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POINT OF VIEW

A comment on why managers matter: the perils of the bossless company

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Abstract

In their book "Why managers matter: the perils of the bossless company", Nicolai Foss and Peter Klein evaluate and react to a long stream of popular press publications that advocate for the elimination of managers in business firms. This comment summarizes the key arguments of the book and offers an extension of why Foss and Klein's criticisms are valid.

Keywords Bossless organization · Disturbances · Transaction cost economics

Every so often a prestidigitator shares with the business leadership community claims of a new magic trick. Waving hands and reciting an incantation, typically comprising a newfangled lexicon, the magician declares that a novel and radically flat structure will transform organizational performance. By expunging all layers of hierarchy, firms will eliminate managerial waste, empower overwrought workers, and unleash latent human potential that will explode organizational innovation, revenue, and profit. Presto! Companies and the world are transformed.

While my introductory metaphor is hyperbole, it nonetheless is not too distant from some claims made of bossless organizations. For example, Gary Hamel and collaborator Michael Zanini (2020) offer a well-known version of this proposed organizational transformation. They assert that "the cost of excess bureaucracy in the U.S. economy amounts to more than $3 trillion in lost economic output, or about 17% of the GDP".[1] In publications with titles like *Humanocracy (Hamel and Zanini,* 2020), *The Leaderless Organization (Brafman and Beckström,* 2006), *Reinventing Organizations (Laloux*, 2014), *Say Goodbye to Your Manager (Zitron*, 2021), and the like, writers describe the benefits of managerless, which sounds like the magic of my introductory metaphor. Yet, the ideas of high-performing bossless firms *are* based on several real companies. Organizations like tomato producer Morning Star, hearing aid company Oticon, game developer Valve, material science company W.L. Gore, music distribution company Spot ify, and online shoe retailer Zappos, among others, are said to have implemented flat, bossless organizations with extraordinary economic results. These singular examples purportedly prove that the prestidigitator's claims are not illusory. Or do they?

Like the iconoclast Val Valentino, who on television revealed magic's biggest secrets, Nicolai Foss and Peter Klein (2022) explore such magical claims in *Why Managers Matter: The Perils of the Bossless Company*. In 276 pages, the authors draw upon the science of organization to distinguish reality from illusion by deeply examining these and other organizations based on scientific foundations instead of specious hyperbole.

The book's first half provides an extensive description of claims made by leaders of flat organizations, management gurus, and media about the superiority of bossless organizations. Providing value to the reader by collecting and presenting specific details of these organizations in one place,

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[1] Gary Hamel and Michael Zanini explain their math in the Harvard Business Review blog, "Excess Management is Costing the U.S. 3 Trillion a Year" (September 5, 2016, accessed. August 26, 2022). Using the U.S. Bureau of Labor Statistics, they estimate 1 manager for every 4.7 employees in the American work force. Then, using a 1-to-10 ratio they surmise from observing "post-bureaucratic pioneers", frees up an estimated 12.5 million individuals if all firms adopted the same ratio of managers to employees. Another 8.9 million individuals are freed up from indirect savings by eliminating budgeting and performance reviews. By assuming each person contributes $141,000 in economic output they conservatively estimate that U.S. GDP could grow by $3 trillion.

Foss and Klein review the evidence. This evaluation draws five insights.

First, many firms *have* delayered their hierarchies and reduced the number of mid-level managers. Shifts in technology, the changing nature of work, and altered worker preferences like those driven by the COVID pandemic, correlate with this delayering. Indeed, today's hierarchies are not the same as hierarchies of decades past. So, to some degree, the passing of time has yielded flatter organizations with disproportionately fewer managers than before.

Second, several notable firms have adopted what, on first blush, seems to fit the archetype of a flat organizational structure. Using differing lexicons like *Colleague Letter of Understanding* (Morning star), *spaghetti form* (Oticon), *N-form* (Spotify), *lattice* (W.R. Gore) and *bossless* (Gary Hamel's description of W.R. Gore), *flat* and no management (Valve), and *holocracy* (Zappos), these and a few other organizations became the poster children for purveyors of the flat organizations.

Third, while claiming to be flat and bossless, some of these organizations nonetheless operate in ways that equate to having middle and senior managers as well as an informal hierarchy, albeit under pseudonyms. For example, Valve's use of incredibly high bonuses (5–10 times the base wage) and 360° reviews create an informal hierarchy. Organizations like Spotify and W.R. Gore have project leaders and hidden layers of powerful management. Just because the title "manager" is not used does not mean that someone is not performing equivalent functions.

Fourth, moving from a snapshot in time to expanding the temporal window used to examine these firms, (very) few organizations retain a flat structure over time and achieve high performance. While Morning Star, Spotify, W.R. Gore, and Valve have retained their structures, some like Oticon and Zappos shifted from a more typical hierarchical structure before adopting a flat organizational model, which eventually precipitated the re-emergence of traditional managers.

Fifth, Foss and Klein conclude that while a bossless firm *can* consistently deliver high performance, the situations in which such organizations are durable is rare. Indeed, managers and hierarchy, in various forms, remain dominant features in the organizational landscape. In most instances, managers and hierarchy create value not waste, shape worker behavior to maximize value for the firm, and utilize human potential to facilitate revenue and profit growth consistent with the firm's strategy.

The book's second half explores when, why, and how managers and hierarchy work to create value, even in networked and knowledge-based organizations. Foss and Klein draw on academic titans like Max Weber, Chester Barnard, Ronald Coase, Alfred Chandler, Herbert Simon, and Oliver Williamson to unpack what is really going on here. Collectively, the accumulated science of organization developed by these academics and others illuminate that much of the benefit of hierarchy—and, hence, managers—comes from its ability to facilitate coordination and cooperation.

To explain this benefit, Foss and Klein draw attention to two factors about competition in our modern economy. First, knowledge is a key competitive resource. Second, innovation is a central feature of this competition. Combined, the authors claim that these factors create "strong elements of surprise and firms must be quick to react in the face of major, potentially disruptive changes" (p. 136). Here, I emphasize a third and additional factor, which is more about how value is created in modern organizations than about competition: people, tasks, and processes are often highly interdependent or tightly coupled. This tight coupling implies that adaptation (reactions in response to a surprise) is needed at the person, task, or process level, then many other adaptations throughout the organization also need to be made, generating high demand for coordination and cooperation to facilitate these changes. These three factors are so important to understanding the rest of the book and I introduce an extended example to illustrate them.

Consider an organization comprising two people working together diligently on a project in which all tasks are tightly coupled. Assume that the tasks and process are well-planned, and each person's time is fully allocated. These workers are coordinated (they have a plan and process that lists, sequences, and allocates all tasks that each must complete) and collaborative (they have good working relations and are primarily committed to the joint goal of finishing the project on time).

Now assume that one worker discovers that one of their tasks will take longer than planned, and that heretofore unplanned tasks are needed to complete the project. Or consider a customer now wants additional unplanned features in the project, or another urgent project comes along demanding time and attention. Call these unanticipated situations "disturbances" or "mini-shocks" to the worker. Not only must the worker create a new plan of tasks and process but also the other worker will be affected by the new plan and therefore needs to do the same *if* the project is going to be completed efficiently. With tight coupling of tasks, a disturbance in one job creates ripples that affect other jobs requiring coordination and collaboration from both workers. The ex post (after the disturbance) time, effort, and opportunity costs of replanning of people, tasks, and process can be thought of as governance costs. In my view, managers matter because under many conditions they minimize these governance costs which would be substantially larger without them. Let's explore these governance costs further.

Suppose these two workers are organized as a flat and bossless organizational structure. In such a case, a disturbance will require them to explore all the unplanned adaptations needed and negotiate and plan a revised set and

allocation of tasks and process between them. The workers are likely to adapt effectively to this unplanned work with relatively low governance costs *if* they have the same goals, display an ability to effectively communicate with each other, and possess sufficient cognitive abilities and training to identify challenges and plan, sequence, and negotiate task and process allocation. This replanning of unplanned work implies substantial governance costs even when the illuminated conditions exist.

If, instead, the workers have different goals, have poor communication skills, use differing terminology, or cognitively view the situation differently, then conflict may obtain greatly increasing the governance costs of adaptation. How can these governance costs be reduced? A manager imbued with decision rights and conflict-resolution, problem-solving, and leadership skills could quickly resolve this conflict or perform all the replanning themselves to improve the effectiveness of adaptation so long as proposed adaptations are accepted by the workers. In essence, employing a manager could reduce governance costs compared to the flat, bossless structure, which could result in the organization to be far more adaptive to disturbances.

To embellish the example, now assume that the disturbance and needed ex post adaptation involves ten tightly coupled workers. A disturbance sparks the need for unplanned work that requires replanning of the allocation of tasks and process for all coupled workers. Anyone who has worked with a large group intimately understands that to develop a new list of tasks and their allocation along with a revised process in a ten-way negotiation is very difficult and costly. In some cases, replanning is practically impossible because of conflict among workers, which causes governance costs to soar in such situations. This conflict over replanning is more likely when (1) the tasks are complex, complicated, and coupled (lots of mutual adjustments among the ten workers are needed to adapt efficiently to a disturbance); (2) workers are boundedly rational and have different ideas on how to respond to the disturbance creating a source of conflict; and (3) at least some workers might be opportunistic in the sense that they could strategically use this replanning to pursue their own goals like getting out of tasks they do not want to do or capturing tasks they do want to do. These three attributes of the work environment make overcoming conflict a substantial challenge. Furthermore, the more frequently unanticipated disturbances arise, the greater can be cumulative governance costs. Therefore, as these attributes of the work increase, so too does the likelihood of maladaptation and excessive costs *if* the organization is flat and bossless. Management clearly matters and is organizational and economically valuable in such situations.

My extended example provides the foundation for the second half of the book which explores the conditions for which hierarchy is superior to bossless organizational structures for adapting to disturbances. Foss and Klein offer several questions that resonate with my example and respond with penetrating insights about when, why, and how leadership, authority, and hierarchy are useful.

Question: Why organize workers in a firm at all, especially when firms are criticized for accumulating too much power and for being a source of inequality, financial crises, environmental unsustainability, social disintegration, political and international conflict, and workplace disempowerment? *Answer*: Management, executive authority, and hierarchy facilitate efficacious adaption to the dilemmas and challenges of integrating complex activities and getting people with different motivations and interests to cooperate, especially when disturbances are common. Without these adaptations, the value created through products and services would be far more expensive if available at all.

Question: Won't bossless firms always empower workers even if their tasks are coupled? *Answer*: Research shows that "flat management structures can induce more micromanagement than vertical hierarchies" (P. 133) to resolve conflict among coworkers. The tight coupling of people, tasks, and processes undermines the effectiveness of and supposed empowerment delivered by flat, bossless organizational structures.

Question: Aren't middle managers an impediment to getting things done? *Answer*: Not only can middle managers in most instances facilitate adaptation to disturbances better than flat, bossless organizations, they also can bring "to the attention of executives new ideas or projects or strategy they might otherwise have not considered" or shape "the perception of top [executives] in how they frame options in the way they present and interpret information" (p. 164). Without middle managers, workers can be too numerous to capture the attention of executives, which can cause good ideas to lay fallow.

Question: Do middle managers in highly regulated industries or subject to substantial social pressures fail to create value for the firm? *Answer*: Firms emphasizing "social justice, corporate social responsibility, and stakeholder capitalism are likely to increase the number of middle managers whose [cooperation and collaboration] work is devoted to maintaining a particular corporate image" (p. 165). Workers in a flat, bossless organization will likely find that the cooperation and collaboration needed to build and sustain a particular corporate image incur extraordinary governance costs in the absence of management.

Question: Why are middle managers needed if few interdependencies exist among people, resources, and tasks; few disturbances are likely; and competition is limited? *Answer*: Middle managers are not valuable "where things are tranquil and rather predicable—where technology doesn't change too quickly or abruptly and what customers and consumers want is clear and easy to anticipate." (p. 170).

Question: Why don't the right kind of workers self-select to join a firm, or a firm select workers based on coordination and collaboration needs so that a bossless organization can employed? *Answer*: Both workers and firms do attempt to create a good match, but matches are unlikely to always be perfect. Even at Morning Star, a successful and enduring flat organization, "[t]he firm does have a system with layers: if employees cannot resolve a conflict, they turn next to internal mediation. If mediation can't resolve the conflict, an internal board of employees with supposedly different perspectives provides advice. Any conflict that remains unresolved at this point is appealed to the internal supreme court—namely, the founder" (p. 174). This and other conflict-resolution approaches indicate that the application of self-selection and firm selection are inadequate to ensure conflict does not arise during ex post adaptations.

This review provides only a sample of the value created by *Why Managers Matter*. Foss and Klein deftly weave together the history of organizations and organizational science, synthesize a wide diversity of organizational theory, and avoid confirmation bias and being colporteurs. All-in-all, the book offers a relatively easy to read and understandable treatise on organizational design and, more generally, execution.

Those in the know (academics who study organizations) will find *Why Managers Matter* a quick, familiar, and enjoyable read. Yet, the book is likely to offer greater value to senior managers and executive MBA students, who can draw many deep insights from which to shape their own managerial practices, executive authority, and hierarchical organizational design. With this latter audience in mind, I wish the book was shorter as it is long enough to potentially dissuade time-sensitive readers from getting through it. For instance, executives may find Part II of the book more valuable than Part I, but for Chapter 6. Relatedly, for the busy executive, the book lacks summaries of key take-aways. A few tables and figures that summarize evidence, key work attributes, organizational alternatives, and theory of efficient matching, would make the book a ready reference for organizational leaders. Perhaps these modifications can be made in the second printing.

Also, perhaps out of self-interest as I have written on the topic, I wish the book explored organizational vacillation because leaders often change from one organizational form to another and later back again. Vacillation implies that shifting from one organizational structure to another, like switching to flat and bossless organization and later away from it, may reflect dynamically efficient choices. Indeed, illustrations like Oticon and Zappos fit this pattern. Organizational change is an inherently important topic that the book barely considers yet may be vital to the story of why mangers matter.

If you have been enticed by the flat, bossless firm and have wondered if the magic is real or illusory, this book is for you. Even if you don't believe in the magic of the bossless firm, you will find value in reading the synthesis of the science of organizations to develop insights for designing organizations to achieve high performance.

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