile, he was also instilling in us values and value judgments."

So the "funny time" ended. No supervisors ever attempted to write rules and policies again, because there were no more supervisors at Gore. And the leaders, who took the place of the supervisors, were busy helping people—instead of telling them how they had to work. But it would take more experimentation and time before Bill Gore fully implemented his second big idea of a radically different way to work.

THE YELLOW BRICK ROAD

Fast-forward to the mid-1980s. Thirteen years ago, Lewis had left the company for greener pastures. After spending this period in

more traditional command-and-control companies, he's now decided to return to his native Newark, Delaware, and give W. L. Gore & Associates the benefit of knowledge and experience he's gained about managing big companies. Gore itself had gotten a lot bigger over the years, with several manufacturing sites in the United States and abroad and several thousand associates. The circumstances looked perfect. The plant had just been moved to a brand-new facility and Lewis, a newly minted manufacturing leader had a big corner office, making him feel important: "I was feeling very confident—'I have arrived,' you know?" There was a lot on his plate. Operations were inefficient and the manufacturing techniques people used appalled Lewis: "Instead of computers they were using a columnar pad with numbers they were ticking off to run manufacturing operations by hand."

So Lewis decided to change all that, to instill some discipline, show people that they were working in a backward way, and push them to use a newfangled tool called a computer spreadsheet.

It looked like the right thing to do. Though quite big already, the company lagged behind its main competitors in the use of modern, computer-based operations management. Lewis's proposed course of action was unimpeachable and would have been accepted in any other company. What Lewis couldn't see is how different Gore had become since he'd left.

His efforts lasted six months and the only result was personal—he was ready to leave the company again. And it wasn't because of then-president Bob Gore's—Bill's son—hatred of computers ("Bill hated forms, Bob hated computers," Lewis explained) but because no associate would ever listen to him, never mind follow him. "I was using the techniques that I had been practicing for thirteen years elsewhere. More power, more influence, more whatever, and suddenly it dawned on me—an epiphany: 'You know what the Gore organization is like. You were in it. Why are you trying this top-down kind of a way?'"

And so Lewis rediscovered the values and principles of leadership Bill Gore had taught him and others at their Socratic

dinner meetings. Lewis dubbed it the "yellow brick road."

"You ask your associates 'Where do you want to go?'" Lewis told us. "And they say, 'To the Emerald City.' So you don't tell them, 'Follow the yellow brick road,' the road your own knowledge dictates is the right one," Lewis explained. "You don't, because all they will say is, 'You're crazy. We're going off through the woods.' So you take your bricks and go with them, and throw them one by one in front of them—not giving the answer, but ideas, information, letting them find their own answers. And with every new brick they step on, [your] credibility goes up." Lewis summarized: "I had no credibility, but little by little each of those bricks brought my credibility up."

Lewis had rediscovered that, with all his responsibility for leading a big plant, all his knowledge and experience about how to run operations better, associates wouldn't follow him until he filled what he called his "credibility bucket." He was learning that a "leader" is not just a manager with a different title. A leader is someone whom others follow naturally. At Gore, when Lewis returned, that culture was already so strong that he ran into it face-first, and it nearly drove him back into the command-and-control world. But even at more traditional companies, this same dynamic holds. It's just that at traditional firms, all the tension is under the surface. As Gore's CEO, Terri Kelly, explained, "What you find in a lot of companies is that if there isn't true support for the decision, it gets undermined along the way. In fact, it may never come to fruition. So on the one hand you've made a very quick decision —'We're going to go to China'—but then you've got all kinds of resistance."[3] So in those companies, the employees may not go into open revolt—most of the time. But if they are not sincerely consulted by their manager, or if they think he lacks credibility, your company will quietly leak productivity every day—and perhaps even sink.

The difference at Gore is that the associates there are genuinely consulted—and they are free to choose. This freedom is one of the hallmarks of all of the liberated companies in this book. And by

exercising their choice not to follow the Les Lewis who had returned from the outside world, Gore's associates were actually doing him a favor. They were providing him with valuable information about how he was doing his job that allowed him to change tack and become a more effective leader. The all-too-familiar alternative—each of us grumbles to himself, his family, or his coworkers, but keeps his head down and does enough work to avoid attracting attention—may be one of the invisible but profound reasons your company isn't performing the way you think it should.

OK, you may say. But how do you get everyone to row in the same direction without a boss at the helm? What guides people's freely chosen actions and prevents them from pursuing their own interests at the company's expense? Gore has a way of thinking about these challenges. And unsurprisingly, it's just a little bit different from the way most companies do. Gore people live the company's four principles: The first is "freedom." But along with it are "fairness," "commitment," and "the waterline." The thing to know about these principles is that, unlike the mission and values statements at many companies, associates actually think about and live them. Fairness, commitment, and the waterline make freedom work for Gore.

"FORMULA FOR FAILURE"

Fairness is about being fair to others—both inside and outside the company. According to Lewis, W. L. Gore & Associates wants to treat its suppliers and its customers as equals. But fairness has an internal component as well—it's about treating your colleagues with dignity and as equals. Lewis, in fact, once needed a little help to understand the fairness principle.

Back in the mid-1960s, when Lewis was a young supervisor, the company was scraping by and still working out the kinks in its production of PTFE-coated cables—its only product at the time. When a batch went bad, Lewis came up with what he thought was

an enterprising way to save money by stripping the bad cables so the materials could be reused. “So, I got these three women in the back of the plant and I gave them a wire spool each to sit down on,” Lewis explained. “And I put these spools of cable that had to be stripped there, and I gave them some kind of a knife or something to strip it, and they are sitting back there in the bowels of the Earth like a coffee klatch, stripping this wire off.” Lewis thought to himself: “‘All right. I am set up. Man, we are getting this stripped off and getting it recoated; we are going to save all this.’ Back then we couldn’t afford to throw stuff away.” Needless to say, Lewis was pretty pleased with his economy and enterprise. Bill Gore, however, thought that Lewis needed some help.

Lewis left the women to their work and went back out onto the shop floor, where Bill found him. Lewis continued the story: “‘Do you have a minute?’ Bill Gore said.

“And I said, ‘Sure.’ So we turn around and walk out of the shop and into the only office in the plant, where the only blackboard was in the whole plant, and he shut the door and said, ‘Have a seat.’

“And I sat down, and he wrote up on the board, ‘Formula for Failure,’ and underlined it.”

Underneath, Gore listed a series of bullet points:

- Provide inadequate lighting
- Provide uncomfortable seats
- Provide tools that give blisters.

“He listed about eight things. Honestly,” Lewis said. “And then he said, ‘Are you responsible for that wire stripping in the back?’ “I said, ‘Yes sir.’

“He opened the door and walked out.”

Fairness means, above all, that human dignity is not subordinated to bottom-line considerations. Lewis may have thought he was saving money for a struggling start-up with a dwindling bank

account. Instead of frugality, Bill Gore saw short-term thinking that would lead to long-term failure.

But there was an even deeper lesson for Lewis in Gore's "Formula for Failure." Lewis had a problem—how to save some money on the defective wire. And he imposed a solution on his employees that, he thought, would solve it. He was not the one who had to strip the wire or sit in the dark on old spools, so the obstacles that he had erected to those people doing their jobs did not even occur to him until Gore pointed them out. Lewis never asked whether they had any ideas for how to salvage the wire or what tools or conditions they'd need to get the job done. He never even asked himself whether the problem he was trying to solve was the right one. He never treated his fellow associates as intrinsically equal, as people who are paid to know how to do their jobs as well as he knows his.

If his company was going to be different from traditional companies, Bill Gore could not afford leaders who treated people unfairly. That, too, was a formula for failure.

"ALL IN THE SAME BOAT"

At Gore, associates have commitments instead of jobs. This, again, is more than mere semantics. A job is something a boss gives you, something framed in a box on an organizational chart. A commitment is freely entered into, and is a promise of sorts made to those working alongside you. Commitments are more fluid than jobs. Depending on one's workload and capacity for new projects, an associate may have one, two, or several commitments simultaneously. An associate may flow in or out of a commitment as the work requires. New hires are not assigned a job but encouraged to seek out commitments where they feel they can best employ their talents, skills, and experience.

In this sense, a commitment is the opposite of a job. It is something chosen, rather than something imposed. It is another

sense in which Gore associates are set free from the demands of a traditional hierarchy.

But that's a recipe for anarchy, not for freedom, you may think. Today a person may like some activity and commit to it. But tomorrow, he may like another activity more and just "recommit" there, leaving his current team with a huge hole to fill. Without some discipline, this freedom of commitment will quickly fall apart. This is where the credibility bucket comes in.

A drop goes in the bucket every time an associate keeps a commitment, from one to finish a memo by tomorrow to seeing through a multiyear project. The credibility bucket also gets a drop added every time an associate helps somebody. Commitments are voluntary—but once a commitment is made, you'd better keep it. If you don't, your credibility bucket will drain quickly, and with that your ability to work with other associates dries up. Leaving your current commitment without first discussing it with your team, finding a way to reduce your involvement gradually, and avoiding disrupting your colleagues will not only blow a hole in the team's activities. It will also blow a huge hole in your credibility bucket and, with that, your chances to work in a new team. W. L. Gore & Associates' culture doesn't use discipline to avoid anarchy. It relies firmly on self-discipline.

The waterline principle is another way that W. L. Gore & Associates uses self-discipline to keep freedom from becoming anarchy. A "waterline decision"—another local code word—is one that could sink the "boat." If an associate feels that a decision is important enough that it is make or break—either because it involves a large financial outlay or it could have broad ramifications for the business—then he must consult with leaders and other associates with better knowledge or authority to guide him to the right decision. Corporate freedom is not a blank check, and the water-line helps ensure that freedom is used in a responsible manner at Gore.

The authority to help make those waterline decisions, however, does not come from organizational charts, as Lewis found out when

he first returned to Gore—which has no org charts anyway. One of the ways that a leader at Gore acquires the authority to lead is by filling his credibility bucket. Lewis's was empty upon his return, which explains why people wouldn't listen to him.

One could imagine how the waterline, if interpreted broadly enough, could become a covert mechanism of control. But the waterline is not invoked very often in most associates' daily lives. Individual initiative and risk taking have always been strongly encouraged at W. L. Gore & Associates. Bill Gore was known for asking associates on his daily plant tour: "Have you made any mistakes lately?" And if the answer was "No," he would say: "You haven't been taking enough risks." Needless to say, if the risk is that you might fail to keep a commitment, you should warn others immediately. If you don't, you'll punch a hole in your credibility bucket.

For Gore's associates, the result is a company where they feel uniquely free to pursue their own interests within the framework of a fulfilling job—or, rather, commitment. But for the company as a whole, the proof is in the results. And the company has been eating its freedom pudding for fifty years now. It still tastes as great as ever. In the early days, Bill Gore started out with an unloved little compound called PTFE and one product—coated wires and cables. Today, Gore takes in close to $2 billion in sales and is still growing by double-digit percentages every year, both in revenues and in the number of employees. It not only makes the most famous waterproof membrane in the world, but it continues to innovate in ways that no five-year plan could foresee.

ONE THOUSAND INNOVATIVE PRODUCTS

Take Gore's foray into guitar strings, where it is, unbeknownst to most of the world, the market leader. The story of how it got there is surprisingly typical of the way that Gore has grown for decades, without planning. Elixir guitar strings are a premium product, selling for three times what ordinary strings can command in the

market. But they came about, like Gore-Tex itself, through a happy accident of the sort that the company has stumbled into over and over. One of Gore's associates in the medical devices division, Dave Myers, was a bicycling enthusiast who was unhappy with the performance of the cables used to shift gears on his bike.[4] So in his spare time, he set about to see whether he could improve them by coating the metal cables with PTFE. It worked, but the product itself, Ride On bike cables, was something of a bust. In the meantime, however, Myers had moved on to another commitment—PTFE-coated wires for giant marionettes (don't ask).

While working on the marionette wires, Myers hit upon the idea that would bring Gore into a whole new, and more profitable, line of business. Guitar strings age because they oxidize; dirt and grime from the players' fingers accelerate the process. Coating them with PTFE might be just the ticket. Myers didn't play guitar, so he tapped the experience of a colleague, Chuck Hebestreit, who did, and Elixir—a guitar string that sounds better and lasts up to three times longer than an ordinary string—was the result. Gore had no idea how to break into the market, and its initial—traditional—efforts flopped, so it resorted to a giveaway, including sets of strings free with the purchase of guitar magazines. The product took off; today Gore controls a third of the market.

As for Gore-Tex itself, it, too, was discovered by accident, by Bill's son Bob. In 1969, Bob was trying to stretch PTFE into strands thin enough to be woven into a fabric. It wasn't going well. In frustration, Bob took a piece of freshly extruded PTFE and yanked on it. It stretched into a thin, flexible, strong form that, when made into sheets, was both breathable and waterproof. In this way, expanded-PTFE, or ePTFE, for which Bob Gore would be granted a patent in 1976, was invented. The rest is sportswear history.

As impressive as Gore's record is, there's no denying that founder Bill Gore had certain advantages. He started the company and was able to shape it from its earliest moments. He could hire people with the attitudes and values that fit the culture he was building—although he occasionally had to deal with managers' penchants for

developing "formulas for failure." He could let them find the roles where they were willing to contribute most. He could impose a principle that no facility could exceed 150 associates, in order to keep communication fluid. More generally, he could use his privileged position as founder and CEO to prevent even one drop of command-and-control culture from poisoning his corporate well—the uniquely free environment he was building in his company.

But what if you don't have those advantages? Halfway across the world from Gore's Delaware headquarters, Jean-François Zobrist faced exactly that problem when he took over a brass foundry called FAVI in April 1983.

THE CHAIN OF COMMAND

FAVI is as old-economy as they come, manufacturing brass plumbing fixtures and gear forks for cars. It was family owned, and Zobrist was parachuted in as CEO. Actually, he was helicoptered in. FAVI's owner liked surprises. So after taking Zobrist on a one-hour helicopter flight to a destination unknown, the proprietor touched down at the plant and offered Zobrist the top job in a most unusual way. When they had landed, the owner gathered all the employees and informed them all—including Zobrist—that Zobrist was their new CEO. FAVI's owner then left as suddenly as he had arrived. For three weeks Zobrist heard nothing further from him, until one day his phone rang. The owner asked Zobrist, "They haven't wolfed you down, have they?"[5]

"No," Zobrist replied.

"Well, then you can stay," he said. After a short pause, he added: "Your charge: Make me money and don't go to jail."

Familiar with the owner's penchant for extreme language, Zobrist translated this charge as "You have all the freedom of action you want, within the limits of law." That suited Zobrist. But he soon realized that the rest of FAVI's employees were not so free. Zobrist got an early taste of this one day while walking past the supply

closet. There he saw an employee, Alfred, waiting in front of the closed window.

"What are you waiting for?" Zobrist asked.[6]

"I came to exchange my gloves," Alfred replied. He hastened to add, "I have a slip from my boss and my old gloves."

And so Zobrist learned the policy: When a worker wore out his gloves, he would show them to the head of the workshop, who would give him a slip for exchange. He would then cross the workshop floor—chatting with others and perhaps visiting the bathroom, before ringing the supply closet's bell, waiting for the keeper, and giving him the slip and the old gloves. At that point, he could get his new gloves and go back to work. The process could easily take a good ten minutes—assuming the closet keeper was present and answered the bell promptly.

So Zobrist posed a question to the accounting department, which informed him that it cost FAVI the equivalent of one hundred dollars an hour to run the equipment on which Alfred worked. That worked out to more than fifteen dollars lost every time a pair of gloves needed to be exchanged—nearly twice what the gloves themselves cost. The real cost of the gloves to FAVI was so high that if they were freely distributed, the company would actually save money, even if some workers took home an extra pair for their gardening every now and then.

Of course, as in most companies, accounting had a line item for glove purchases but kept no track of the productivity lost to glove policing. In reality, FAVI was losing thousands of dollars by keeping the gloves under lock and key, Zobrist discovered, but on the official ledger, it would be recorded as a gain.

And the gloves were only the beginning. The more he looked around, the more of these bureaucratic false economies he discovered. Based on these early observations, Zobrist concluded that if FAVI remained set in its ways, it was headed for extinction—or to China. And, in fact, that is precisely what happened to much of the old-line manufacturing in Europe during the time that Zobrist

ran FAVI. But Zobrist had other ideas. And under his leadership, the company has thrived where others have failed.

He eliminated the time clock because employees "should work to make products, not hours."[7] At the same time, he eliminated overtime pay while raising salaries to the level of one's total pay over the previous year, for the same reason. Zobrist captured his leadership philosophy with a distinction. There are, he said, two kinds of companies: "Comment" in French, or "how" companies, and "pourquoi," or "why" companies. "How" companies spend their time telling workers how to do their jobs—where to place the machinery, when to come to work and when to leave, and so on. This has two consequences. The first is that you end up judging employees by everything except what counts, which is whether the job gets done and the customer is happy. The second is that it becomes difficult, if not impossible, to change any of the myriad rules about how to get things done. You want to move that cart to a different spot on the shop floor? You need clearance from your manager, who may have to ask his manager, and so on, creating a never-ending "chain of comment." The result, as Zobrist put it, is that it becomes impossible to get the work done without disobeying somebody in the chain of command.

A pourquoi company is different. It replaces all the myriad "hows" with a single question: Why are you doing what you're doing? The answer is always the same: to keep the customers happy. As long as what you do satisfies that commandment, Zobrist doesn't worry about how you do it. Freedom at FAVI meant replacing the chain of comment with a single pourquoi.

Getting there wasn't easy. Zobrist smiled when he recalled how his newly liberated employees still gazed wistfully as they passed the blank space on the wall where the time clock used to be—and where some of them used to hang out in advance of the shift-ending bell so that they could be the first to punch out and head home. But even more than the shop-floor workers, Zobrist had problems with the middle management. He tried winning them over, but they—conscious that with everyone set free on their own initiative, they'd

have little left to do—wouldn't budge. Eventually, he dispensed with middle management altogether, moving supervisors to other roles more beneficial to the company while leaving their salaries intact. He eliminated the human resources department, too—because, he said, humans aren't resources, they're people.

In place of the supervisors, he organized the shop floor into what are essentially self-directing teams of two dozen or so. Those teams each serve a particular customer with a particular product, allowing them to become intimate with the needs of the clients they serve and to see directly whether they are happy—or not. And they approve candidates for the leader's role, whom they can also depose. Those leaders report to Zobrist—about as flat an organization as you could ask for.[8]

The results have been extraordinary. For twenty-five years, FAVI has been able to reduce prices by 3 percent a year on average and has never been late with a delivery, allowing it to remain competitive in an age of globalization. It remains a European leader in its sector—half of all cars built in Europe contain gearbox forks from FAVI, an unheard-of market share for an auto-parts supplier. It has bought out its last remaining competitor on the Continent, introduced breakthrough brass products, such as electric rotors, in totally new markets, and—unlike its now-extinct European competitors—FAVI actually exports parts to China. And regarding the economic downturn in 2009, FAVI's projection is to come out of it with an 80 percent market share in gearbox forks in Europe because a number of its international competitors have been wiped out by the bad times.

Many CEOs have great things to say about their companies' corporate cultures. Many also claim to believe that their people are their greatest assets. We suspect that somewhere there is a top-secret executive seminar for CEOs where they are trained to tell their employees that they shouldn't be afraid to bring problems to their bosses' attention, and that if they walk into a room with their fly down, they expect an employee to tell them right away.

But the fact is, most employees don't believe a word of it. Sometimes it's the little things that give the bosses away. The CEO will say she's open to new ideas. And then she'll direct employees to a special-purpose internal website—a high-tech "suggestion box"—where those ideas go to die, to be read by an assistant charged with sending a respectful reply and ignoring the recommendation, or wind up examined, filtered, and mostly rejected by some duly appointed "suggestion committee."

FAVI and the rest of the companies in this book really are different. They prove it—to their people most of all—in ways big and small. When Zobrist says that your only job is to keep the clients happy, he proves it by eliminating the measurement of everything else. The results, as seen in the foundry's performance numbers, are remarkable. But when viewed from "down below," through the eyes of those employees, the effects are more remarkable still.

THE JANITOR WHO IMPRESSED A CLIENT

It was 1985, two years after Zobrist became CEO. Christine, a night janitor at FAVI, was doing her job after everyone else had gone home when, at 8:30 p.m., the phone in the plant rang. Christine didn't know it, but the man at the other end of the phone was an auditor from Fiat, an important new customer for FAVI. He had just landed at the airport in Paris and was expecting someone from FAVI to pick him up and drive him up to Picardy, ninety minutes away, where he had an appointment at FAVI first thing in the morning to ensure that the plant was meeting Fiat's quality standards.

Christine, upon hearing that the man on the other end of the line was a visitor expecting a pickup at the airport, arranged a meeting point and hung up the phone. Zobrist picked up the story: "I had waited until 7 p.m. on the evening the auditor was due to arrive, thinking that he perhaps had some difficulty. And then I went home. Imagine my surprise when I saw him waiting in my office

the next day at 8:30 a.m. He said, 'Something very strange happened to me yesterday.'"[9]

The Fiat auditor explained that, being in a hurry, he had not been able to call in advance (there were no cell phones back then). When he arrived at the airport and found no one from FAVI waiting for him, he called the company. To his surprise, a feminine voice answered. He explained that he was late, but that in principle the company had told him someone would pick him up. The woman who had answered the phone came, retrieved him from the airport, drove him to his hotel, and wished him good night.

"The funny thing," the auditor told Zobrist, "is that she was very kind, very polite, but she didn't seem to have the slightest idea who I was or what company I was from." Even funnier, though, was that Zobrist could not for the life of him figure out who the mystery chauffeur of this important visitor was.

After the meeting, the CEO called a few people and tracked down Christine. When she had heard the man's story, Christine had simply taken the keys of one of the company cars—keys that always hang near the entrance to the plant so that they are available to any employee who needs a car. She then went to the airport, brought the visitor to the hotel—and came back to finish the cleaning she had interrupted three hours earlier.

What's more, she had seen no need to tell anybody about her trip. She was an employee with a job of her own to do, who had nonetheless taken three hours out of her evening to drive to the airport and back. She took a company car on a two-hundred-mile roundtrip journey without seeking anyone's approval simply because it seemed like the right thing to do. The company had offered this man a ride from the airport and there was no one else available to fulfill the obligation, so she did it herself, without hesitation and without seeking credit for what she had done.

This is the difference between a "how" company and a "why" company. Christine, a night janitor who had probably never taken a company car on company business in her life, saw a chance to do

some good for the company, and she took it. As Zobrist put it, "Facing a company problem, she is not a 'janitor,' she is 'the company.'" Most companies hope in vain for that attitude to take root among their employees. In fact, on the off chance an employee at a "how" firm had gone to those lengths on the company's behalf, one of two things would likely have happened. In the worst case, Christine would have been sanctioned for unauthorized use of company property, not to mention leaving her assigned duties. But only slightly better is the alternative, in which the company, so surprised at the lengths to which this janitor went, makes a hero out of her. Zobrist did neither. "When you neither punish nor reward people's actions, those actions become normal, banal," Zobrist explained. "She didn't think she was doing something exceptional. Everyone here facing a problem and having a solution, just goes and does it. No need to tell, either before—for permission—nor after, for thanks." Then, with a satisfied smile, Zobrist added: "By the way, thanks to her initiative the auditor increased our quality rating by 10 percent!"

The time between Zobrist's encounter with Alfred outside the supply closet and Christine's impromptu nighttime drive was just two years. But in those two years, Zobrist had already achieved a remarkable turnaround in the habits of many of FAVI's employees. The subsequent years have seen innumerable acts of everyday heroism by FAVI's liberated employees. There was the time that an order could not be delivered because the truck needed to deliver the products did not arrive. The employees in question—together with Zobrist—hired a helicopter to get the order to the customer as promised. Or the worker on the factory floor who told us that when one of his customers had a problem with a product, he, together with a coworker, immediately left the factory and drove to Germany to address the issue—without prior authorization, bien sûr. When we asked him why, he shrugged. It seemed like the right—even normal—thing to do.

Most companies say they dream of people who can develop high-margin, innovative products in their spare time, or who look for

creative ways to satisfy customer demands without thinking twice about it. But the truth is that these people are all around you right now—the technician who seems unconcerned with product quality, the sales rep who appears uninterested in clients' innovative suggestions, and, yes, the janitor who looks like he's never been interested in anything—who looks invisible, even. They just need to be set free from the bonds that hold them back. Our liberated companies have discovered the secrets to doing just that.

By freeing the initiative and gifts of every single employee on their payroll, they have succeeded where their competition has failed; they have taken on entrenched incumbents many times their size and have, in many cases, grown beyond their founders' wildest dreams. Some, like six-hundred-person-strong FAVI, are relatively small. Others, like the insurance giant USAA, with twenty-three thousand employees, are much larger. They exist in services and in the industrial sector. Some, like Harley-Davidson, are publicly traded and are dominated by unionized workforces. Surprisingly, Harley's main reason for going public in 1986, according to then-CEO Rich Teerlink, was to be able to launch a liberation campaign, which would otherwise have been blocked by the banks that controlled the company at that time: "I'd rather face shareholders than bankers, any day," Teerlink said.[10] In 1998, Sun Hydraulics, a world leader in hydraulic valves, also went public, many years after building its liberated culture, and a decade later it hadn't lost an ounce of its unique culture. And still others, like the Richards Group, the largest independent advertising agency in the United States, are still private—and will remain so forever.

Though very different, all of them had leaders who were unwavering in their commitment to the creation of a corporate culture that freed up the initiative of everyone on the payroll. Bill Gore and a series of leaders he helped nurture manifest that commitment by small daily acts—offering help and encouragement when associates' actions live up to the company's principles and asking, as Bill Gore did with Lewis, "Do you have a minute?" when their actions violate them. Some, such as Stan Richards of the

Richards Group, have literally broken down barriers. Richards changed the physical geometry of his Dallas office so that nothing stood in the way of face-to-face human contact. Each of these responses reflects the unique challenges posed by their particular fields and their starting points. But whether they were built from the ground up to be different, like the Richards Group, Gore, and Sun Hydraulics, or were transformed after a long period of underperformance, like USAA, Harley, and FAVI, they all hold lessons on the power of freeing the potential that inheres in one's people.

Freeing that potential isn't easy. It requires a firm commitment to the idea that, taken together, your people know a great deal more about what your company is capable of than any single employee or—for that matter—CEO ever could. If you believe that, then it becomes easier to understand what Jean-François Zobrist meant when he said that his goal, as CEO, is "to do as little as possible." But to fully understand what is wrong with the "how" companies' approach to running a business and whether it's possible to change it, it helps to understand how we got here.