

Flat Company

A Case Study of The Morning Star Company: Running an Organization Without Management

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Introduction

The Morning Star Company of Sacramento, California, is the world's largest tomato processor. Currently processing tomatoes and peaches, with sales approaching \$.5 billion, The Morning Star Company is an outstanding exemplar of pure performance-based business process execution and focus.

Visionary entrepreneur Chris Rufer initially founded Morning Star as a trucking company in the 1970's, beginning with one truck. After much research, Chris put together a business plan and brought together a group of grower-partners to form his first food processing facility in 1982. In 1990, Chris formed The Morning Star Packing Company to process tomatoes in Los Banos, California, with fruit supplied by his own trucking company.

In 1993, Chris formed Harter Tomato Products Company in response to market demand for additional production, followed by the construction in 1995 of The Morning Star Packing Company's second state-of-the-art facility in Williams, California. This facility became the largest tomato processing factory in the world.

In 1998, Chris ventured into the peach canning business with the formation of California Fruit Packing Company, achieving an efficient dual purpose for existing tomato canning equipment.

In 2001, Chris purchased an existing vacant factory in Los Banos, provided a thorough renovation, and christened Liberty Packing Company in 2002, dedicated to the production of tomato paste, diced tomatoes, and canned peach and tomato products. When completed, this factory will represent the largest Morning Star facility in terms of production and sales.

Throughout the growth process, Chris kept sight of production and transportation economics, forming two custom harvesting companies and continuously improving the trucking operation to optimize the harvesting and delivery of fruit to the factories.

While growth has never been a goal of Morning Star, the sole focus being innovation and excellent business process execution, the marketplace has continuously requested growth in response to the perception of superb value for Morning Star products.

Morning Star has introduced multiple production innovations, including vertical integration of operations with harvesting and trucking to create an efficient supply chain,

and maintaining the lowest cost of capital per unit of capacity to insure the most efficient plant economics.

Morning Star owes much of its success to its strategic vision combined with the virtuous interplay of continuous innovation and rigorous focus on business process execution.

As we shall see, a good measure of its success is also attributable to its unique organizational philosophy.

Organizational Philosophy

Morning Star implemented several organizational innovations, beginning with the first solely owned processing facility in 1990.

The first element of this philosophy is one of flatness. The company was designed to be as flat as a dining table, with absolutely zero hierarchy. There are no human bosses, the only boss being the company mission statement, which will be articulated later in this article. There is a philosophy of total self-management. There is no command authority anywhere in the company, even on the part of the owner. Consequently, there is no authority to fire, even on the part of the owner. Acquiring or culminating the services of colleagues must be accomplished according to a clear set of embedded principles.

No one in the organization has a title, which may present initial confusion for those outside the organization, but serves to reinforce Morning Star's flatness within the organization.

There is an exceedingly minor formal structure, consisting of monthly enterprise meetings at each facility to make sure that colleagues with the broadest scope of activities are synchronized with each other; and to receive strategic plans and directions from the owner. Another requirement is that each colleague executes a Colleague Letter of Understanding (CLOU), about which more will be explored later in this article. Finally, each facility has created a compensation committee to review salaries and wages at the end of the year.

The environment is very conducive to self-managed, mature individuals. It is very uncomfortable for those who either a) want someone else to tell them what to do, or b) want to be able to tell others what to do.

An interesting characteristic of Morning Star is that there is almost no focus on administrative IT. One part-time college student maintains the IT systems (personal computers, thin clients, and networks), while a small group of contract programmers maintain the programs as needed. Since the enterprise is already leaned out (only one person performs accounts payable activities at each facility, for example), there is no particular payback to administrative IT spending. The administrative systems are legacies (some pre-date GUI technology, for example); some of the general ledgers are created with spreadsheets. In sharp contrast, the factory control IT systems are state-of-

the-art. This is in keeping with the owner's concept of keeping administrative systems extraordinarily simple and easy to understand, and not getting caught in the trap of chasing expensive (and not necessarily productive) new IT innovations, while favoring the ultimate in super-efficient factory operations.

Results

Morning Star's business results speak for themselves. Morning Star currently accounts for 20% of California processing tomatoes (California being about 90% of the U.S.), and accounts for 30% of the U.S. industrial tomato paste market.

As noted earlier, sales are approaching \$.5 billion. Morning Star has a global sales presence, exporting its products worldwide. Given the ubiquity of products which absorb Morning Star tomatoes, it is likely that most Americans have ingested some amount of Morning Star tomato production at some point.

Morning Star's success takes place in a complex and demanding business environment: Morning Star, as a company, must understand plant cellular biology, food chemistry, thermodynamics, and weather variables, among other things. The only way to navigate the risks presented by these issues is to understand them thoroughly, and to understand the business processes they affect.

Company Mission

The mission statement of The Morning Star Company is simple:

“Our Mission is to produce tomato and fruit products which consistently achieve the product and service expectations of our customers, in a cost-effective, environmentally responsible manner. We will provide bulk-packaged products to food processors, and customer-branded, finished products to the food service and retail trade.”

The first sentence is an extremely simple declaration of purpose. The second sentence describes the two businesses into which Morning Star sells.

It is noteworthy that Morning Star has absolutely no intention of exceeding customer specifications, only meeting them. In a commodity business such as tomato products, customers will not pay extra for exceeding their needs. Such excess would be wasteful of society's resources. According to the owner, business is a dynamic adventure of balancing the needs of customers, suppliers, employees, and society at large, and using resources appropriately and efficiently. Such is the mission of Morning Star.

Company Vision

The company vision of Olympic Gold Medal Performance has several elements.

The first element is one of total responsibility. While each Morning Star colleague is identified with specific business processes, no one is allowed to ignore a known issue with the excuse that “it’s not my area.” All colleagues have an affirmative obligation to report any issue about which they become aware to pertinent colleagues.

The second element is clarity of vision. This is primarily accomplished through the creation of a “personal commercial mission” for each colleague, which is “nested” within the overall company mission. About the personal commercial mission, more will be said later.

The third element is the creative advancement of technology. As mentioned before, this primarily applies to the factory floor, not administration. This element recognizes that innovation is the only source of long-term competitive advantage. Patents expire, trade secrets disappear. An entire organization dedicated to innovation cannot be easily duplicated.

The last element of values is foundational to the Morning Star philosophy. These values include integrity (which actually improves business value, and is therefore more than simply nice to have), openness (even to competitors!), and physically beautiful facilities.

Colleague Principles

Relationships at Morning Star are governed by a set of colleague principles. These principles have several features.

The principles (to which colleagues must agree to adhere) require several things. First, colleagues are required to embrace the company mission.

Second, colleagues are required to commit to individual goals (which must be specified in the Colleague Letter of Understanding) and teamwork (which requires, by definition, communication).

Third, colleagues are required to accept personal responsibility and take initiative.

Fourth, colleagues are required to tolerate non-work-related differences in the interest of teamwork.

There are several corollaries to this set of principles. One is the requirement of direct communication with colleagues. Since there are no supervisors to complain to when colleagues are not cooperative, it is incumbent on each colleague to take up issues directly with other colleagues as needed. There is simply no other way to get things done in the organization. The only situation when an intermediary is possible is a situation where a colleague has the option to call in a third party ombudsman to seek initial advice. Ultimately, however, the burden of communication remains with the individual colleague.

Another corollary is that conflict shall be resolved privately, if possible. The principles lay out the procedures for discussing issues in conflict one-on-one, then bringing in a third party to help mediate if the initial discussion fails to resolve the issue, and finally bringing the issue to a panel of peers as the final step in resolution.

A further corollary is that information shall be shared with colleagues, even if not requested. This places an affirmative obligation on each colleague to forward pertinent information to colleagues that may be helpful in accomplishing the mission. Thus, there is no excuse for hoarding information, as occurs in many organizations. The prodigious sharing of information is a key strength of Morning Star, and contributes to the fluidity and flexibility of the organization. Information literally permeates the organization—there are no structural barriers to information sharing anywhere in the company.

The requirement of following these principles demands that Morning Star be rigorous in its hiring process, and hire the right people who are mature and responsible. The hiring process is extremely rigorous, including multiple interviews, thorough reference checks, and a battery of diagnostics, including tests for aptitude, work style, and integrity. Recent hires have come from the U.S. Navy nuclear program, the semiconductor industry, and other diverse backgrounds. Each colleague's Myers-Briggs Temperament score is openly available within the enterprise, so that colleagues can gauge their own work style relative to that of others with whom they work. Morning Star has embraced the concept of topgrading, meaning that it strives to place "A" players in every position. If a colleague can't be an "A" player in one position, the organization will try to identify a position where he or she can be an "A". Again, the overall vision is Olympic Gold Medal Performance.

The bottom line is that every Morning Star colleague is considered a first-rate professional. That this is true in fact as well as symbolically true is evidenced by the fact that each Morning Star mechanic is personally responsible for perhaps \$3-\$4 million worth of equipment, both for operations and for maintenance. Electro-mechanics perform their own ROI analyses to determine capital projects, and deal personally with vendors, seasonal colleagues, and sometimes customers. In addition, they personally perform the work needed to make the factories run. They are top professionals in every sense of the word.

Power of Self-Management

The power of self-management can be seen in three characteristics.

First, Morning Star is a pure value-based enterprise. The two key values are: a) commitments must be honored, and b) there is no coercion allowed.

All commitments are taken very seriously at Morning Star. Even ad hoc commitments undertaken between two colleagues passing in the hallway on a low or medium level business matter may be documented and fulfillment expected. Again, with no command authority there is no other method of achieving collaborative results.

Second, the organization possesses maximum flexibility and strength to deal with opportunities and threats. It uses its flexibility to continuously improve business processes. No process is immune from analysis, experimentation and improvement.

Thirdly, Morning Star's unique structure gives it the ability to seize business opportunities as they arise. Morning Star was able to take advantage of the opportunity to purchase the facility that became Liberty Packing Company as a result of having a good long-range business strategy, good negotiation, and the operational and administrative talent available to implement the purchase and re-construction in a short period of time

Self-Management Requirements

Self-management requires several attributes.

First, freedom must be balanced with responsibility. Freedom without responsibility is unproductive. Responsibility without freedom is frustration. Morning Star strives to achieve a productive balance between the two.

Second, colleagues must understand their tasks, goals and values. This primarily consists of having a deep understanding of the business processes for which they are partly or fully responsible. Goals may relate to business or personal goals, both short and long-term.

Third, colleagues are responsible for their own training. It is never an excuse at Morning Star to say that one was not trained, or was not trained properly. Also, colleagues are required to demonstrate initiative, including initiating the acquisition and termination of the services of fellow colleagues.

Lastly, self-management requires communication and integrity. Integrity is a characteristic that actually improves business value. To the extent that suppliers, customers, and colleagues can count on a colleague's word being his or her bond, the cost of doing business actually decreases and business value is increased. This is a key success factor in the enterprise.

Activity Feedback

Activity feedback is a key concept in a self-managed environment like that of Morning Star.

First, self-management requires performance measurement by definition, since no one can manage him or herself without knowing how well they are performing in the first place.

Second, continuous improvement requires measurement, since it would be impossible to know if a process were getting better without some measures in place to reflect what's happening.

Third, at Morning Star, performance is measured against both perfection and reality. It's a good bet that Tiger Woods will never shoot an 18 in a game of golf. But it's also a good bet that if he strives for an 18, he'll be more likely to get better scores than if he strives for, say, a 78. Morning Star identifies perfect results with respect to each and every business process, so that each colleague has a vision of perfect performance. In addition, however, a more realistic goal is identified for each process, to avoid discouraging colleagues unnecessarily. The goal is to make work into a game, and therefore to make it fun.

Lastly, activity feedback is a key enabler of business process improvement. Results that are declining or are not improving are often indicators of a business process that needs immediate improvement.

Self-Management: Desired Results

The first key benefit from self-management is the concept of "enlightened competition." The Latin root word of competition is "com petere", which means "seeking together." Self-management gives Morning Star colleagues the freedom to seek best practices from each other, both within facilities and between facilities. Annual inter-company functional area meetings provide a forum for these "compare and contrast" discussions.

A second desired result from self-management is the effectiveness, efficiency and profitability of the enterprise, formed by high performance based on a vision of perfect results combined with a commitment to excellence.

Colleague Letter of Understanding (CLOU)

One of the few tools available to Morning Star colleagues is the Colleague Letter of Understanding, also referred to as a "CLOU".

The CLOU (which is essentially a contract between colleagues) accomplishes several things.

First, it defines overall responsibilities of colleagues in terms of the vision, mission and principles.

Second, it identifies specific responsibilities and commitments for each colleague. These will be discussed in further detail below.

Third, the CLOU records various colleague representations, such as each colleague's commercial competence to perform their mission.

Lastly, the CLOU specifies the compensation agreement pertaining to the colleague.

As mentioned above, the CLOU is a contract between colleagues. The signatories to a particular colleague's CLOU are generally the internal customers and suppliers who engage in business process hand-offs with the colleague. Morning Star has found the average number of colleague signatories to be about six or seven. These are the people to whom a Morning Star colleague owes the most in terms of time and attention.

CLOU Responsibilities

• Overall Responsibilities

First, in terms of the overall responsibilities described above, in addition to emphasizing the vision, mission and principles, the CLOU requires each colleague to be responsible for all business processes reasonably within their scope of awareness.

Morning Star has undertaken to document all business processes in terms of a decision paradigm, by identifying event triggers, all required decisions, information required to make decisions, decision algorithms, and possible outcomes. To the extent that business processes have been reasonably documented and understood, it is incumbent on each colleague to master the processes under their control.

Second, colleagues agree to undertake a specific level of effort (expressed in terms of expected hours per week), as well as agreeing to take initiative to deal with issues both within their purview as well as those issues which come into their scope of awareness, regardless of whether the colleague is normally responsible for those issues

Finally, colleagues are required to align their personal business process activities with the vision and mission of the enterprise

• Specific Responsibilities

The CLOU identifies specific colleague responsibilities in the form of a spreadsheet attachment that defines each colleague's personal commercial mission (again, nested within the overall company mission). For example, the mission of a front-end mechanic is: "To create a vast and beautiful tropical tomato juice bowl for the evaporation process." Personal commercial missions are simple, memorable and to the point.

The specific commitments spreadsheet then goes on to outline the specific business processes for which the colleague is responsible, the decision authority appended to each process (e.g., Decide, Recommend, or Act or some combination thereof), the specific performance measures (called Steppingstones) that pertain to each business process, and the reporting intervals for each performance measure.

It is noteworthy that there is no discussion of “empowerment” at Morning Star. This is because colleagues have all the power they need to fully accomplish their jobs from the first day of work.

General Responsibilities

The CLOU also contains several general obligations for each colleague. These include certain commitments to continuing education and training, notification of observed risk situations, commitment to collaboration, and appropriate handling of proprietary information.

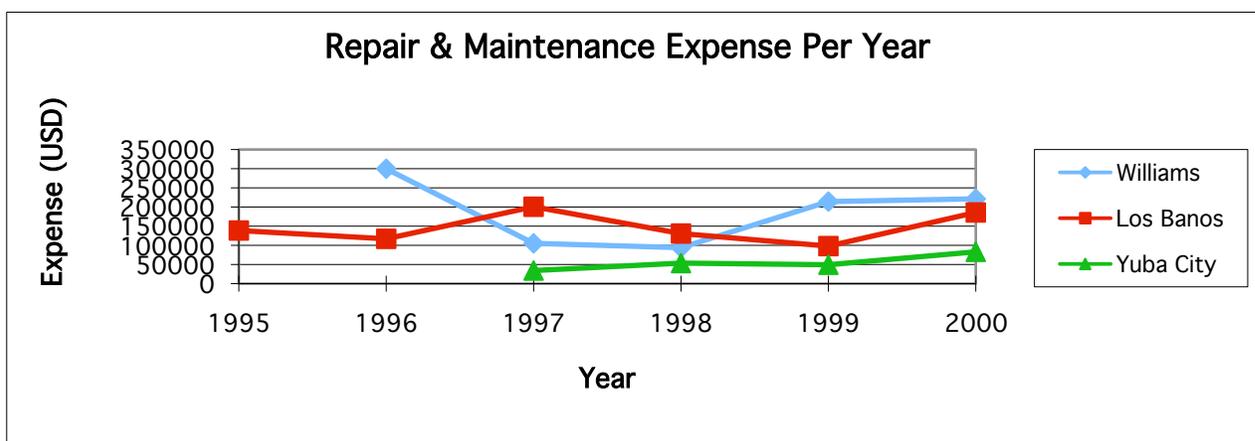
Steppingstones (Key Performance Measures)

As mentioned in the CLOU discussion above, each business process has performance measures associated with it. Morning Star refers to these performance measures as “Steppingstones”, since they are considered steppingstones to perfect performance (even if one never quite arrives there). Each colleague must identify their own personal Steppingstones pertinent to their business processes. Each business process may have one or more Steppingstones attached to it. Steppingstones may be common to several colleagues (who are performing the same business process, for example), or they may be unique to an individual colleague. The frequency of publication is appropriate to the specific business process (some financial measures are quarterly, some production measures are hourly). Each factory has historically had about two hundred Steppingstones covering all facets of operations, administration, distribution, raw materials acquisition, quality, and marketing and sales. The “ultimate” Steppingstone is Return on Assets, without which there would not be a company in the first place.

Steppingstones are published and available for questioning by any colleague at any time.

Steppingstones are generally time-series data, usually created in a spreadsheet graph.

A simple example is as follows:



This example underlines the philosophy of enlightened competition. It is designed to stimulate conversations among electro-mechanics at different facilities regarding their relative spending on repairs and maintenance, thus leading to improved practices overall.

How Does All of This Work?

Aside from the bedrock values, mission, vision and principles to which colleagues must subscribe, a number of activities must take place to create an environment of day-to-day success.

The lack of a formal organization demands the emergence of an informal organization. Somehow work must be performed in an organized fashion. In addition, there is as much need for leadership in an informal organization as in a formal one, perhaps more so since there is no designated leader to begin with.

Morning Star has found that organizational energy can be tapped and orchestrated (not manipulated) by tapping into the self-interest and motivation of individual colleagues, identifying an issue around which they have a stake, identifying a leader who has the expertise to deal with the issue, and giving people the choice of following and contributing.

Informal networks can also be tapped to form work teams using various tools and techniques (Morning Star has had success with a tool called a “tactical alliance grid”), allowing large projects, threats and opportunities to be dealt with in a powerful and coherent way.

Leadership can rotate naturally and evolve, depending on the issues. No particular leadership style is required, and many leadership styles work well depending on the issues and circumstances. Shared bedrock values create a coherent environment where successful colleagues can mentor other colleagues and help them navigate successfully.

In short, Morning Star is evidence that a culture of pure business process improvement and focused organizational energy can produce outstanding results.

It seems unlikely that many large organizations will adopt the Morning Star philosophy in total. However, there are no obvious inherent barriers to trying this philosophy on a small scale, and, if successful, allowing it to replicate naturally on a larger scale.

To the extent that any organization successfully embraces the pure business process focus exemplified by Morning Star, it can begin to savor the fruit of sustained and lofty performance.

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