FORTUNE

What Google, Whole Foods do best

Like many great inventions, management practices have a shelf life. In his new book, renowned management guru Gary Hamel looks at what's broken - and what's not.

By Gary Hamel
September 27 2007: 6:56 AM EDT

(Fortune Magazine) -- What does the future of management look like to you? Can you imagine dramatic changes in the way human effort is mobilized and organized? Can you envision radical and far-reaching changes in the way managers manage? Don't be dismayed if the answer is no. Given how little the practice of management has changed over the past several decades, it's hardly surprising that most people have a hard time imagining how management might be reinvented in the decades to come.

When compared with the momentous changes we've witnessed over the past half-century in technology, lifestyles, and geopolitics, the practice of management seems to have evolved at a snail's pace. While a suddenly resurrected 1960s-era CEO would undoubtedly be amazed by the flexibility of today's real-time supply chains and the ability to provide 24/7 customer service, he or she would find many of today's management rituals little changed from those that governed corporate life a generation or two ago. Hierarchies may have gotten flatter, but they haven't disappeared. Front-line employees may be smarter and better trained, but they're still expected to line up obediently behind executive decisions. Lower-level managers are still appointed by more senior managers. Strategy still gets set at the top. And the big calls are still made by people with big titles and even bigger salaries. There may be fewer middle managers on the payroll, but those that remain are doing what managers have always done - setting budgets, assigning tasks, reviewing performance, and cajoling their subordinates to do better.

Hamel says most management needs radical rethinking.

This is not to sell the achievements of management short. If you have two cars in the garage, a television in every room, and a digital device in every pocket, it's thanks to the inventors of modern management. Yet over time, every great invention, management included, travels a road that leads from birth to maturity, and occasionally to senescence.

Alas, management's boisterous, inventive adolescence lies nearly a century behind us. Most of the essential tools and techniques of modern management were invented by individuals born in the 19th century, not long after the end of the American Civil War. Those intrepid pioneers developed standardized job descriptions and work methods. They invented protocols for production planning and scheduling. They mastered the intricacies of cost accounting and profit analysis. They instituted exception-based reporting and developed detailed financial controls. They devised incentive-based compensation schemes and set up personnel departments. They created sophisticated tools for capital budgeting and, by 1930, had also designed the basic architecture of the multidivisional organization and enumerated the principles of brand management.

Now think back over the past 20 or 30 years of management history. Can you identify a dozen innovations on the scale of those that laid the foundations of modern management? I can't. Our Industrial Age management model is languishing out at the far end of the S-curve and may be reaching the limits of its improvability.

Could the practice of management change as radically over the first two or three decades of this century as it did during the early years of the 20th century? I believe so. More than that, I believe we must make it so. The challenges facing 21st-century business leaders are at least as intimidating, exciting, and unprecedented as those that confronted the world's industrial pioneers 100 years ago. Sure, we're bound by precedent, and most of us have a vested interest in the management status quo. But if human beings could invent the modern industrial organization, then they can reinvent it.

"But wait," you may be saying, "I'm not starting with a clean sheet of paper - and I'm not the CEO. My company's been around for a while and has an installed base of white-bread management practices. I don't have the option of building a newfangled management system from the ground up. And there aren't a lot of management heretics around here either. How do I get the ball rolling when my company is deeply conventional and has been for decades?"

What you need is a methodology for breakthrough management thinking. While innovation can never be entirely scripted, it is possible to increase the odds of a eureka moment by assembling the right ingredients - starting with a disciplined process for unearthing and challenging the long-standing management orthodoxies that constrain creative thinking.

Rooting out dogma is all about asking the right questions - repeatedly. I've found the following lines of attack to be helpful in getting beneath the surface of long-held management beliefs:

1. Is this a belief worth challenging? Is it debilitating? Does it get in the way of an important organizational attribute (like strategic adaptability) that we'd like to strengthen?
2. Is this belief universally valid? Are there counterexamples? If so, what do we learn from those cases?
3. How does this belief serve the interests of its adherents? Are there people who draw reassurance or comfort from this belief?
4. Have our choices and assumptions conspired to make this belief self-fulfilling? Is this belief true simply because we have made it true - and, if so, can we imagine alternatives?

These questions are your pickax. If you're persistent, they'll help you break through even the most impenetrable of management orthodoxies.

Let's test these questions on a particular bit of dogma regarding one of today's most urgent issues - innovation. When talking to senior executives about the need to encourage innovation, I often get the sense they'd like their employees to loosen up a bit, to think more radically and be more experimental, but they're worried this might distract them from a laserlike focus on efficiency and execution. Most companies have spent years honing their business processes, weeding out waste, and improving operational discipline. There is an understandable fear that some of these hard-won gains will be lost if employees are given the latitude to flex policy guidelines, experiment with new methods, and incubate new projects. I've heard this concern expressed in a variety of ways: "Yeah, we want people to innovate, but we have to stay focused." "Innovation's well and good, but at the end of the day, we have to deliver." "If everybody's off innovating, who's going to mind the store?" These sentiments reveal a persistent management orthodoxy: If you allow people the freedom to innovate, discipline will take a beating. Mathematically expressed, this view holds that freedom plus discipline equals a constant - having more of one means having less of the other.

Let's go back and consider just the first two of our orthodoxy-busting questions. First: Is this belief worth contesting? Absolutely! What company wouldn't like to have more innovation and more discipline? Might as well ask someone if he'd like to be rich and famous. On to question two, then: Are there any counterexamples that challenge the assumption of an unavoidable tradeoff? Are there companies that have figured out how to double dip? In most organizations you can find a lot of disciplined execution in one place (on the factory floor, say), and a lot of free-spirited innovation somewhere else (in a design lab, for example). But is there any evidence that these virtues can coexist in the same place at the same time?

There is indeed. Consider three companies where radical freedom is a central part of everyday life:

- At Whole Foods Market (Charts, Fortune 500), the basic organizational unit is not the store but the team. Small, empowered work groups are granted a degree of autonomy nearly unprecedented in retailing. Each store consists of roughly eight teams that oversee departments ranging from seafood to produce to checkout. Every new associate is provisionally assigned to a team. After a four-week work trial, teammates vote on the applicant's fate; a newbie needs a two-thirds majority vote to win a full-time spot on the team. This peer-based selection process is used for all new employees, including those hoping to join teams at Whole Foods' headquarters, such as the national IT or finance squads. The underlying logic is powerful if unconventional: Whole Foods believes that critical decisions, such as whom to hire, should be made by those who will be most directly impacted by the consequences of those decisions.

One observes this spirit of radical decentralization in every component of the Whole Foods management model. Small teams are responsible for all key operating decisions, including pricing, ordering, staffing, and in-store promotion. Consider product selection. Team leaders, in consultation with their store manager, are free to stock whatever products they feel will appeal to local customers. This is a marked departure from standard supermarket practice, in which national buyers dictate what each store will carry, and big food manufacturers pay thousands of dollars in slotting fees to get their products on the shelf.

- At W.L. Gore, the chemical company most famous for Gore-Tex, there are no management layers and there is no organizational chart. Few people have titles and no one has a boss. As at Whole Foods, the core operating units are small, self-managing teams, all of which share two common goals: "to make money and have fun."

Though there are no ranks or titles, some associates have earned the simple appellation "leader." Senior leaders do not appoint junior leaders. Rather, associates become leaders when their peers judge them to be such. A leader garners influence by demonstrating a capacity to get things done and excelling as a team builder. At Gore, those who make a disproportionate contribution to team success, and do it more than once, attract followers. "We vote with our feet," says Rich Buckingham, a manufacturing leader in Gore's technical-fabrics group. "If you call a meeting, and people show up, you're a leader."
The primary fuel for Gore's innovation machine is the discretionary time of its associates. All employees are granted a half day a week of "dabble time," which they can devote to an initiative of their own choosing - as long as they are fulfilling their primary commitments.

- Google (Charts, Fortune 500) once tried to impose the typical supervisory structure found in traditional software companies, where engineering managers have a relatively narrow span of control. It soon became obvious that an excess of oversight was putting a damper on innovation. Google's "I think I can" culture was in danger of becoming a "No, you can't" bureaucracy. Within weeks the new layer was ripped out and the recently appointed middle managers were reabsorbed into the engineering ranks. Today the average manager in Google's product-development group has more than 50 direct reports, and for some leaders the number tops 100.

Roughly half of Google's 10,000 employees - all those involved in product development - work in small teams, with an average of three engineers per team. Even a large project such as Gmail, which might occupy 30 people, is broken into teams of three or four, each of which works on a specific service enhancement, such as building spam filters or improving the forwarding feature. Each team has an "über-tech leader," a responsibility that rotates among team members depending on shifting project requirements. Most engineers work on more than one team, and no one needs the HR department's permission to switch teams. "If at all possible, we want people to commit to things rather than be assigned to things," says Shona Brown, Google's VP for operations. "If you see an opportunity, go for it."

How would you rate these companies in terms of the freedom they cede to their employees? Higher than your company? Probably. Higher than most companies? Without a doubt. Indeed, at first glance, one wonders how these loose-limbed organizations manage to meet budgets and delivery deadlines. First-line employees who set prices. People who take a day a week to work on whatever they like. Associates who can fire their leaders. A 50-to-1 span of control. All this sounds like a recipe for anarchy.

To understand how these companies manage to radically empower their employees and deliver consistent results, it's necessary to distinguish between the what and the how of discipline. Everyone can agree that discipline is a good thing - it's an essential what. The problem is with the how.

In most organizations, control is exercised via standard operating procedures, tight supervision, detailed role definitions, a minimum of self-directed time, and frequent reviews by higher-ups. These mechanisms certainly bring people to heel, but they also put a short leash on initiative, creativity, and passion. Luckily there are other ways of keeping things in check - other hows, if you will.

For example, while the in-store teams at Whole Foods have a significant degree of discretion over staffing, pricing, and product selection, they are also held accountable for the profitability of their various departments. Teams are assessed against monthly profitability targets, and when they meet those goals, team members receive a bonus in their next paycheck. Since the rewards are team-based, associates have little tolerance for colleagues who don't pull their weight. The fact that every team's performance is visible across the entire company is another incentive to work hard and stay focused. Turns out you don't need a lot of top-down discipline when four conditions are met:

1. First-line employees are responsible for results.
2. Team members have access to real-time performance data.
3. They have decision authority over the key variables that influence performance outcomes.
4. There's a tight coupling between results, compensation, and recognition.

Gore would also seem to suffer from a dangerous excess of freedom. Associates choose which teams to work on. They can say no to requests. And they allocate their dabble time as they see fit. But they also know they'll be reviewed by at least 20 of their peers at the end of each year - and that these assessments will determine their compensation. In addition, once a project moves beyond the dabble stage, a cross-functional review process periodically puts the development team through an exercise called "Real, Win, Worth." To attract resources, a product champion must first demonstrate that the opportunity is real. As development proceeds, the question becomes whether Gore can win in the marketplace. Once those questions have been addressed, the focus turns to profitability. While Gore encourages grass-roots innovation, associates have to build a solid business case before they can get serious funding. Add to this the fact that pensions are closely tied to Gore's share price, and one starts to understand why Gore is as disciplined as it is inventive.

And then there's Google - with its top-to-bottom anti-authoritarian vibe. Listen again to Shona Brown, Google's VP of operations: "We believe that if an individual feels something is more important than anything we might ask them to do, they should be able to follow their passion." Can you hear your VP of operations saying something like that? Again, though, there are countervailing forces. Google's equivalent of Real, Win, Worth is "Learn fast, fail fast." Employees don't need a lot of signoffs to try something new, but they won't get much in the way of resources until they've accumulated some positive user feedback. Then there's all that horizontal communication. Since every project has its own internal website, engineering teams get a lot of peer feedback. This transparency helps to weed out stupid ideas and beef up good ones - reducing the need for formal project reviews. On top of this, there's Google's reputational scoreboard. Titles don't mean much at Google. If you want to be a big kahuna, you have to develop a product that attracts millions of users; this helps to keep developers focused on real-world problems.

Add to those incentives the quarterly Founders Awards, which grant millions of dollars' worth of restricted stock to teams that have made remarkable contributions to the firm's success. To get a big bonus, you have to build something that makes money for Google. All these mechanisms help to keep noses to grindstones.

In each of these cases, what at first glance looks like a slacker's paradise turns out to be anything but. Apparently discipline and freedom can coexist, but not if companies rely on stick-instead-of-carrot methods for keeping employees in line.

As you can see, drawing a clear distinction between the what and the how of a critical organizational imperative - like discipline - can be a useful tactic in uprooting management dogma. Individuals often defend the how of a hoary old management process simply because they haven't thought deeply about other ways of accomplishing the goals that process serves. Help them distinguish between the what and the how, give them some time to think, and new approaches are likely to emerge.

The sooner your company starts sloughing off its legacy management beliefs, the sooner it's going to become truly fit for the future. As we've seen, a few companies are already traveling light, having left a lot of their outdated management baggage back there in the 20th century. In the end, there's really not much of a choice: You can either wait for tomorrow's management heretics to beat the orthodoxies out of your company, or you can start coaxing them out right now.